

Transparency Report 2017/2018 Volume 2

Ernst & Young Accountants LLP





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More information about EY can be found at ey.com.



Message from the EY Netherlands Assurance Leader

Our people are by far the most important asset of our firm. Their knowledge, skills, integrity, team spirit and dedication are the foundations underpinning our achievements and our ambitions. In good times and in bad, they make our firm tick.

In Part One of this Transparency Report, the policymakers of our firm explain the efforts made during the fiscal year 2017/2018 to further raise the quality of our audits. As one of them, I know how often we refer to the talent and enthusiasm of our people as a tremendous asset in our Step Change to Quality effort. Therefore, I am delighted that Part Two of this Transparency Report starts with a special section on our people. I hope you will find this section on 'Our People, Our Strength', as well as the rest of Part Two of this Transparency Report, informative and useful.

Rob Lelieveld

Our people, our strength

Because we are so well aware of the importance of our people, we pay a lot of attention to their recruitment, training, coaching and assessment, as well as to team formation and team spirit. In challenging labor market conditions, we increased our recruitment of professionals during the fiscal year 2017/2018. As part of our Step Change to Quality effort, the average number of total hours spent on an audit is going up, hence the need to employ more people. Not only young graduates, but also experienced professionals.

Workload

The recruitment of new people is one of the ways we tackle an important issue in our sector, including within our firm: the heavy workload of our professionals, especially the members of our audit teams. As an excessive workload disturbs the work-life balance of our people and hampers our endeavor to further raise the quality of our audits, we are tackling this problem energetically. In the Report of the Policymakers (*Verslag van de Beleidsbepalers*) in Part One of this Transparency Report, we explain our efforts in this area in detail, especially under the headings 'Quality' and 'Markets'. We also refer to KPI 5 in Appendix 4 of this Transparency Report for information on overtime hours worked by our professionals.

Changes in the audit profession

The audit profession is changing rapidly. The importance of IT in audits, for example, is increasing fast. Therefore, going forward, we will increase the number of new hires with an IT background. Due to the challenging labor market in the Netherlands, we are also more than willing to recruit more graduates and professionals with a non-economic

background, teaching them the necessary audit and accounting skills through our internal programs. We are confident this increase in diversity of professional and educational backgrounds among our employees will increase the quality of our work. To the extent we are now hiring more people with a different background, our EY University is becoming more important, as it is especially geared towards new colleagues with a non-traditional background.

Coaching

We offer our employees many opportunities for their personal and professional development. Once recruited, all our new colleagues at staff level in the service line Assurance are immediately assigned to a Development & Learning Team (DLT). In these small teams - four to six people - they are coached by a senior staff employee. The teams meet at least four times a year, in addition to on-line contacts. Members are stimulated to express their ideas, to exchange experiences and to learn from each other. The coaches receive a special training program to prepare them for the job. By coaching a DLT, the coaches acquire valuable skills that will help them to direct members of an audit team later on in their career. A DLT stays together for approximately 30 months.

Through the DLT, our new colleagues become familiar with EY's coaching culture. We are convinced that fostering personal relationships in which more experienced team members pass on their knowledge and skills, on the job, to younger colleagues is helping us to improve the quality of our audits and to increase the job satisfaction of all involved. Our 'local learning teams', dedicated small-sized teams in the regional offices, are a good case in point. Instead of working with formal, mandatory learning

modules, our local learning teams themselves take the initiative to improve their knowledge and skills in chosen areas, using the tools, programs and coaches made available to them.

Culture survey

Since our people are our most valuable asset, we closely monitor their engagement, job satisfaction and feedback regarding our change initiatives, including their opinions with respect to the existing and the desired culture at our firm. To measure these opinions, EY performed an extensive culture survey in the Netherlands across all service lines during the fiscal year 2017/2018. The results of this survey confirmed that we need to change towards a more constructive culture, a culture that is more collaborative and at the same time puts more emphasis on accountability and quality. These results, and the actions taken to achieve our goal of cultural change, are discussed in detail in the Report of the Policymakers (*Verslag van de Beleidsbepalers*) in Part One of this Transparency Report.

EY's Global People Survey results for The Netherlands, including our Service line Assurance, also show that we still have to do more to further improve our people's job satisfaction and their engagement with our goals. EY holds a full Global People Survey once every two years. In the years no full Global People Survey is performed, we hold a Global People Pulse, a survey with a more restricted scope.

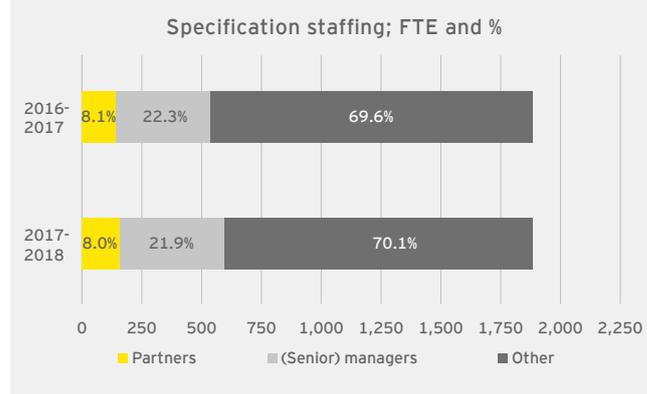
Global People Pulse

In the first half of 2018, a Global People Pulse was held. Approximately 1700 of the 2300 people of Assurance in the Netherlands participated, a response rate of approximately 73%. The general engagement index at Assurance in the Netherlands was 77%, a slight decrease from the 80% in 2017, but still a solid score.

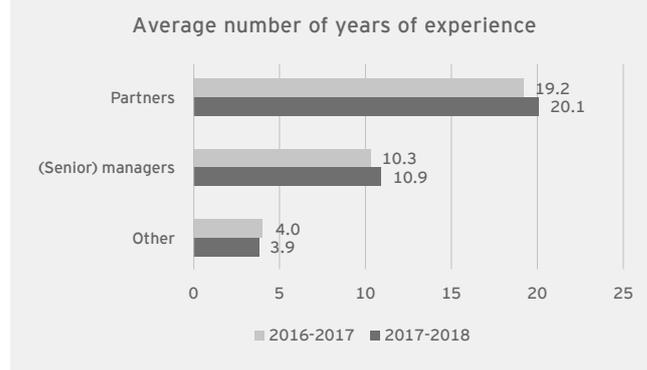
At the same time, however, the Pulse showed that our people clearly find it difficult to balance 'work' and 'home'. It is encouraging to see that we are significantly improving in areas of providing each other timely feedback and counseling regarding career development, but we can still do much better in these areas. The same holds true for explaining our vision to our people and translating this vision into tangible goals in daily work life, vision-related goals that help to motivate our people. We refer to KPI 11 in Appendix 4 of this Transparency Report for the results of our Global People Pulse in the areas of coaching and audit quality.

For more details on people-related initiatives as part of our Step Change to Quality change program during the fiscal year 2017/2018, including our Highest Performing Teams vision and the formation of the Young Professionals Board, we refer to the Report of the Policymakers (*Verslag van de Beleidsbepalers*) in Part One of this Transparency Report, especially under the heading 'People and Transformation' (*'Mensen en Transformatie'*). Also, we refer to the chapter 'Continuing Education of Audit Professionals' in Part Two of this Transparency Report for more information on EY's global policies in this area and on our training programs and training hours spent by our professionals.

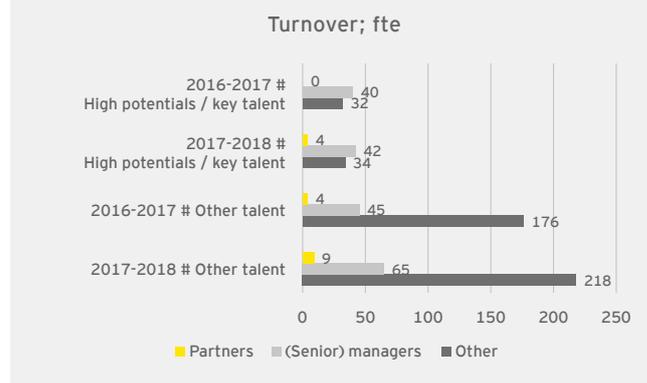
Number of partners, (senior) managers and other team members (based on FTEs) within our firm's service line Assurance. We also refer to KPI 1 in Appendix 4 of this Transparency Report for more information.



Years of experience of our professionals at EY. We also refer to KPI 2 in Appendix 4 of this Transparency Report for more information.



Employee turnover of partners, (senior) managers and other team members, split between key talents / high potentials and other talents at our service line Assurance. We also refer to KPI 3 in Appendix 4 of this Transparency Report for more information.





About us

Legal structure, ownership and governance

Ernst & Young Accountants LLP is an audit firm operating in the Netherlands and is organized as a UK Limited Liability Partnership. Ernst & Young Accountants LLP is a member firm of Ernst & Young Global Limited, a UK company limited by guarantee (EYG). In this report, we refer to ourselves as “Ernst & Young Accountants LLP”, “we,” “us”, “our” or “our firm”. EY refers collectively to the global organization of the member firms of EYG.

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

EYG member firms are grouped into four geographic Areas: Americas; Asia-Pacific; Europe, Middle East, India and Africa (EMEIA); and Japan. The Areas comprise a number of Regions, which consist of member firms or sections of those firms.

Our activities in the Netherlands are part of the EMEIA Area, which comprises EYG member firms in 98 countries in Europe, the Middle East, India and Africa. Within the EMEIA Area, there are 11 Regions. As of 1 July 2017, the Netherlands forms part of the WEM Region (Western Europe & Maghreb). This Region does not include the financial sectors in the WEM countries, as these industry sectors are part of the EMEIA Financial Services Region. Although Financial Services constitutes a separate Region within EMEIA, in this Transparency Report, we report all activities of Ernst & Young Accountants LLP, including Financial Services in the Netherlands.

Ernst & Young (EMEIA) Limited (EMEIA Limited), a UK company limited by guarantee, is the principal coordinating entity for the EYG member firms in the EMEIA Area. EMEIA Limited facilitates the coordination of these firms and cooperation between them, but it does not control them. EMEIA Limited is a member firm of EYG, it has no financial operations and does not provide any professional services.

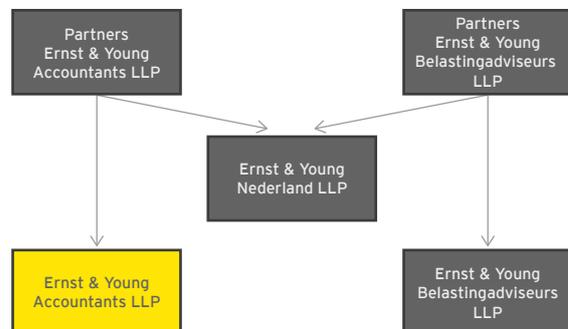
In Europe, a holding entity, Ernst & Young Europe LLP (EY Europe), was formed in conjunction with EMEIA Limited. EY Europe is a UK limited liability partnership, owned by the partners of the EYG member firms operating in Europe. It is an audit firm registered with the Institute of

Chartered Accountants in England and Wales (ICAEW), but it does not carry out audits or provide any professional services. To the extent permitted under local laws and regulations, EY Europe has acquired or will acquire voting control of the EYG member firms operating in Europe. EY Europe is a member firm of both EYG and EMEIA Limited.

Ownership

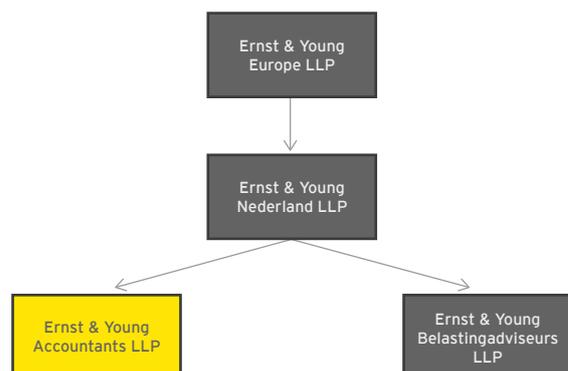
Our firm is owned by the private practice companies of our partners in the Netherlands (“members”). Apart from holding a stake in Ernst & Young Accountants LLP, our members also co-own Ernst & Young Nederland LLP, together with the members of Ernst & Young Belastingadviseurs LLP. The members of our firm and of Ernst & Young Belastingadviseurs LLP are also co-owners of EY Europe.

Our simplified ownership structure is illustrated below. No changes to this structure were made in the fiscal year 2017/2018.



Control

EY Europe obtained voting control in Ernst & Young Nederland LLP on 31 March 2009 and therefore it has indirect control over our firm.



Organization

The network of Ernst & Young Accountants LLP operates from 16 offices in the Netherlands and comprises:

- ▶ Ernst & Young Nederland LLP
- ▶ Ernst & Young Belastingadviseurs LLP - tax services
- ▶ Ernst & Young Participaties Coöperatief U.A.
- ▶ Ernst & Young Participaties B.V.
- ▶ Ernst & Young Actuarissen BV - actuarial services
- ▶ Ernst & Young CertifyPoint BV - independent and impartial certification
- ▶ Ernst & Young VAT Rep BV - VAT representation
- ▶ G.S. Participation Ltd.
- ▶ Ernst & Young Real Estate Advisory Services B.V. - real estate investment advice and valuations
- ▶ Stichting Ernst & Young Foundation - support for initiatives by not-for-profit organizations regarding sustainability and environmental issues
- ▶ Centre B.V. - EPM services, including financial consolidation, budgeting, planning and forecasting, to large international clients
- ▶ CFORS B.V. - development of software solutions for banks and insurers, enabling them to comply with new reporting standards, such as Solvency II, CRD IV and IFRS 4
- ▶ Integrc Netherlands B.V. in liquidation- advice regarding SAP systems, specifically SAP GRC
- ▶ EY Intelligence In Information B.V. in liquidation - advice regarding data warehousing, business intelligence, data analytics and predictive analytics
- ▶ EY Montesquieu Finance B.V. - advice regarding finance
- ▶ EY Montesquieu Institutional Risk Management B.V. - advice regarding risk management
- ▶ EY-Parthenon B.V. - global strategy consulting
- ▶ EY VODW B.V. - strategic marketing, client-focused innovation and digital transformation

Ernst & Young Belastingadviseurs LLP has a strategic alliance with HVG Law LLP (formerly known as Holland Van Gijzen Advocaten en Notarissen LLP). HVG Law LLP 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 the partners through Ernst & Young Nederland LLP.

Governance in the Netherlands

Ernst & Young Nederland LLP is governed by a Board of Directors elected by EY Europe. During the fiscal year 2017/2018, Coen Boogaart (Chair, Country Managing Partner in the Netherlands), Rob Lelieveld (Chair of Ernst & Young Accountants LLP) and Jeroen Davidson (Chair of Ernst & Young Belastingadviseurs LLP) were Board members for the full fiscal year. Mirjam Sijmons (Talent & Transformation) and Nico Pul (Quality) joined the Board of Directors of Ernst & Young Nederland LLP as of 1 February 2018.

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 elected by their peers to represent partners' interests and viewpoints.

Governance of the Audit Firm

The Board of Directors of Ernst & Young Accountants LLP is responsible for the reputational, financial and commercial standing of our firm as cornerstones of its sustainable success. 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 seven Board members: Rob Lelieveld (Chair), Jules Verhagen (Markets), Nico Pul (Quality), Patrick Gabriëls (Operations & Innovation, as of 1 September 2017), Mirjam Sijmons (Talent & Transformation, as of 1 February 2018), Auke de Bos (Professional Practice Director, as of 1 June 2018) and Tom de Kuijper (Change Implementation Leader, as of 1 June 2018).

Policymakers and Co-Policymakers

In accordance with Dutch legislation, as of 1 July 2018 all policymakers of audit firms with a license to audit Public Interest Entities (PIEs, *Organisaties van Openbaar Belang*) are subject to a fit-for-purpose test (*geschiktheidstoets*) by our Dutch regulator AFM (*Autoriteit Financiële Markten*). During the fiscal year 2017/2018, we prepared for this new requirement.

On 31 October 2018, the following persons are the policymakers and co-policymakers (*beleidsbepalers and medebeleidsbepalers*) at Ernst & Young Accountants LLP.

Policymakers:

- ▶ The seven members of the Board of Ernst & Young Accountants LLP mentioned above

Co-policymakers:

- ▶ Andy Baldwin, EY's Managing Partner Europe
- ▶ Coen Boogaart, Chair of the Board of Directors of Ernst & Young Nederland LLP
- ▶ Jeroen Davidson, member of the Board of Directors of Ernst & Young Nederland LLP
- ▶ Bernard Heller, EY's Professional Practice Director Europe
- ▶ Isabelle Santenac, EY's Assurance Leader Europe Financial Services
- ▶ Jean-Yves Jégourel, EY's Assurance Leader Europe

- ▶ Jean-Pierre Letartre, EY's WEM Regional Managing Partner
- ▶ Alain Perroux, EY's WEM Assurance Leader
- ▶ The four members of the Supervisory Board mentioned below

EY's Supervisory Board in the Netherlands

The Supervisory Board (SB) (*raad van commissarissen, rvc*) of Ernst & Young Nederland LLP started its activities in July 2015. The SB's tasks include safeguarding the public interest and audit quality, supervising the internal risk management and (quality) control systems and monitoring the social responsibility issues of our professional practices.

The SB consists of four external, independent members and one non-independent member. The four independent members are Pauline van der Meer Mohr (Chair), Steven van Eijck, Monique Maarsen and Tanja Nagel (as of 1 September 2017). The non-independent member was Jean-Yves Jégourel, EY's Assurance Leader Europe (until 1 July 2018).

The SB reports on its activities during the fiscal year 2017/2018 in the Annual Report 2017/2018 of Ernst & Young Nederland LLP.

As disclosed in 'Legal structure, ownership and governance' our Supervisory Board is formally implemented at the level of Ernst & Young Nederland LLP. In light of the revised Dutch legislation we are reconsidering the position of the Supervisory Board.

Europe Operating Executive

The Europe Operating Executive (EOE) operates as the board of EY Europe. It has authority and accountability for strategy execution and management of EY Europe's operations. The EOE comprises: the Europe 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 Governance Sub-Committee

EY Europe has the Europe Governance Sub-Committee, which includes one representative from each Region in Europe. It serves in an advisory role to the EOE on policies, strategies and other matters, and its approval is required for a number of significant matters, such as the appointment of the Europe Managing Partner, approval of the financial reports of EY Europe and material transactions.

Network arrangements

EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, over 250,000 people in member firms in more than 150 countries share a commitment to building a better working world, united by shared values and an unwavering commitment to quality, integrity and professional skepticism. In today's global market, the integrated EY approach is particularly important in the delivery of high-quality multinational audits, which can span nearly every country in the world.

This integrated approach enables EY member firms to develop and draw upon the range and depth of experience required to perform such diverse and complex audits.

EYG coordinates the member firms and promotes cooperation among them. EYG does not provide services, but its objectives include the promotion of exceptional high-quality client service by member firms worldwide.

Each member firm is a legally distinct entity. Their obligations and responsibilities as members of EYG are governed by the regulations of EYG and various other agreements.

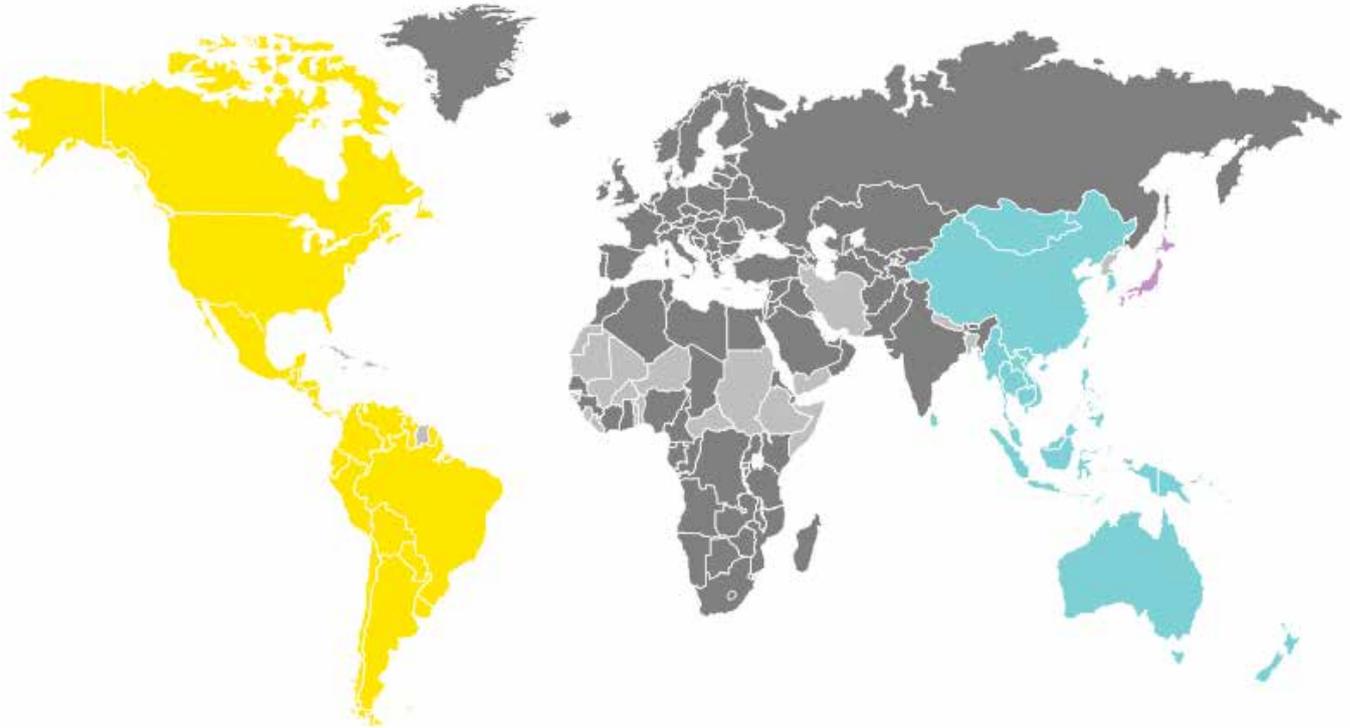
The structure and principal bodies of the global organization during the year ended 30 June 2018 are described below. They reflect the principle that EY, as a global organization, has a common shared strategy.

The Executive includes the Global Executive (GE), its committees and teams, and the leadership of the four Areas. At the same time, the network operates on a Regional level within the Areas. This operating model allows for greater stakeholder focus in the 27 Regions, permitting member firms to build stronger relationships with clients and others in each country, and be more responsive to local needs.

Global Governance Council

The Global Governance Council (GGC) is the main oversight body of EYG. It comprises one or more representatives from each Region, other member firm partners as at-large representatives and up to six independent non-executives (INEs). The Regional representatives, who otherwise do not hold senior management roles, are elected by their RPFs for a three-year term, with provision for one successive reappointment. The GGC advises EYG on policies, strategies and the public interest aspects of its decision-making. The approval of the GGC is required for a number of significant matters that could affect EY.

Americas		EMEIA		Asia-Pacific		Japan	
Regions	10	Regions	11	Regions	5	Regions	1
Countries	31	Countries	98	Countries	22	Countries	1



Independent Non-Executives

Up to six Independent Non-Executives (INEs) are appointed from outside EY. The INEs are senior leaders from both the public and private sectors, and reflect diverse geographic and professional backgrounds. They bring to the global organization, and the GGC, the significant benefit of their varied perspectives and depth of knowledge. The INEs also form a majority of the Public Interest Sub-Committee of the GGC, which addresses public interest matters, including public interest aspects of decision-making, issues raised under whistleblowing policies and procedures, perspectives on stakeholder views and engagement in quality and risk management discussions. The INEs are nominated by a dedicated committee.

Global Executive

The Global Executive (GE) brings together EY’s leadership functions, services and geographies. It is chaired by the Chairman and CEO of EYG, and includes its Global Managing Partners of Client Service and Business Enablement; the Area Managing Partners; the global functional leadership for Talent and Finance; the leaders of the global service lines – Assurance, Advisory, Tax and Transaction Advisory Services; the Global Leader for Public Policy; and one EYG member firm partner on rotation.

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 GGC approve nominations for the Chairman and CEO of EYG, and ratify appointments of the Global Managing Partners. The GE also approves appointments of Global Vice Chairs. The GGC ratifies the appointments of any Global Vice Chair who serves as a member of the GE.

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 development funds and investment priorities
- ▶ EYG’s annual financial reports and budgets
- ▶ GGC recommendations

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

GE committees

Established by the GE and bringing together representatives from the four Areas, the GE committees are responsible for making recommendations to the GE. In addition to the Global Audit Committee, there are committees for Global Markets and Investments, Global Accounts, Emerging Markets, Talent, Risk Management, Assurance, Advisory, Tax, and Transaction Advisory Services.

Global Practice Group

This group brings together the members of the GE, GE committees, Regional leaders and sector leaders. The Global Practice Group seeks to promote a common understanding of EY's strategic objectives and helps drive 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 the implementation of global strategies and plans, and work 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 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 the EY Global Code of Conduct and EY values (see page 28).

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. Member firms unable to meet the quality commitments and other EYG membership requirements may be subject to separation from the EY organization.



Commitment to quality

Infrastructure supporting quality

Quality in our service lines

Vision 2020+, which sets out EY's purpose, ambition and strategy, calls for EYG member firms to provide exceptional client service worldwide. This is supported 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.

EYG member firms and their service lines are accountable for delivering quality engagements. EY service lines manage the overall process for quality reviews of completed engagements and input for the quality of in-process engagements, which helps achieve compliance with professional standards and EY policies.

Vision 2020+ has reinforced the ownership of quality by the service lines, including audit. It has also resulted in increased clarity around the role of risk management in policies and practices that support and improve audit quality.

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

Professional Practice

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

The Global PPD also leads and oversees the Global Professional Practice group. This is a global 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 so that they are consistent with relevant professional

standards and regulatory requirements. The Global Professional Practice group also oversees the development of the guidance, training and monitoring programs and processes used by member firm professionals to execute audits consistently and effectively. The Global, Area and Region PPDs, together with other professionals who work with them in each member firm, are knowledgeable about EY people, clients and processes, and they are readily accessible for consultation with audit engagement teams.

Additional resources often augment the Global Professional Practice group, including networks of professionals focused on:

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

Risk management

Responsibility for high-quality service and ownership of the risks associated with quality is placed with the member firms and their service lines. Among other things, the Global Risk Management Leader helps oversee the management of these risks by the member firms, as well as other risks across the organization as part of the broader Enterprise Risk Management framework.

Member firm partners are appointed to lead risk management initiatives in both the service lines and member firms, supported by other staff and professionals. The Global Risk Management Leader is 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 an Enterprise Risk Management program.

Global confidentiality policy

Protecting confidential information is ingrained in the everyday activities of EYG member firms. Respect for intellectual capital and all other sensitive and restricted information is required by the EY Global Code of Conduct,

which provides a clear set of principles to guide the behaviors expected of all EY people. The Global Confidentiality Policy further details this approach to protecting information and reflects the ever-increasing use of restricted data. This policy provides added clarity for EY people and forms the fundamental element of broader guidance that includes key policies on conflicts of interest, personal data privacy and records retention. Other guidance includes:

- ▶ Social media guidance
- ▶ Information-handling requirements
- ▶ Knowledge-sharing protocols

Cybersecurity

Managing the risk of major and complex cybersecurity attacks is a part of doing business for all organizations. While no systems are immune from the threat of cyber-attacks, EY Accountants LLP is vigilant in the steps taken to secure the environment of EYG member firms and to protect their clients' data. The EY approach to cybersecurity is proactive and includes the implementation of technologies and processes necessary to manage and minimize cybersecurity risks globally. EY information security and data privacy programs, consistent with industry practices and applicable legal requirements, are designed to protect against unauthorized disclosure of data. There is a dedicated team of internal and external cybersecurity specialists who actively monitor and defend EY systems.

Beyond technical and process controls, all EY people are required to affirm in writing their understanding of the principles contained in the EY Global Code of Conduct and their commitment to abide by them and to participate in an annual security awareness learning activity. There are various policies outlining the due care that must be taken with technology and data, including but not limited to the Global Information Security Policy, and a global policy around the Acceptable Use of Technology. EY cybersecurity policies and processes recognize the importance of timely communication. EY people receive regular and periodic communications reminding them of their responsibilities around these policies and general security awareness practice.

Dutch quality and risk infrastructure

As announced in our Transparency Report for the fiscal year 2016/2017 and mentioned in Part One of this Report, as part of our Step Change to Quality program, we have rearranged the quality and risk management infrastructure of the Dutch service line Assurance. The purpose of this change was to strengthen this infrastructure, to make our efforts in the area of quality support and risk reduction more effective and to eliminate uncertainties regarding the ownership of specific tasks in the area of quality and risk control.

Three lines of defense

EY's quality and risk management structure is based on the 'three lines of defense' model. We differentiate between operational management functions that own and manage risks (first line), risk management and compliance monitoring functions (second line) and an independent internal audit function (third line). We have further aligned our quality and risk infrastructure with our international 'three lines of defense' model, ensuring separate roles are allocated optimally.

In order to reduce the risk of suboptimal quality, a well-functioning system of quality control is important. Part of the remit of the first line of defense is to provide the right message to our client-serving professionals. Therefore, our audit teams know they have the responsibility to meet internal and external quality standards and to reduce quality-related risks. This is the Tone at the Top that is communicated to them regularly, this is what they are taught in learning and training sessions.

The second line of defense is formed by risk management and compliance functions that monitor risks, first and foremost our Q-organization. The Q-organization is responsible for delivering all necessary support, including training and reviewing, to our professionals and teams, in order to ensure that they are well-prepared to meet or exceed their quality targets.

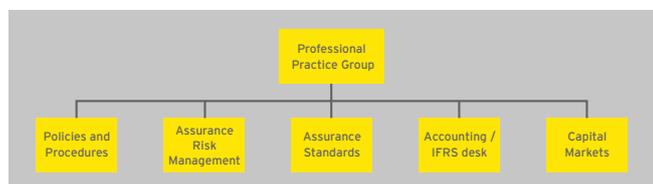
The third line of defense is formed by an independent internal audit unit. During the fiscal year 2017/2018, our Compliance Office (CO) led by the Compliance Officer operated in this third line of defense; the CO assessed independently whether quality controls were designed appropriately and operating effectively and whether our firm was 'in control' regarding the quality of statutory audits (*wettelijke controles*, *WeCos*). In order to further strengthen the third line of defense, Ernst & Young Nederland LLP decided to set up an Internal Audit Department (IAD). This IAD covers activities of all EY's service lines in The Netherlands, including activities and functions that transcend individual service lines but have an influence on one or more of them. The main area of responsibility of the IAD is to assess, through internal enquiries, the appropriateness of internal controls. The IAD informs EY's governance bodies in the Netherlands of the results of these enquiries.

The Compliance Officer function and the activities of our CO, focused on the service line Assurance, became part of the new IAD. The Compliance Officer, now part of the IAD, continues to independently assess our compliance with the rules laid down by or pursuant to Sections 13 through 24b of the Dutch Audit Firms Supervision Act (*Wet toezicht accountantsorganisaties, Wta*) and the EU Audit Regulation No 537/2014.

After the changes made to the second line of defense, the two key groups in our Q-organization are our Professional Practice Group (PPG, *Vaktechniek*) headed by our Professional Practice Director (PPD), and our Quality Enablement Group (QEG), headed by our Quality Enablement Leader (QEL).

PPG

For decades, the PPG has been a cornerstone of EY's quality and risk infrastructure. It is responsible for our quality policies and our system of quality control. The PPG's tasks include giving formal compliance approvals on various quality-related subjects and it explains to our professionals how to apply legislation, regulation, and internal as well as external audit norms and standards. The PPG does so both pro-actively and in reaction to consults by our audit teams. It plays an active role in Assurance Risk Management, e.g. through its mandatory approvals during our client acceptance and continuation process and regarding the composition of partners' portfolios, and through its role in the quality rating of partners. The PPG is also responsible for approval and monitoring of remedial actions resulting from our Audit Quality Reviews (AQRs). The current built-up of our Dutch PPG is as follows:



QEG

Whereas the PPG is and remains a fundamental part of EY's quality effort all over the world, EY Global realized that EY's worldwide endeavor to sustainably improve audit quality would benefit from more support to our audit teams in the practical, day-to-day implementation of often complex internal and external rules. Therefore, EY appointed Quality Enablement Leaders (QELs), supported by Quality Enablement Groups (QEGs), in many countries and regions.

Given our emphasis in the Netherlands on sustainable, consistent quality in our Step Change to Quality program, we set up a particularly strong QEG with multiple tasks. Our QEG designs training and teaching materials explaining how to implement new audit rules in practice. It also organizes mandatory training courses for audit teams on the implementation of these new rules. The QEG monitors whether its training efforts are effective, i.e., whether new rules are implemented correctly by the audit teams. Upon request, it helps teams who express doubts regarding the right implementation through coaching and pre-issuance reviews. After an audit is finished, the QEG can check the implementation through post-issuance reviews - either EY's standard AQRs or special Thematic Quality Reviews, focusing on the implementation of a specific rule or the solution chosen for specific problems. Finally, the QEG performs root cause analyses of both insufficient and excellent results achieved by our audit teams.

New in this QEG set-up is the holistic, integrated approach towards 'supporting the audit teams on the ground': from the design of trainings and training material all the way to root cause analyses. New elements within this holistic approach are monitoring as a separate function, coaching to foster correct implementation and the thematic post-issuance quality reviews.

The current built-up of our QEG is as follows:



Both our PPD and our QEL are members of the MT Assurance.

A strong effort

With the transformation of our quality and risk infrastructure, we have also made extra investments in people, training, monitoring and reviews. The number of FTEs working for our quality and risk infrastructure at 30 June 2018 was 91.7, an increase of 42% compared to 30 June 2017.

During the fiscal year 2017/2018, professionals forming part of the QEG's 'coaching and review pool' made a strong effort engaging in various types of pre-issuance and post-issuance reviews. These efforts are described in more detail in the section on EQRs and Review Pools in Part Two

FTE	2017-2018				2016-2017			
	Partner	(Senior) manager	Other	Total	Partner	(Senior) manager	Other	Total
Professional Practice Group	13.4	26.3	2.2	41.9	14.0	19.3	4.6	37.9
Quality Enablement Group	4.0	22.1	8.4	34.5	3.0	8.6	5.4	17.0
Operations		7.4	7.9	15.3		3.8	5.9	9.7
Total	17.4	55.8	18.5	91.7	17.0	31.7	15.9	64.6

This information is part of the info required by KPI 13 (see Appendix 4 of this Transparency Report).

of this Transparency Report. The importance of the review pool is underlined by the fact that as of 1 July 2018 all new partners and executive directors join the review pool for at least two years.

Furthermore, we have expanded our network of GAMxperts, i.e. experts on our EY audit methodology in our local offices. During the fiscal year 2017/2018, close to 50 people in our local offices received a 6- to 7-days training to better understand all the ins and outs of GAM to become GAMxperts in their local office.

Compliance Office

As mentioned, during the fiscal year 2017/2018, our Compliance Office (CO), headed by our Compliance Officer, was part of the third line of defense within our quality and risk infrastructure. The main question our CO asked itself: is our firm 'in control' regarding the quality of statutory audits (*wettelijke controles*, WeCos)? Using a risk-based approach, the CO checked if the system of quality control was designed appropriately and operating effectively. The CO's decisions regarding the themes or issues it wanted to inspect in detail were based on thorough risk analyses by its team.

As part of its area of responsibility, the CO also assessed whether the firm's independence and its controlled and ethical business operations were safeguarded sufficiently. While most quality control policies and procedures are implemented within the boundaries of the service line Assurance, these two additional tasks required the CO to widen its focus to include the entire organization of EY in the Netherlands.

In addition to assessing the design and operating effectiveness of our system of quality control, our CO could also broadly assess change-and-improvement programs with respect to that quality control system. In that case, the CO could assess whether these programs were implemented properly and had the desired results. This activity was especially relevant against the background of our Step Change to Quality change program. In addition to its compliance audits and reviews, the CO also advised our policymakers on compliance related matters.

The CO's findings and recommendations were reported to our firm's policymakers, i.e. our MT Assurance. The most important outcomes of the CO's activities were also directly shared with the Board of Directors and the Supervisory Board of Ernst & Young Nederland LLP. As part of our effort to further improve the quality of our audits and our organization, our CO was strengthened and was staffed by six people on 30 June 2018. As mentioned, the CO as well as its staff became part of the new IAD.

In the following sections, we describe the principal components of the audit quality control program, which Ernst & Young Accountants LLP follows:

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

Instilled professional values

Sustainable Audit Quality

Quality is the foundation for exceptional client service. It is what we pride ourselves on. It is integral to our work and central to our responsibility to provide confidence to the capital markets. Delivering quality is at the heart of all we do and supports our purpose of building a better working world for our people, our clients and our communities. This is reflected in the Sustainable Audit Quality (SAQ) program, which is the highest priority for our Assurance practices.

Each member firm that makes up our global structure is committed to providing high-quality audits. In 2015, we launched the SAQ initiative throughout our Assurance practices. SAQ establishes a governance structure and is focused on continuously improving our audit process.

We use the word "sustainable" in SAQ to demonstrate that this is not a one-off, short-term initiative, but an ongoing process of improvement. EY has had a common audit methodology for some time; now we have a common language and processes regarding audit quality.

There are six components to SAQ: tone at the top, strengthening people capabilities, simplification, audit technology and digital, enablement and quality support, and accountability. SAQ is implemented by each member firm, and is coordinated and overseen globally.

Audit quality and the key elements of SAQ are something every senior manager, manager and team member must understand and be committed to implementing locally. SAQ is essential to all our goals and ambitions, and each of the Regional and Area leaders is held accountable for those goals.

We have made significant progress through SAQ. EY's internal and external inspection findings globally are showing improvement, and we are producing greater consistency in execution. We have deployed world-class tools that enhance the quality and value of our audits. Our ability to deliver consistency is based in part on the use of EY Canvas, our online audit platform. It better supports audit execution, streamlines communications and enables us to provide a seamless audit.

We recently launched the EY Canvas Client Portal, which adds to the leading-edge tools already offered to our auditors. In addition, we have deployed the 2018 Audit Milestones Program globally, which establishes the use of Milestones on selected PIE audits as one important step to improving results and sustaining quality across engagements.

There is also a network of Quality Enablement Leaders (QELs) across the practice and an overall Global Audit Quality Committee.

They help us in executing and reviewing root-cause analysis and understanding the impact our initiatives are having in driving quality outcomes, better behaviors and a continuous improvement mindset. This infrastructure demonstrates that audit quality is the single most important factor in our decision-making and the key measure on which our professional reputation stands.

Tone at the top

Our leadership is responsible for setting the right tone at the top and demonstrating EY's commitment to building a better working world through behavior and actions. While the 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.

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

The EY 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.

The consistent stance of Ernst & Young Accountants LLP has been that no client is more important than our professional reputation – the reputation of our firm and the reputation of each of our professionals.

Code of Conduct

We promote a culture of integrity among our professionals. The EY Global Code of Conduct provides a clear set of principles that guide our actions and our business conduct, and are to be followed by all EY personnel. The EY Global Code of Conduct is divided into five categories:

- ▶ 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 EY 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 took place in June 2017.

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 operated effectively during the fiscal year 2017/2018 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 EY Global Code of Conduct. The hotline is operated by an external organization that provides confidential and, if desired, anonymous hotline reporting services worldwide.

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

During this fiscal year 2017/2018, no reports regarding Ernst & Young Accountants LLP were filed through the EY/Ethics Hotline (2016/2017: one internal report, no external report; see KPI 37 in Appendix 4 of this Transparency Report).

In addition to the EY Ethics Hotline, our firm has a Whistleblowers' Regulation and a Complaints Regulation in place. During this fiscal year, no whistleblowers' notifications were filed.

Through the Complaints Regulation, our firm received three complaints relating to Ernst & Young Accountants LLP. One of these complaints concerned an engagement on accounting, compliance and reporting (ACR). The part of the complaint related to the compilation work by auditors was declared unfounded. A second complaint was submitted by a former employee of a client, for which EY had prepared a report on certain facts and circumstances, also regarding the former employee. The Complaints Committee is currently investigating this complaint. Another complaint, relating to audit engagements, was submitted approximately ten years after the limitation period had expired and was therefore not taken into consideration.

Through other channels, our firm occasionally receives comments, questions or complaints from clients, liquidators or other stakeholders. Issues raised include different expectations regarding the assurance or services delivered, our invoices or 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 and complaints are always dealt with at a higher level in the organization and are assessed and discussed on a case-by-case basis. In the fiscal year 2017/2018, we received four new complaints through other channels than the Complaints Regulation. This number does not include demand letters, which are covered in the 'Litigation' paragraph of this Transparency Report.

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

Our stakeholder dialogue

(In this section, when we refer to 'stakeholders', we mean our external stakeholders only)

At EY, we acknowledge the importance of open communication with our stakeholders. Listening to them helps us to define and serve the public interest and to further raise the quality of our audits. The expectations and demands of our stakeholders change; through our stakeholder dialogue, we are able to identify and understand these changes. The stakeholder dialogue helps us to reinforce our 'outside in' thinking and accelerates our learning curve. At the same time, dialogue is the best way to explain our actions, plans and challenges to our stakeholders.

EY's dialogue with stakeholders in the Netherlands is organized at the central level, across all service lines. That said, themes most important to our service line Assurance (e.g. serving the public interest and audit quality) play a very important part in EY's Dutch stakeholder dialogue.

As announced in our 2016/2017 Transparency Report, during the fiscal year 2017/2018, EY has organized the stakeholder dialogue in the Netherlands in a more structured way as part of our Step Change to Quality program, intensifying this dialogue in the process. EY's Steering Group Stakeholder Dialogue (*Stuurgroep Stakeholder Dialoog*) in the Netherlands was given more weight, extending its activities across all service lines. Various members of our firm's Management Team form part of the Steering Group. It meets at least once every quarter and is responsible for the cross-service line coordination and monitoring of all EY's stakeholder activities in the Netherlands. Also on a quarterly basis, the Steering Group shares its activities, plans and conclusions with the Public

Interest Committee (PIC) of the Supervisory Board of Ernst & Young Nederland LLP.

As of fiscal year 2017/2018, all organizers of EY's specific stakeholder dialogue activities in the Netherlands report to the Steering Group in a structured way, through a standard evaluation form. This helps us to better monitor and evaluate the effectiveness of our stakeholder dialogue and to learn collectively from our stakeholders' suggestions.

During the fiscal year 2017/2018, EY performed a Stakeholder Materiality Analysis in the Netherlands. Through surveys, interviews and group meetings, we asked our stakeholders what they thought were the most important issues for EY to focus on in its endeavor to add more value. We had performed these analyses in previous years, but never with the same width and depth. Our stakeholders want EY to focus primarily on the following topics: recruiting and retaining talent, technological innovation, integrity and independence, client satisfaction, and compliance with regulations. Obviously, in addition to the rankings of important topics, the Stakeholder Materiality Analysis provided us with a wealth of information that we will take into account in the implementation of our Step Change to Quality program during the fiscal year 2018/2019 and beyond.

For example, our stakeholders' opinions helped us to define the reduction of working hours as a key priority regarding the recruitment and retaining of talent and confirmed to us that a change in culture is essential for further quality improvement of our work. Furthermore, we took good notice of the emphasis placed by our stakeholders on the need to accelerate the innovation of the role of the auditor, taking into account the impact of the digital revolution on businesses and society.

An important part of our Stakeholder Dialogue takes place through our very active participation in the work of our Dutch professional association NBA. During our fiscal year 2017/2018, the NBA engaged in discussions with society at large on 'hot topics' such as the role of the auditor in fraud detection, the auditor's evaluation of management's 'going concern' assumption, 'audit only' versus multidisciplinary firms, innovation of the audit profession, the work pressure experienced by young members of audit teams, and - last but not least - the definition of 'audit quality'. The NBA wrote green and white papers, engaged in numerous meetings with people with stakes in the audit sector and held various conferences to discuss these and other topics. We further increased our role in the various working committees of the NBA dealing with these important subjects. For more information on the NBA's activities and proposals, we refer to its website, www.nba.nl.

Especially important were the NBA's discussions with the Dutch Monitoring Committee Accountancy (MCA). The MCA monitors the progress of the Dutch auditing sector in its efforts to further improve the quality of its work, to make the necessary changes in business culture and to restore public confidence in the sector. As discussed in the Report of the Policymakers in Part One of this Transparency Report, the MCA published a report in May 2018 exhorting the sector to accelerate and intensify its efforts to change

the sector for the better. In June 2018, a meeting to discuss the report took place between the MCA, the Board of the NBA, the NBA's 'Steering Group Public Interest' (*Stuurgroep Publiek Belang*) and various other interested parties such as our external regulator the AFM, the Dutch Ministry of Finance and representatives of investors. Since that meeting, the recommendations of the MCA have been incorporated into the NBA's 'change agenda' for the sector.

EY continued its annual cycle of round-table conferences with members of the Supervisory Board of listed Dutch companies (October-November 2017). Items discussed were the role of the Supervisory Board in situations of hostile take-over attempts, supervision of a company's risk management, emotional intelligence in the board room and, of course, current developments regarding the audit profession in the Netherlands and beyond. We noted that most Supervisory Board members define audit quality clearly in terms of 'added value' for the company they are supervising, i.e., the external auditor should provide both the Executive and the Supervisory Board with original and valuable information, insights and suggestions in addition to their formal task of auditing the company's (financial) reports. Most participants also stressed that they expect the external auditor to discuss any doubts regarding the 'going concern' assumption or any suspicion of fraud at an early stage with not just management but also the (audit committee of the) Supervisory Board.

At our yearly meeting with representatives of investors and financial analysts (January 2018), we discussed new reporting and auditing standards, the role of the auditor regarding the 'going concern' assumption and recent reports on the audit sector by our regulator the AFM. We noticed there is an 'expectation gap' regarding the acceptance by the auditor of management's 'going concern' assumption. This acceptance is by no means a guarantee that the company in question will not fail over the next 12 months, but it is often seen as such.

EY held various meetings with Dutch politicians and representatives of the media to discuss tax and audit issues, including the responsibilities in these areas of our professionals. In order to foster understanding of the work of our firm's professionals, we also launched 'The Work of an Auditor' one-day sessions with individual politicians.

Many stakeholders have told EY in the Netherlands to be more visible in the media and to express our opinions more often and more clearly. In this context, EY intensified its 'Figurehead' (*Boegbeeld*) initiative. Some of EY's leading professional experts in the Netherlands were designated to figure as spokespersons for the firm and to establish a working relationship with relevant members of the media, in an effort to foster a balanced and more frequent reporting of our viewpoints.

Our colleagues working for companies in the financial services industry held various seminars and round tables for executive and non-executive directors in this industry, focusing on current issues in the banking, insurance, pension fund and asset management sectors. The seminar about developments in the FinTech industry (October 2017) was attended by more than 250 participants. EY also

continued to organize its annual event for CFOs, this time (June 2018) focusing on financial analytics, as well as its quarterly 'Tomorrow's Economy' breakfast sessions for business leaders.

EY's internal and external stakeholders in the Netherlands



Clients' assessment of our service quality

During our audits, the public interest comes first. At the same time, we pay the utmost attention to our relationship with our audit clients and clients for other assurance services. Audits of the highest quality are not only in the public interest, they are also in the interest of our clients. Therefore, the feedback from our clients about the quality of our services is valuable input that we use in our continuous effort to further improve our work.

EY in the Netherlands monitors and measures expectations and satisfaction of its clients across all four service lines through its Assessment of Service Quality (ASQ) program, a powerful means of measuring clients' expectations and satisfaction. The program consists of pre-engagement interviews with clients regarding their expectations of the quality of our services and of post-engagement ASQ interviews and ASQ surveys. In principle, an ASQ interview is held every year with the 30 largest clients of EY in the Netherlands, unless the client itself prefers to skip a year. Also, through an interview and/or survey, we try and contact at least one client of every EY partner in the Netherlands every year.

ASQ interviews are not performed by members of the team executing the audit, to ensure an independent look at, and evaluation of, the relationship with our client. Interviews are performed by EY staff unrelated to the client. We foster participation of our partners in ASQs of unrelated clients, as they learn from the experience of performing ASQs and can pick up suggestions to improve their own work. Members of the Management Team of our service line Assurance routinely participate in the ASQ interviews with the 30 largest clients.

During the fiscal year 2017/2018, our service line Assurance held 95 ASQ interviews and 134 ASQ surveys (2016/2017: 106 and 69, respectively). In the opinion of the clients of our service line Assurance, during the fiscal year 2017/2018 the quality of their relationship with us improved in 45% of the cases, stayed the same in 46% and worsened in 9%. These percentages reflect all clients for our service line Assurance (predominantly, but not exclusively, audit clients) and include a few ASQs with clients of our firm based outside the Netherlands. In the fiscal year 2016/2017, the comparable percentages were 39%, 53% and 8%, respectively. Due to a change in the definition of the clients covered, these percentages are not fully comparable with the figures reported in our Transparency Report for the fiscal year 2016/2017.

A preliminary analysis of our ASQ interviews during the fiscal year 2017/2018 shows that our clients are increasingly concerned about the development of the audit profession. They stress they want the audit to 'add value', meaning the provision of new information and insights by the audit team, beyond the strict fulfilment of their audit duties. Many clients are afraid auditors are currently more focused on working in line with the guidelines set by our regulator the AFM than on providing this added value. A related point of attention is our clients' perception that the audit team and its leaders are less willing to make their own judgment and refer many issues to our Professional Practice Group (PPG), a process that is often perceived by clients as time-consuming and frustrating.

These perceptions among our clients mean that we have to make an extra effort to explain to them that the public interest comes first in a high-quality audit. Prioritizing the public interest implies that we have to be absolutely certain we apply the right criteria in often complicated audit and accounting questions and that we comply with all internal and external quality standards and norms. Frequent consultation on difficult issues is, therefore, part and parcel of our quality effort. Obviously, we owe it to our clients that we execute this consultation process in an effective and efficient way, in order to minimize its impact on the rhythm of the execution of the audit. At the same time, we encourage our audit teams to be frank in their communications with clients, providing clients in a timely way with relevant, valuable information, regardless of the positive or negative character of this information in the eyes of the client's management.

In addition, our clients encourage us to use the audit to teach our younger audit team members on the job and to give them more space to develop themselves and to excel during the audit. These suggestions are fully in line with our efforts in this direction as part of our Step Change to Quality program.

Internal quality control system

Structure

Our 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.

Our role as auditors is to provide assurance on the fair presentation of the financial statements of the companies we audit. We bring together qualified teams to provide our services, drawing on our broad experience across industry sectors and services. We continually strive 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 and the impact of technology changes – the quality of our audit services has never been more important. As part of EY Vision 2020+, we continue to invest heavily in developing and maintaining our audit methodology, tools and other resources needed to support quality service.

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 investments mentioned, EY continues to seek ways to improve the effectiveness and efficiency of its audit methodology and processes, while improving 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 adverse quality occurrences to enable us continually to improve audit quality, and we believe that taking effective and appropriate actions to improve quality is important.

Effectiveness of the quality control system

EY has designed and implemented a comprehensive set of global audit quality control policies and practices. These policies and practices meet the requirements of the International Standards on Quality Control issued by the International Auditing and Assurance Standards Board (IAASB). Our firm 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 to evaluate whether our system of audit quality control has operated effectively so as to provide reasonable assurance that our firm and our people comply with applicable professional standards, internal policies and regulatory requirements.

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

The GE is responsible for implementing quality improvement. As such, it reviews the results of our internal AQR program and external audit firm 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 external audit firm regulators, provide Ernst & Young Accountants LLP with a basis to conclude that our internal control systems are designed appropriately and are operating effectively.

Client acceptance and continuance

EY policy

The EY Global 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 with 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 or continue clients or engagements
- ▶ Meet applicable independence requirements
- ▶ Identify and deal appropriately with any conflicts of interest
- ▶ Identify and decline clients or engagements 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 EY Global Conflicts of Interest 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 EYG member firms to act for two or more clients to declining an engagement to avoid an identified conflict.

The EY Global Conflicts of Interest Policy and associated guidance were updated in early 2015. The updates take into account the increasing complexity of engagements and client relationships, and the need for speed and accuracy in responding to clients. They also align with the latest International Ethics Standards Board for Accountants (IESBA) standards.

Putting policy into practice

We use the EY Process for Acceptance of Clients and Engagements (PACE), an intranet-based system, for efficiently coordinating client and engagement acceptance and continuance activities in line with global, service line

and member firm policies. PACE 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.

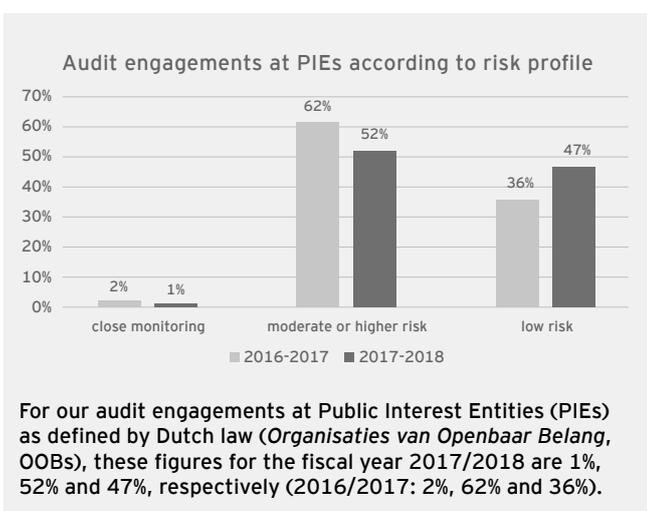
As part of this process, we carefully consider the risk characteristics of a prospective client or engagement and the results of several due diligence procedures. Before we take on a new engagement or client, we determine whether we can commit sufficient resources to deliver quality service, especially 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 the EY annual client and engagement continuance process, we review our service 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.

As a result of this review, certain audit engagements are identified as requiring additional oversight procedures during the audit (close monitoring), 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.

Decisions about acceptance or continuance of clients and engagements consider the engagement team's assessment of whether the company's management may 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.

We dedicate significant time and resources to the strict implementation of our client acceptance and continuance policies. In order to better steer and monitor the development of our client portfolio from a risk perspective, we classify our clients according to risk categories. In March 2018, to better fine-tune this steering and monitoring process, we added a category, 'Higher Risk'. After this change, we now have four categories: Close Monitoring, Higher Risk, Moderate Risk and Low Risk. Until this change, the clients now considered Higher Risk formed part of the Moderate Risk group. As this new 'Higher risk' category has not been applied yet in the most recent risk classification of all our clients, in the next paragraph we combine the figures for Moderate and Higher Risk in one group.



The main reason for the decrease in Close Monitoring engagements is our declared policy to lower the risk profile of our client portfolio, as described in the Report of the Policymakers (*Verslag van de Beleidsbepalers*) in Part One of this Transparency Report. The shift from "Moderate Risk" to "Low Risk" among PIE clients is due to a change in the relative weight we assign to various risk factors we use to determine our clients' risk category.

As for the early termination of audit engagements, either by the client or by us, the total number of early terminations during the fiscal year 2017/2018 was 12 (2016/2017: 12; see KPI 33 in Appendix 4 of this Transparency Report).

Performance of audits

As part of EY Vision 2020+, EY has invested significantly in improving audit methodologies and tools, with the goal of performing the highest-quality audits in the profession. This investment reflects EY's commitment to building trust and confidence in the capital markets and in economies the world over.

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, regardless of size. EY GAM also requires compliance with relevant ethical requirements, including independence from the entity we audit. 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. The methodology 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 in the Netherlands to comply with the local Dutch auditing standards and regulatory or statutory requirements.

Using an online tool, EY Atlas, an EY auditor is presented with a version of EY GAM organized by topic and designed to focus the audit strategy on the financial statement risks, and the design and execution of the appropriate audit response to those risks. EY GAM consists of two key components: requirements and guidance, and supporting forms and examples. The requirements and guidance reflect both auditing standards and EY policies. The forms and examples include leading practice illustrations, and assist in performing and documenting audit procedures.

EY GAM can be "profiled" or tailored to present the relevant requirements and guidance, depending on the nature of the entity being audited. For example, there are profiles for listed entities and for those considered non-complex entities. Enhancements to the audit methodology are made regularly to address new standards, emerging auditing issues and matters, implementation experiences, and external and internal inspection results. In 2017, EY GAM was updated to address the requirements of new section 225 of the International Ethics Standards Board for Accountants Code of Ethics (IESBA Code), *Responding to Non-Compliance with Laws and Regulations*, and the resulting conforming changes to the ISAs. In addition, updated guidance was issued on performing joint audits and audits when the entity uses a service organization, along with new policies relating to maintaining the audit documentation in electronic form. EY GAM was also enhanced by adding guidance to address common questions from audit teams and issues arising from inspections.

In addition, we monitor current and emerging developments, and issue timely audit planning and other reminders. These reminders emphasize areas noted during inspections as well as other key topics of interest to our local audit regulator(s) and the International Forum of Independent Audit Regulators (IFIAR).

Technology

Our audit engagement teams use technology to assist in executing and documenting the work performed in accordance with EY GAM.

EY Canvas, our global audit platform, lies at the heart of the audit and enables us to provide a high-quality audit. EY Canvas is built using HTML5, state-of-the-art technology for web applications. This allows us to provide data security and to evolve our software to respond to changes in the accounting profession and regulatory environment.

The predecessor audit support tool, GAMx, was decommissioned in 2018.

Through the use of profile questions, audit engagements in EY Canvas are automatically configured with information relevant to an entity's listing requirements and industry. This helps to keep our audit plans customized and up-to-date, and provides direct linkage to our audit guidance, professional standards and documentation templates. EY Canvas is built with a user interface that allows the team to visualize risks and their relationship to the planned response and work performed in key areas. It also enables a linkage for our group audit teams to communicate inter-office risks and instructions so that the primary audit team can direct execution and monitor performance of the group audit.

EY Canvas includes a Client Portal to assist teams in communicating with clients and streamlining their client requests. Mobile applications are integrated with EY Canvas to help our people in their audit work; for example, in monitoring the status of the audit, capturing audit evidence securely and performing inventory observations.

Audit engagement teams use other software applications, forms and templates during various phases of an audit to assist in executing procedures, making and documenting audit conclusions, and performing analysis.

At EY, we are making data analysis integral to our audits. Our use of data and analysis is not about additive procedures or visualizations. It is about taking large populations of company data, and applying our globally consistent technology (EY Helix) and methodology (EY GAM) to audit that data.

EY Helix is a library of data analyzers for use in audits. These data analyzers are transforming the audit through the analysis of larger populations of audit-relevant data, identifying unseen patterns and trends in that data, and helping to direct our audit efforts. The use of data analytics also allows us to obtain better perspectives, richer insights and a deeper understanding of transactions and areas of risk.

EY is deploying data analyzers to analyze the business operating cycles of the companies that we audit, supported by analytics-based audit programs to aid the application of these data analyzers.

Using the EY Helix library of data analyzers, our engagement teams can enhance their audit risk assessment, enabling the audit of higher-risk transactions, and assisting our people in asking better questions about audit findings and evaluating the outcomes.

EY Atlas is a global technology platform that enables our auditors to access the latest accounting and auditing content, including external standards, EY interpretations and thought leadership.

Formation of audit engagement teams

Our firm's policies require an annual review of partner assignments by our Assurance leadership and our 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 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 specialists 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.

During the fiscal year 2017/2018, IT professionals and other specialists spent 238,621 hours supporting audit teams of our firm (fiscal year 2016/2017: 246,672 hours). These 238,621 hours amount to 9.3% of total hours spent on audits by our firm. This percentage varies per economic sector. We refer to KPIs 19 and 21 in Appendix 4 of this Transparency Report for more detailed figures.

The slight decline of total hours spent by IT professionals and other specialists is mainly due to specific circumstances and certainly not the result of a policy to reduce the number of hours spent by (IT-)specialists on our audits across the board. To the contrary, we want to increase this number. The most important factor explaining the decline during the fiscal year 2017/2018 is the fact that in the previous two fiscal years we had initiated our engagements with some very large clients, due to the new audit firm rotation requirements. Normally, during the first two years of an audit engagement at large, complex clients, a lot of IT expertise is needed during the audit for one-off jobs, e.g. adapting the client's data generation systems to our needs.

In addition to employing specialists, the international exchange of EY audit professionals is considered essential for high-quality services to international clients, especially clients that report under foreign accounting standards and/or clients whose audit requires knowledge of foreign auditing standards.

Professionals in exchange programs make a very valuable contribution to our expertise. During the fiscal year 2017/2018, 27 Dutch Assurance professionals were employed at EY locations abroad (fiscal year 2016/2017: 20), while 61 EY professionals from abroad were employed in our Assurance service line (fiscal year 2016/2017: 47). The ranks of these professionals ranged from senior staff to partner.

Of course, regular team members must possess the industry knowledge required. Over the past decades, our auditors have increasingly focused on just one or a limited number of industries to be able to perform better audits and thus provide better quality to our stakeholders. Industry groups use special learning programs and audit quality is supported by industry- and topic-specific guidance and checklists.

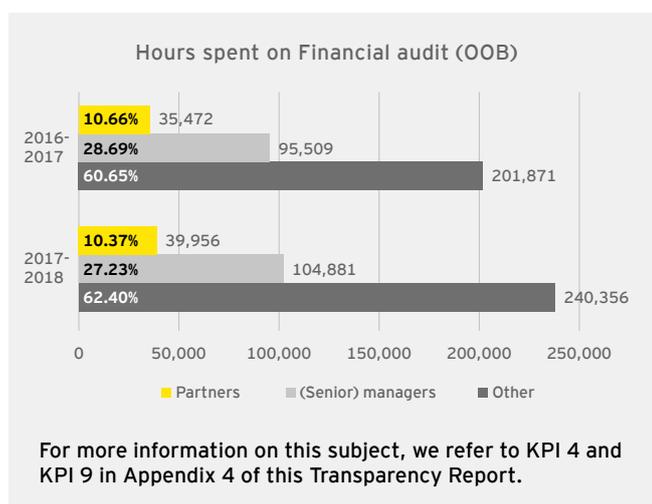
Our team pyramids

In the fiscal years 2017/2018 and 2016/2017, EY issued the following numbers of audit opinions:

Numbers of audit opinions	2017 - 2018	2016 - 2017
Statutory audit - PIE annual accounts	142	165
Statutory Audit - PIE audit of report for Dutch Central Bank	43	54
Total Statutory audits - PIE	185	219
Statutory audits - non-PIE	2,409	2,446
Total Statutory audits	2,594	2,665
Other audits	2,063	1,770
Total	4,657	4,435

Part of this information can also be found in KPI 23 (see Appendix 4 of this Transparency Report).

The number of hours spent on audits by each rank of staff present in the audit team can be visualized as a pyramid, as for the average audit, the number of hours spent by lower-ranking staff is higher than the number of hours spent by higher-ranking staff. We monitor the development of these 'team pyramids' and assess them for appropriateness, both the number of hours planned and the number of hours actually spent. The relative number of hours spent on audits by each of rank of staff during the fiscal years 2017/2018 and 2016/2017 were as follows:



The slight decrease of the relative weight of partners' hours during the audit from 10.66% to 10.37% is not due to a decrease of the average number of hours spent by partners on an audit. In fact, this number has gone up, as part of our Step Change to Quality program. The relative decline is due to the fact that the average number of hours spent on an audit by other categories of team members has gone up even faster. This is partly due to the fact that, if and when the decision is taken to strengthen an audit team, it is easier - or less difficult - to rapidly increase the number of hours spent by non-partners than the number of hours spent by partners.

Review and consultation

Reviews of audit work

EY 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 an audit engagement team perform a detailed review of the audit documentation for accuracy and completeness. Senior audit executives and 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 professional 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 auditor's 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

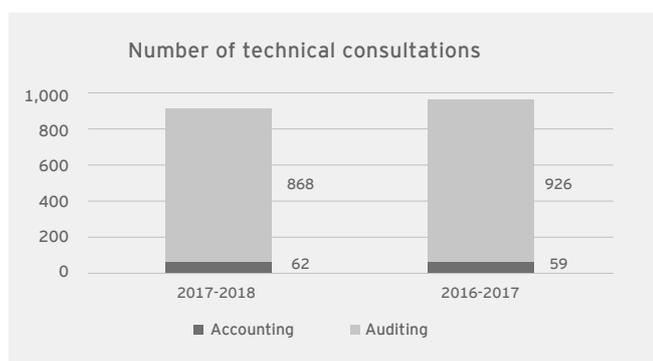
EY consultation policies are built upon a culture of collaboration, whereby audit professionals are encouraged to share perspectives on complex accounting, auditing and reporting issues. Consultation requirements and related policies are designed to involve the right resources so that audit teams reach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

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

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 recently served, the client to which the consultation relates. In this circumstance, other appropriate individuals would be assigned.

EY 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 the fiscal year 2017/2018, the number of technical consultations with our PPG decreased by 6%. The number of consultations on going concern issues decreased, as a result of an improvement in the general economic situation. On the other hand, the number of consultations related to suspected fraud or non-compliance and errors increased (by 41% and 35%, respectively). As the average number of hours spent on a fraud consultation is relatively high, the total number of hours spent by our PPG professionals on consultations was higher for the fiscal year 2017/2018 than for the previous year, despite the 6% decline in total consultations.



The total number of consultations on auditing standards, accounting, fraud and capital markets dropped from 985 in the fiscal year 2016/2017 to 930 in the fiscal year 2017/2018. 21% of these consultations related to “going concern” issues (2016/2017: 22%); 24% dealt with topics related to modified audit opinions (2016/2017: 25%). These numbers do not include consultations with our RM/ Independence Desk nor informal consultations and inquiries; they do include the consultations with our various panels (going concern, errors and fraud panel).

In the fiscal year 2017/2018, audit teams reported 293 instances of potential fraud to the Fraud Panel (2016/2017: 132). Based on an initial risk assessment, 190 cases were deemed “clearly inconsequential” and 88 (2016/2017: 54) as more than inconsequential (some cases were ongoing). In 16 (2016/2017: 8) cases, the panel defined the fraud as material. In five (2016/2017: 2) cases, the panel concluded non-compliance with laws and regulations. In all cases, our clients acted appropriately, taking the necessary steps to assess and resolve the issue. In eight instances, we modified our audit opinion.

The Error Evaluation Panel was consulted in 130 cases (2016/2017: 86), including 27 errors detected during initial audits (2016/2017: 25). The panel concluded in seven cases (all non-OOB clients) that a fundamental error had occurred in the audited financial statements of the previous year. In 112 cases (12 OOB and 100 non-OOB cases), the panel concluded that a material error had occurred (2016/2017: 70). In twelve cases, the panel concluded that the error was not material or that no error had occurred.

Engagement quality reviews

The Engagement Quality Review (EQR, *opdrachtgerichte kwaliteitsbeoordeling*, OKB) is an important part of our quality control system. At our firm, EQRs are performed by

audit professionals in compliance with professional standards for audits of all Dutch *Organisaties van Openbaar Belang* (OOBs, Public Interest Entities, PIEs) and, in addition, for those audits considered close monitoring.

Annually, each of our external auditors is subject to at least two EQRs on engagements they sign off.

Engagement quality reviewers are experienced professionals with significant subject matter knowledge. They are independent of the engagement team and able to provide objective evaluations of significant accounting, auditing and reporting matters. In no circumstances may the responsibility of the engagement quality reviewer be delegated to another individual.

The EQR 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.

Auditors of engagements subject to an EQR are not allowed to issue their ‘auditor’s opinion’ until the Engagement Quality Reviewer has informed the Compliance Officer that – after assessing whether the audit was executed in accordance with current rules and regulations – he has no objections to the engagement auditor’s conclusions.

Organisaties van Openbaar Belang

In the Netherlands, EQRs are mandatory for OOBs. EY’s global definition of a public interest entity (PIE) is similar to, but not exactly the same as the Dutch definition of an OOB. Of the EQRs performed during the fiscal year 2017/2018, 55% concerned OOBs or PIEs according to EY’s global definition (2016/2017: 52%). 45% of the EQRs were held at specific groups of non-OOB clients, including high-risk clients, large municipalities, large pension funds and various state-owned entities.

During the fiscal year 2017/2018, we performed 484 EQRs (2016/2017: 434). One client may have more than one EQR reference, for example due to the review of interim financial statements and/or prudential returns.

For additional quantitative information for the fiscal year 2017/2018 on (the time spent on) our EQRs, on the number of annual report reviews (*Accounting Reviews*, AR) performed and on other quality reviews, we refer to KPIs 15, 16, 17, 18 and 26 in Appendix 4 of Part Two of this Transparency Report. In accordance with the importance we attach to EQRs, we also monitor qualitative aspects, e.g. whether remarks by the EQR reviewer were followed up appropriately by the audit team. This helps us to further improve our EQR processes.

Our Coaching and Review Pool

During the fiscal year 2017/2018, a significant number of EQRs and other quality reviews were performed by members of a dedicated ‘coaching and review pool’. This pool forms part of our Quality Enablement Group (QEG).

During the fiscal year 2018/2019, the percentage of EQRs and other reviews covered by the coaching and review pool members will further increase. We are convinced that the quality of our EQRs and other reviews will benefit from the concentration of expertise and experience among the members of this pool. In addition, with a pool of reviewers, we facilitate the process of collective learning from our reviews. This collective learning is further enhanced by the fact that, in addition to reviewing the audit and its documentation, the reviewers also support and coach the teams performing the audit by helping these teams to understand complex audit matters and to avoid pitfalls.

Other pre-issuance reviews

In addition to our EQRs, we also performed other pre-issuance reviews, including 'inflight review and coaching'. During the fiscal year 2017/2018, the most important new pre-issuance review was a risk-based review of 59 audits of 2017 financial statements. We refer to the Report of the Policymakers in Part One of this Transparency Report for more information on this review.

Our inflight review and coaching program covered the majority of our external auditors. We specifically reviewed and coached them on items related to SCOTs (Significant Classes of Transactions), fair value accounting estimates (International Standard on Auditing -ISA- 540) and on group financial statements, particularly ISA 600. In addition we coached all EQR partners on how to perform and document the EQR. Finally, we performed a risk-based coaching and review process of audit procedures and documentation of twelve audit engagements, focusing on the way the audit team had dealt with the presence of agents and financial commissions in the clients' business and with the reporting by the client on this presence.

Post-issuance reviews

The Quality Assessment team (part of QEG) performs special thematic post-issuance reviews, as part of our effort to better monitor the quality of our audits. During the fiscal year 2017/2018, themes subject to special post-issuance reviews included, among others, valuation of real estate in the sector of Dutch housing corporations and handling of fraud and corruption risks. The Quality Assessment team also coordinates post-issuance Audit Quality Reviews (AQRs). We refer to the section on AQRs in this Transparency Report for more information on these reviews.

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 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 seek out the views of others.

Differences of professional opinion that arise during an audit are generally resolved at the audit engagement team level. However, if any person involved in the discussion of an issue is not satisfied with the decision, they refer it to the next level of authority until agreement is reached or a final decision is made.

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 auditor's report is not issued until the matter is resolved. EY policies require documentation of disagreements and their resolution.

Audit partner rotation

EY supports mandatory audit partner rotation to help reinforce auditor independence. Our firm complies with the audit partner rotation requirements of the code of the IESBA, the Dutch *Wet Toezicht Accountantsorganisaties*, the Dutch *Besluit Toezicht Accountantsorganisaties*, the Dutch *Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO)*, as well as the U.S. 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 PIEs 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 new PIE (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, if they have served the client for six or more years 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 employ 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.

Audit quality reviews

The EY Global AQR program is the cornerstone of the EY process to monitor audit quality. Our firm 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 we use 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 (ISQC No. 1), as amended, and is supplemented where necessary to comply with Dutch professional standards and regulatory requirements. It also aids our continual efforts to identify areas where we can improve our performance or enhance our policies and procedures.

Executed annually, the program is coordinated and monitored by representatives of the Global PPD network, with oversight by Global Assurance leadership.

The engagements reviewed each year are selected on a risk-based approach, emphasizing audit engagements 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 inspection programs executed by audit regulators and external peer reviews.

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 an international team leader assisted by a Dutch speaking deputy team leader; the team executing the AQRs normally includes a considerable number of international reviewers, ensuring that the AQR is performed in accordance with our international quality standards and allowing for a comparison of results over time and between countries.

In preparation of the 2017/2018 AQR cycle, we took various measures to further improve the process. One of our main objectives was to raise the bar of our AQRs. To this end, we took various steps. These measures include:

- ▶ We increased the number of focused reviews: on all engagements subject to an AQR and exceeding 1000 hours of audit work, we performed a 'focused review': a deep-dive review concentrating on one significant audit or fraud risk. Based on findings of previous internal and external inspections, additional guidance was provided to the reviewers executing these focused reviews.
- ▶ We engaged a higher percentage of local reviewers, as local reviewers are more familiar with our internal Dutch requirements as well as with the standards set by the AFM.
- ▶ Every non-local reviewer was assisted by a local 'buddy reviewer'. This buddy reviewer helped the reviewer with translations, with the specific Dutch circumstances and requirements, and with the deep dive regarding the focus area.
- ▶ We involved the Quality Enablement Group (QEG) and our Professional Practice Group (PPG) during the review, to monitor and support the reviewers and engagement teams and to follow up on findings.

In general, the changes were well received within our organization. After this encouraging first step, we will implement further changes during the fiscal year 2018/2019.

The results of the Global AQR program, 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 matters noted from the Global AQR program, regulatory inspections and peer reviews are addressed by Assurance leadership and our PPD. The actions are monitored by our PPD and Assurance leadership. These programs provide important practice monitoring feedback for our continuing quality improvement efforts.

AQR results and other post-issuance reviews

AQR ratings for a reviewed engagement are '1' ('no or minor findings'), '2' ('findings more than minor but less than material') or '3' ('material findings'). Our Quality Assessment (QA) department, part of our QEG, determines what remedial action is needed for engagements rated 2 or 3. The audit partners who receive a 3 rating or a 2 rating with one or more significant findings are required to prepare a Remedial Action Plan (RAP) in which they have to include relevant actions aimed at improving their performance. Each RAP is submitted to our Professional Practice Director for approval. The 2017/2018 AQR cycle resulted in eight engagements subject to an RAP (2016/2017: eight). In addition, the 3-rated files are subject to a Root Cause Analysis (RCA) to foster collective learning from findings.

A 3 rating has a negative impact on a partner's quality rating and, as a result, on their overall performance rating. A 2 rating may also have this effect, since the goal and expectation for any engagement reviewed is a 1 rating.

Each partner is subject to a regular AQR at least once every three years. In addition to the audits inspected in the regular AQR cycle, partners are also selected for an AQR inspection based on risk analyses. These risk analyses take into account any signals that might indicate potential quality issues.

The results of the Global AQR program as well as external practice-monitoring and inspection activities are evaluated and communicated throughout our firm to learn from findings and to further improve quality. The outcomes of the AQR reviews are discussed on a continuous basis within our PPG and our QEG. The outcomes of post-issuance reviews also result in a Quality Improvement Plan (QUIP). This checklist provides all audit teams with reminders of focus areas, as well as best audit practices. In addition, during internal technical learning events, the outcomes are shared with the audit teams so they can learn from the findings and take action on their own engagements if necessary.

2017/2018 AQR results

In the fiscal year 2017/2018, we performed 40 AQRs (see also KPI 26 in Appendix 4 of this Transparency Report for the number of all non-EQR reviews, including our AQR reviews, in the fiscal year 2017/2018). In summary, the 2017/2018 results are as follows:

	2017/2018		2016/2017		2015/2016	
Rating 1	27	67%	40	83%	34	89%
Rating 2	9	23%	7	15%	4	11%
Rating 3	4	10%	1	2%	0	0%
Totals	40	100%	48	100%	38	100%

- ▶ Rating 1 - No or minor findings
- ▶ Rating 2 - Findings more than minor but less than material
- ▶ Rating 3 - Material findings

The rating results for the fiscal year 2017/2018 show a decline compared to the results for the two previous years. As explained above, this was to be expected as we have sharpened the execution of our AQRs, including the assessment of findings more in line with local Dutch criteria. We do notice improvements in the way our audit teams execute and document their work, but the positive impact of our Step Change to Quality change program will take more time to fully materialize. In important areas such as Information Produced by the Entity ('IPE'), substantive analytical procedures and auditing accounting estimates further improvement is needed.

The most relevant findings were concentrated in non-profit and mostly smaller engagements with a low risk profile. Therefore, measures for further quality improvement should focus on these audits. In addition, root cause analyses (RCAs) may lead to further initiatives.

Review non-audit engagements

In addition to the quality reviews on audit files, also other assurance engagements (non-audit) are subject to review in the AQR process. In 2017/2018 12 (2016/2017: 10) non-audit engagements were reviewed. This resulted in 1 engagement being rated 3 (2017: 1) and 1 engagement being rated 2 (2017: 1). The remaining 10 (2017: 8) were rated 1.

Quality reviews ACR

In addition to the Audit Quality Reviews for audit engagements, we executed quality reviews on Accounting Compliance Reporting (ACR) engagements. In the last months of 2017, 20 engagements of seven partners and executive directors were reviewed. Of these 20 files (2016: 24), 18 files were rated 1 (2016: 24) and two files were rated 2 (2016: 0). Remediation procedures, including root cause analyses, for findings in ACR reviews are consistent with those for Audit Quality Reviews.

Other quality reviews

As part of our effort to further improve the quality of our audits and in response to suggestions made by our regulator the AFM, we performed focus reviews ("olievlekanalyse") on ten key topics - including going concern, valuation of work in progress for project-related entities, and related party transactions - from May to September 2017. We discussed the nature and extent of these reviews, as well as their results, with the AFM. For each key topic, three engagements were selected for a deep-dive review focusing on the interpretation and application of a specific Dutch Auditing Standard. The key purpose of these reviews is collective learning by the entire audit organization. Results of some of the reviews resulted in remedial action plans or root cause analyses. Because of their positive learning effect, we decided to continue these reviews on a yearly basis as Thematic Quality Reviews. Every year, we will select topics based on findings from internal or external reviews or based on other relevant events. Mid 2018, five topics were selected; three audit files per topic will be reviewed during the fiscal year 2018/2019. In addition to fostering collective learning, these reviews also help us to assess the progress we are making with our Step Change to Quality change program.

Signals and incidents

If and when necessary, we also review individual audit files of completed engagements based on specific signals or incidents. In these cases, we perform a 'quick scan' or file review to assess the quality of the audit file regarding the topic that the signal or incident relates to. The outcome of these file reviews can be input for a root cause analysis and/or result in a remedial action plan. During the fiscal year 2017/2018, we performed seven file reviews based on signals and incidents.

External quality assurance review

Our audit practice and its registered external auditors are subject to various inspections, including those by the AFM (*Autoriteit Financiële Markten*, the national regulator responsible for the Dutch audit sector), the PCAOB (the US Public Company Accounting Oversight Board) and our Dutch professional association NBA (*Nederlandse Beroepsorganisatie van Accountants*). In addition to the information provided in this section, we also refer to KPIs 27, 28, 29 and 32 in Appendix 4 of this Transparency Report for information on (the consequences of) our relations with our external oversight institutions.

AFM and PCAOB

As part of its inspections, the AFM evaluates the progress of improvements in the quality control systems of audit firms and reviews selected engagements on focus areas of their choice.

The AFM also performs topic-related inspections (*thema-onderzoeken*) and case-specific inspections following incidents, e.g. the bankruptcy of an audit client less than 12 months after issuance of the latest auditor's opinion.

Public companies, whether located in the US or elsewhere, 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 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 laws and professional standards in connection with those audits. Our firm is registered with the PCAOB.

Information on the PCAOB and the AFM can be found on their respective websites www.pcaobus.org and www.afm.nl.

Inspections by the AFM and the PCAOB

During the fiscal year 2017/2018, neither the AFM nor the PCAOB performed any new regular inspections. During the fiscal year mentioned, we did follow up on the report published by the AFM in June 2017. This report contained the results of both the AFM inspections of 2014 and 2015 audit files at Big 4 audit firms, including our firm, and the inspection into the progress of the change process at eight Dutch audit firms with an OOB license, including our firm. We refer to our 2016/2017 Transparency Report for more information on the AFM inspection report. We took good notice of the AFM's conclusions and during the fiscal year 2017/2018, we performed additional internal file reviews, such as the thematic quality reviews. Where necessary, we took remedial actions and initiated root cause analyses, both as a follow-up to the AFM report and as part of our Step Change to Quality change program, described at length in this Transparency Report.

The PCAOB 'Part II' report of September 2017

During the fiscal year 2017/2018, we continued our dialogue with the PCAOB regarding the remedial actions taken by us with respect to the shortcomings mentioned in their September 2017 report. This 'Part II' report contains the PCAOB's firm-related conclusions regarding our systems of quality control. Based on an assessment of our remedial actions, the PCAOB will decide whether to publish its Part II report or not.

The March 2016 enforcement action by the AFM and our reaction

In March 2016, the AFM imposed a fine of € 2.2 million on our firm, because it had concluded that we had violated our duty of care. The AFM drew this conclusion after its finding - during its 2013/2014 inspection round - that three out of ten 2012 audit files of auditors of our firm were insufficient in the areas inspected. The AFM based this conclusion on the fact that the auditor had not obtained sufficient and appropriate audit evidence in all areas inspected.

In our view, as a firm (and the profession in general), we need more guidance regarding how exactly the laws and regulations governing the duty of care of an audit firm vis-à-vis its professionals should be interpreted. Therefore, we decided to pursue this matter further and in July 2016, we filed a written objection against the AFM's decision. The AFM rejected our objection in September 2016. In November 2016, we filed an appeal against this rejection at the District Court of Rotterdam (*Rechtbank Rotterdam*). In December 2017, the District Court of Rotterdam ruled in our favor and overturned the imposed fine. In January 2018 the AFM announced its appeal against the ruling by the District Court of Rotterdam in order to obtain further guidance on the interpretation of the duty of care.

SISA and WNT inspections and quality reviews by the Dutch National Government Audit Service (*Auditdienst Rijk, ADR*)

Dutch municipalities and provinces are subject to SISA (Single Information, Single Audit) reporting requirements to the Dutch Ministry of the Interior and Kingdom Relations regarding specific contributions they receive from the central government.

SISA includes the attachment of a detailed annex to municipalities' financial statements. This annex is subject to external audit. In September 2017, the ADR inspected the 2016 Financial Statements SISA annexes of a number of municipalities and provinces, including four audited by our firm. The inspection concluded that for all these four files, the audit had been performed in an adequate way regarding both the financial statements and the funding information.

The ADR also performed an inspection of audits regarding their compliance with the relevant articles of the Dutch Executives Pay (Standards) Act (*Wet Normering Topinkomens, WNT*). The inspection of two of our audit files concluded that both audits had been performed in accordance with the audit protocol.

The ADR also performed four file reviews on audits of public foundations to assess if the audit had been designed and

executed in line with Dutch accounting standards. For three of the file reviews, the conclusion 'sufficient' was communicated to us by the ADR. The fourth review was a report of factual findings and therefore did not conclude on the quality of the file as a whole. We routinely incorporate the lessons we can learn from any findings in our future audits.

Quality reviews by the Dutch Educational Inspectorate (Onderwijsinspectie)

The financial information of Dutch publicly-funded educational institutions - both financial and funding information - is subject to audits. The audit work required is described in detail in the "Education Audit Protocol". The Dutch Educational Inspectorate performs annual reviews of some of our audit files in order to determine if we performed our audits adequately and in compliance with the Education Audit Protocol. In September 2017, the Educational Inspectorate performed six reviews of audits by our firm on the year 2016 of educational institutions. It qualified all six of these audits as sufficient. To the extent the *Onderwijsinspectie* mentioned limited findings in any of the files, we took good note of these findings, we shared them within our Education Sector team and we will incorporate the lessons learned in future audits.

Quality reviews by the Dutch Healthcare Authority (Nederlandse Zorgautoriteit, NZa)

The NZa performs yearly reviews of the implementation of the Healthcare Insurance Act (*Zorgverzekeringswet*, ZVW) and the Long-Term Care Act (*Wet Langdurige Zorg*). In 2017/2018, the NZa reviewed none of our firm's audit files of health insurance companies or a Health Office (*Zorgkantoor*).

Quality reviews by the Dutch Media Authority (Commissariaat voor de Media, CvdM)

The CvdM supervises compliance with the Media Act 2008 (*Mediawet 2008*). In the fiscal year 2017/2018, the CvdM assigned another audit firm the task of reviewing one of our firm's audit files of a national public service media provider. The other firm deemed our audit file insufficient in a number of aspects. We responded to these findings which led to a discussion with the CvdM on the interpretation of the applicable audit protocol and the reported findings. We will incorporate the lessons learned in future audits subject to the Media Act 2008.

Quality reviews by The Royal Netherlands Institute of Chartered Accountants (Nederlandse Beroepsorganisatie van Accountants, NBA)

Recently, the NBA announced it will execute a quality review commencing in September 2018. The purpose of this review is to assess the design and operating effectiveness of the Audit Quality Framework at our firm. No NBA reviews were executed during the fiscal year 2017/2018.

Compliance with legal requirements

The EY Global Code of Conduct provides a clear set of standards that guide our actions and business conduct. Our firm 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, explained in the paragraphs below.

Anti-bribery

The EY Global Anti-bribery Policy provides EY people with direction around certain unethical and illegal activities. It emphasizes the obligation 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.

Anti Money Laundering

In accordance with the Dutch 'Prevention of money laundering and financing of terrorism Act' (*Wet ter voorkoming van witwassen en financieren van terrorisme*, 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 such as money laundering. During the fiscal year 2017/2018, Ernst & Young Accountants LLP reported 79 unusual transactions to the FIU (compared with 91 in the fiscal year 2016/2017).

The two major issues with regard to the Wwft are client due diligence and the reporting of unusual transactions; both subjects are addressed in our Anti- Money Laundering (AML) policy. Last year, we adjusted our AML policy to ensure compliance with the EU's fourth AML Directive and we are currently working in line with the adjusted policy.

In order to foster full compliance of all its people with the Wwft and the adjusted policy mentioned above, EY took various steps in the Netherlands during the fiscal year 2017/2018. In February 2018, an AML officer was appointed, whose task it is to further develop EY's Dutch AML Office. Awareness and training sessions were organized with the Board of Directors of Ernst & Young Nederland LLP, the Management Teams of all the service lines, and partners and staff. Various activities were undertaken to support partners and employees in their full compliance with the Wwft obligations, such as amended tooling and the hiring of more support staff.

In one specific matter related to a former audit client, the Dutch public prosecutor is prosecuting us for allegedly not complying with our reporting obligations pursuant to the Wwft. We are defending ourselves against the charges, as explained in the Report of the Policymakers (*Verslag van de Beleidsbepalers*) in Part One of this Transparency Report. We reported this matter as an incident to the AFM in October 2017. After the end of the fiscal year 2017/2018, the AFM had a disciplinary discussion with us regarding this matter.

Insider trading

The EY Global Insider Trading 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

It is important that we are aware of the ever-changing situation with respect to international trade sanctions. EY monitors sanctions issued in multiple geographies and provides guidance to EY people on impacted activities.

Data privacy

The EY 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 for maintaining and processing personal data. Furthermore, we have a policy to address our specific Dutch data privacy requirements and business needs.

Data breach notification

On 25 May 2018, Europe's new General Data Protection Regulation ("GDPR") came into force and replaced the Dutch Data Protection Act (*Wet bescherming persoonsgegevens*). The GDPR imposes a set of rules for the protection of personal data across the EU. Many of the GDPR's principles are the same as those in the Dutch Data Protection Act; however, the GDPR brings new elements and enhances the rights of individuals in the EU regarding their personal data. We analyzed the requirements of the GDPR and implemented the required changes to ensure that we process personal data in accordance with data protection requirements under the GDPR as of 25 May 2018.

Under GDPR the mandatory data breach notification will remain in force, i.e. organizations must notify the Dutch Data Protection Authority as soon as they experience a serious data breach. A data breach must be reported to the Dutch Data Protection Authority if such a breach has serious adverse effects on the protection of personal data, or if it leads to a considerable likelihood thereof.

Data breaches relate to those instances in which an actual security breach has occurred. Examples of security breaches are the loss of a USB-key, the theft of a laptop or intrusion by a hacker. However, not every security breach necessarily qualifies as a data breach. A security breach is only considered a data breach if it involves the loss of personal data, or if unlawful processing of personal data cannot reasonably be excluded.

We keep a register of all security breaches to assess whether a breach must be reported to the Dutch Data Protection Authority as a data breach. This register includes incidents like lost or stolen laptops, smart devices, secure ID cards, hard copy files, emails sent to the wrong person etc. In the fiscal year 2017/2018, Ernst & Young Accountants LLP reported three data breaches to the Dutch

Data Protection Authority (2016/2017: two). In all three cases, sensitive information of a client was inadvertently sent to a third party.

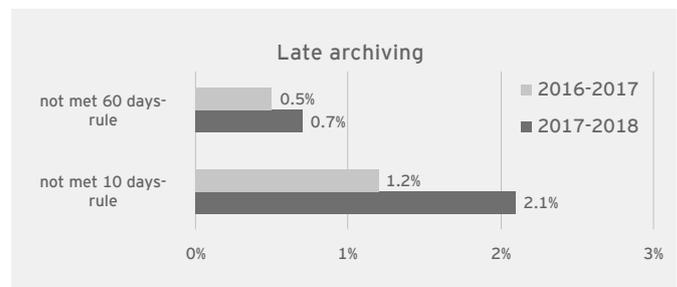
Some security breaches also qualify as an infringement of certain formal internal or external rules and regulations (such as the duty to keep audit information confidential). During the fiscal year 2017/2018, we registered fourteen such breaches as infringements (2016/2017: five), including the three data breaches that were reported to the Dutch Data Protection Authority. This increase is mainly due to increased awareness among our professionals with respect to the duty to report security breaches.

Incidents

Under Dutch law, we are obliged to inform the Dutch Authority for the Financial Markets (AFM) immediately of any incident that might have serious consequences for the integrity of our operations. We apply the 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 an auditor's 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 the fiscal year 2017/2018, we reported one incident to external oversight institutions, compared to four incidents in the fiscal year 2016/2017 (see KPI 35 in Appendix 4 of this Transparency Report; for information on the number of annual report adjustments made during the fiscal year 2017/2018, we refer to KPI 31 in the same Appendix).

Late archiving

As part of our quality effort, we monitor the timeliness of archiving of the audit file after sign-off. 'Archiving' means that an electronic copy of the audit file is stored in our archive system, after which it is no longer editable. For Public Interest Entities (PIEs or OOBs) and other statutory audits (WeCos), external regulations set the maximum period for archiving audit files after signing the auditor's opinion: 60 days, 45 days for PCAOB files. For quality and efficiency reasons, we set an internal filing deadline of ten business days after signing the auditor's opinion for all financial statements audits. When justified and subject to approval by the PPG, a longer period may apply.



During the fiscal year 2017/2018, we met the external rule of 60 days for 99.3% of all archived files (2016/2017: 99.5%). The deadline was not met for 46 files (2016/2017: 37 files). 14 of these were WeCo files (including 1 OOB file); 32 were non-WeCo files. These files were reported to our Legal Department.

We met the internal ten business days archiving rule (including permitted extensions) for 97.9% of the archived files (2016/2017: 98.8%).

Document retention

Our record retention policy applies to all engagements and personnel. This policy addresses document preservation 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.

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 needs to decide what information to provide to society at large, the main question we ask ourselves is: what degree of transparency will best serve the public interest?

In the world of auditing, the public interest is served by a high quality of audits and audit opinions, also in terms of 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 for us to be transparent about the lessons learned from recent or current inspections and controversies rather than to provide 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 undermine our position in existing litigation or induce new litigation, on the other. Indeed, in many cases there will be legal and contractual restrictions to our transparency as 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 proceedings

On 1 July 2017, five disciplinary proceedings were pending. Three of these proceedings were still pending on 30 June 2018. During the fiscal year 2017/2018, four new disciplinary proceedings were initiated against auditors of our firm. All four were still pending on 30 June 2018. Therefore, as of 30 June 2018, a total of seven disciplinary proceedings were pending.

Regarding the two cases that ended during the fiscal year 2017/2018, in one case the Trade and Industry Appeals Tribunal (*College van Beroep voor het bedrijfsleven*) handed down a final decision during the fiscal year 2017/2018 and quashed the Disciplinary Council's (*Accountantskamer*) decision based on which the auditor received a reprimand (*berisping*). The Trade and Industry Appeals Tribunal issued a warning (*waarschuwing*) to the auditor. In the other case, complaints were filed against registered accountants involved in a decision by the NBA on an audit firm's quality and control system. The Disciplinary Council found the complaints unfounded and no appeal was filed.

As for the seven proceedings pending on 30 June 2018, the first case involves two shareholders of a bankrupt public limited company who filed a complaint against the auditor of that company in May 2016. They claim that the 2012 and 2013 audits were not performed properly. The Disciplinary Council heard the case on 12 December 2016 and again on 22 May 2017. The Disciplinary Council decided that part of the complaints was well founded and the auditor received a reprimand. Both complainants and the auditor filed an appeal with the Trade and Industry Appeals Tribunal. A decision is expected in the fiscal year 2018/2019.

In the second case, a disciplinary complaint was filed against the auditor of a client of our firm. This case has attracted considerable attention in the media. The complainant claims that the 2012 audit was not performed correctly. In the fiscal year 2017/2018, the Disciplinary Council found part of the complaints unfounded and denied the other complaints for procedural reasons. The complainant appealed the decision. It is expected that the case will be heard during the fiscal year 2018/2019. It also filed a new complaint (the third case) with the Disciplinary Council, claiming that the auditor was untruthful in his statement of defense in these proceedings. In August 2018 the Disciplinary Council ruled this claim unfounded.

The fourth and fifth case concern disciplinary complaints against a registered accountant relating to a forensic investigation performed between 2013 and 2016 by another audit firm. At the time, the registered accountant worked for that firm, only joining EY in 2015. The complaints were also filed against several registered accountants of the other firm. In the fiscal year 2017/2018, the Disciplinary Council found the first complaint unfounded. The claimant filed an appeal with the Trade and Industry Appeals Tribunal. The claimant also filed new complaints with the Disciplinary Council, claiming amongst others that all registered accountants involved were untruthful in these proceedings. It is expected that both cases will be heard during the fiscal year 2018/2019.

In the sixth case, during the fiscal year 2017/2018, several residents of an apartment complex filed complaints against two registered accountants with respect to the 2014 - 2016 review engagements regarding the apartment complex's annual accounts. The Disciplinary Council declared the complaints unfounded. Complainants decided to appeal the decision. The case will be heard in the fiscal year 2018/2019.

In the seventh case, a complainant filed a complaint against one of the board members of Ernst & Young Accountants LLP. The complainant claims that an engagement - not performed by auditors of our firm - was not carried out in line with the professional rules and regulations and that our firm's quality system does not function properly. The board member had no involvement in this specific engagement. The case will be heard in the fiscal year 2018/2019.

Claims under civil law relating to professional conduct

Demand letters

A demand letter is a letter including a notice of liability (*aansprakelijkstelling*). Demand letters may lead to an acknowledgement or a refutation of liability. We received six demand letters in the fiscal year 2017/2018.

Civil law proceedings

Four civil law proceedings were pending on 1 July 2017, and all of these were still pending on 30 June 2018. One of these cases, although formally still pending, is inactive. In the other three cases, the courts have not yet rendered their (final) decisions. These decisions may take several years. We refer to our Transparency Reports of recent fiscal years for further information. During the fiscal year 2017/2018, a former client initiated civil law proceedings against Ernst & Young Accountants LLP. The claim relates to a 2001 compilation engagement. A decision from the District Court is expected in the fiscal year 2018/2019.



Independence practices

EY Global Independence policies require Ernst & Young Accountants LLP and our people to comply with the independence standards applicable to specific engagements, including, for example, the Code of Ethics of the IESBA and Dutch rules on auditors' independence.

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; applicable firm and partner rotation requirements; fee arrangements; audit committee pre-approval, where applicable; and partner remuneration and compensation.

Failure to comply with applicable professional independence requirements will factor into decisions relating to a person's promotion and compensation, and may lead to other disciplinary measures, including separation from our firm.

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 EY Global 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 and supplemented by more stringent requirements where prescribed by a given regulator. The policy also contains guidance to help people apply the independence rules. The EY Global Independence Policy is readily accessible and easily searchable on the EY intranet.

Global Independence System (GIS)

The GIS is an intranet-based tool that helps EY professionals identify the listed entities from which independence is required and the independence restrictions that apply. Most often, these are listed audit clients and their affiliates, but they can be other types of attest or assurance clients too. 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 or other interests or relationships that can be entered into.

Global Monitoring System (GMS)

The GMS is another important global tool that assists in identifying proscribed securities and other impermissible financial interests. Professionals ranked as manager and above are required to enter details about all securities they hold, or those held by their immediate family, into the GMS. When a proscribed security is entered or if a security they hold becomes proscribed, professionals 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

Annually, Ernst & Young Accountants LLP is included in an Area-wide process to confirm compliance with the EY Global Independence Policy and process 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.

Independence compliance reviews

EY conducts internal procedures to assess member firm compliance with independence matters. These reviews include aspects of compliance related to non-audit services, business relationships with the companies we audit and financial relationships of member firms.

Personal independence compliance testing

Each year, the EY Global Independence team establishes a program for testing compliance with personal independence confirmation requirements and with reporting of information into GMS.

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, such as PACE (see page 32) and Service Offering Reference Tool (see below), and training and required procedures completed during the performance of audits and internal inspection processes. We also have a process in place for the review and approval of certain non-audit services in advance of accepting the engagement.

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.

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

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.

In addition to the annual learning program, independence awareness is promoted through a number of events and materials, including new-hire programs, milestone programs and core service line curricula.

Service Offering Reference Tool (SORT)

We assess and monitor our portfolio of services on an ongoing basis to confirm 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. We restrict services from being provided that could present undue independence or other risks. SORT provides EY people with information about EY service offerings. It 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)

The BRET process helps to support compliance with independence requirements. Our people are required to use BRET in many circumstances to identify, evaluate and obtain advance approval of a potential business relationship with an audit client.

Audit committees and oversight of independence

We recognize the important role audit committees and similar corporate governance bodies undertake in the oversight of auditor independence. Empowered and independent audit committees perform 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 EY quality review programs, we monitor and test compliance with EY standards for audit committee communications, as well as the pre-approval of non-audit services, where applicable.

Safeguarding independence in the Netherlands

As part of our Step Change to Quality change program, we further intensified our efforts to ensure compliance within our firm with all applicable independence rules. EY's Dutch Independence Desk, whose area of responsibility covers all EY professionals and service lines in the Netherlands (including FSO), has been strengthened over recent years and now consists of 13.7 FTEs (See KPI 13 in Appendix 4 of this Transparency Report for detailed figures per rank). This increased size allows the Independence Desk to plan and operate pro-actively in all relevant independence-related areas. Currently, it is able to look into more situations, and more deeply, in areas where independence rules may be at risk of being breached. If and when breaches of independence rules are discovered, we evaluate the circumstances and assess whether further process improvements are necessary. In addition to pro-active initiatives, our Independence professionals also deal with independence-related consultations of our professionals. In the fiscal year 2017/2018, we received 626 of these consultations from our Assurance professionals alone (See KPI 14 in Appendix 4 of this Transparency Report).

Worldwide, EY is further improving and interconnecting systems such as PACE, GIS and SORT to ensure compliance with independence rules, reducing the risk of human error. We benefit from these improvements. In parallel, at the level of both EMEIA and the Netherlands, we continued our campaign to stress to all our professionals the importance of full compliance with all applicable independence rules. This campaign is reinforced by a new partner sanction framework. We are starting to see the results of these efforts in the form of increased awareness among our professionals of the importance of discipline and strict compliance. For the total number of internally reported or identified independence violations at EY in the Netherlands during the fiscal year 2017/2018, see KPI 24 in Appendix 4 of this Transparency Report.

Non-Assurance Services

Both EU regulations and the more restrictive Dutch 'Regulation regarding the Independence of Accountants performing Assurance engagements' (*Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten*, ViO) prohibit auditors of an OOB/PIE client to provide non-audit services to this client, with very few exceptions. As a result of our monitoring processes, one case of non-compliance was identified during our fiscal year 2017/2018, where prohibited non-audit services were provided to Dutch OOB audit clients. This case concerned three closely related Special Purpose Entities of a former OOB audit client, where we provided advisory services in June 2018 to the former OOB audit client, before we had finished our role as auditor of these Special Purpose Vehicles. We reported this breach as an incident to the AFM in July 2018, i.e. after the end of our fiscal year 2017/2018.

In general, we can see an improvement in the adherence by our professionals to all rules relating to the provision of services to assurance clients, especially since the AFM had a disciplinary discussion (*normoverdragend gesprek*) with us on this subject in July 2016. We have taken steps in order to reduce the risk of providing prohibited services to audit clients, including improvements to our internal processes and ICT systems. However, the June 2018 breach shows that we are not yet flawless in this area and that there is room for further improvement, especially in situations of higher risk of breach of independence rules, e.g. when rotating off as external auditor of a group of entities.

During the fiscal year 2017/2018, our external regulator AFM informed us of its intention to fine us for a total of four breaches of Dutch independence rules by EY at three of its clients in prior years (2015-2016). Three out of four breaches concerned had started before the disciplinary discussion with the AFM in July 2016 and were discovered and communicated to the AFM by our firm. The fourth breach was discovered at the end of 2016. In all cases concerned, we returned the greater part of the fees received for the non-audit services to the client.

In October 2018, i.e. after the end of our fiscal year 2017/2018, the AFM imposed a fine of euro 165.000 on our firm for these four breaches. In its press release announcing the fine, the AFM acknowledges our 'constructive attitude', as well as the measures taken by our firm to reduce risks, as factors that influenced the calculation by the AFM of the final amount of the fine.

Audit Committee pre-approval

Since June 2016, EU-wide regulations require pre-approval by the Audit Committee of an OOB/PIE client for any non-audit service to be delivered by the audit firm. After alerting our professionals to this obligation during previous fiscal years, during the fiscal year 2017/2018, we introduced clear procedures and processes in order to ensure full compliance with this obligation. For example, we have provided templates to our audit teams in order to facilitate their mandatory reporting on pre-approval rules in their year-end internal report on independence.

Personal independence

Our professionals have to comply with internal and external rules on personal independence. We monitor, for example, the compliance of our professionals with rules regarding directorships they are not allowed to accept. From the level of 'manager' upwards, professionals have to record their personal financial interests in EY's Global Monitoring System (GMS). Compliance with the GMS requirements is monitored through our Personal Independence Compliance Testing (PICT) program, covering partners, directors and (senior) managers. Our sample sizes vary from year to year; we aim to ensure that all partners are tested at least once every five years, with certain partners in managerial roles selected more frequently. 50 Partners and Executive Directors with signing authority were tested in the period covered (1 April 2017 to 31 March 2018). These tests discovered no independence breaches (1 April 2016 to 31 March 2017: 34 tests, three breaches)

Audit partner rotation

EU and Dutch regulations limit the number of years partners and other senior team members are allowed to be involved in an audit and/or assurance engagement with the same client. We employ tools that track involvement of our professionals, thereby enabling effective monitoring of compliance with these regulations.



Continuing education of audit professionals

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 EY people develop the right technical and personal leadership skills, wherever they are located around the world. The EY audit core curriculum, The Audit Academy, combines interactive classroom-based simulations and “on-demand” e-learning modules with relevant reinforcement and application support. This high impact and award-winning learning is supplemented by learning programs that are developed in response to changes in accounting and reporting standards, independence and professional standards, and emerging practice issues.

Where an EYG member firm audits and reviews International Financial Reporting Standards (IFRS) financial statements, relevant team members undertake learning to become IFRS-accredited.

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% (eight 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 practices.

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 helps provide them exposure to a range of experiences as part of their own development.

Knowledge and internal communications

In addition to professional development and performance management, we understand the importance of providing client engagement teams with up-to-date information to help them perform their professional responsibilities. EY makes significant investments in knowledge and communication networks to enable the rapid dissemination of information to help people collaborate and share best practices. Examples include:

- ▶ EY Atlas, which includes local and international accounting and auditing standards, as well as interpretive guidance; replacement for Global Accounting and Auditing Information Tool (GAAIT) since the fiscal year 2017
- ▶ Publications such as International GAAP, IFRS developments and illustrative financial statements
- ▶ *Global Accounting and Auditing News*, a weekly update covering assurance and independence policies, developments from standard setters and regulators, as well as internal commentary thereon
- ▶ Practice alerts and webcasts covering a range of global and country-specific matters designed for continuous improvement in member firms’ Assurance practices

Performance management

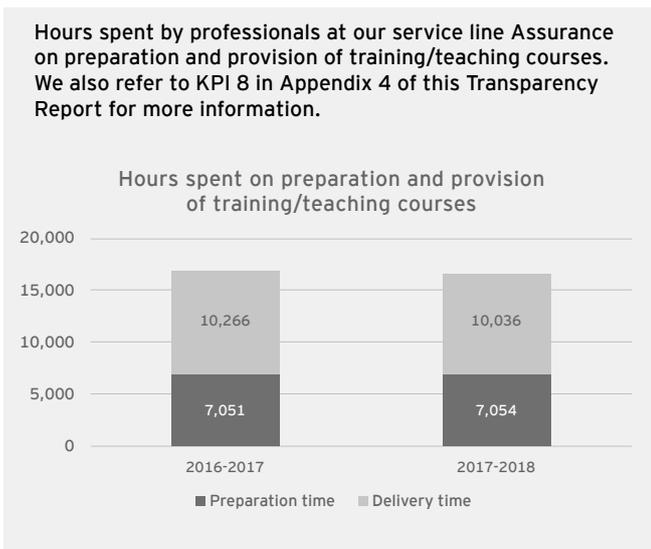
LEAD, our new, forward-looking approach to people’s career, development and performance sees an enhanced focus on continuous feedback resulting in better conversations built around 90-day cycles. Feedback is aggregated and used as an input to compensation and reward programs.

LEAD is designed to support the growth and development of our people at all stages of their career at EY. An individual’s personal dashboard provides an easy to interpret snap-shot of their performance against the Leadership at EY dimensions, and assess performance against peers.

LEAD retains components that were also included in our previous Performance Management and Development Process approach. Those were providing our people with clear work expectations and the opportunity to self-assess their performance. During the course of the year, every professional, in conjunction with their counselor, identifies opportunities for further development.

Training

During the fiscal year 2017/2018, our firm's professionals spent 321,000 hours on learning compared to 317,000 in the fiscal year 2016/2017.



Culture, behavior and attitude

In our learning and training programs, we focus on three subjects: knowledge, skills and attitude. As part of our Step Change to Quality goal to further improve our culture and the behavior of our people, 'attitude' is receiving much more attention now than it did a few years ago.

For example, we focus on teamwork and a constructive culture through specific training programs familiarizing our professionals with our 'Highest Performing Teams' (HPT) vision. During the fiscal year 2017/2018, we started the roll-out of these HPT training sessions, which will eventually be followed by all our professionals. In addition, across the four service lines, all partners of EY in the Netherlands will receive a Leadership training, teaching them how they should act in order to foster the right culture and behavior in their team members. This program, managed by an

external specialized firm, kicks off in the fourth quarter of 2018.

Another example of our increased emphasis on the right culture are our 'Executive Learning Days', during which we now teach our partners and other executives how to assess the team culture of an audit team and how, as team leaders, they can improve this culture and put our HPT vision into practice. Improvement of project management within our firm is fostered not only through the use of formal tools - e.g. EY's Milestones tool - but also through a focus on the right behavior with a stress on discipline, constructive cooperation and accountability.

Serving the public interest

As for 'knowledge and skills', the main goal of training in this area is to enable our professionals to serve the public interest and deliver high-quality work by fully complying with accounting and reporting standards, by showing the right professional skepticism, by following all relevant independence standards and - last but not least - by keeping their professional knowledge up to date and embracing innovation in the profession. We are increasingly transforming data analytics from an 'add on' to existing programs into a fully-integrated core part of our learning modules. We also facilitate the acquisition of the necessary data skills through learning modules based on practical challenges in the use of data analytics ('learning by doing'). In addition, we foster coaching of audit teams by IT-savvy colleagues if and when these teams harbor doubts or questions in the area of data analytics.

We train all our personnel to have adequate and sufficient knowledge of our GAM audit methodology and update each partner on all relevant changes in GAM.

Learning compliance

During the calendar year 2017, all our professionals subject to the obligations regarding Continuing Education (*permanente educatie, PE*) set by our professional association NBA, complied with these obligations. At least once a year, we monitor partners' compliance with their mandatory training requirements. If a partner exceeds his or her PE requirement, this is taken into account as a positive when their quality ratings are established. We now also test whether partners have really acquired the knowledge offered after attending our executive learning programs. This helps us to gauge the effectiveness of these learning programs and also to challenge colleagues who have not acquired the knowledge offered.

Overview of mandatory training programs and the number of participants and of hours spent.

Core technical education - number of participants FY18	INDUC-TION	Summer courses, Executive Events	RJ Update	Indepen-dence WBL	Anti Bribery & You	NBA COS knowledge test	IFRS	PCAOB (USFNUS and SOX Workshops)	EQR
Partners	-	153	134	162	157	231	87	52	59
Senior managers and managers	-	427	300	472	435	151	204	92	72
Senior staff	-	491	83	557	515	9	14	36	-
Staff	208	445	11	843	767	-	-	3	-
Hours per training	16-40	8-40	4	1.5-2.5	0.5-0.75	2	8-21		4
Total hours	13,776	43,700	2,112	5,313	1,405	782	3,389	1,961	498



Revenue and remuneration

Financial information

Revenue figures represent combined, not consolidated, revenues and include expenses billed to clients and revenues related to billings to other EYG member firms. Revenue amounts disclosed in this report include revenues from both audit and non-audit clients.

The revenue of Ernst & Young Netherlands LLP is as follows:

Ernst & Young Nederland LLP 2017/2018 (€000,000)	2017/2018		2016/2017	
	€	%	€	%
Statutory audits	224	28%	216	29%
Other assurance	87	11%	73	10%
Audit/other assurance	311	39%	289	39%
Compilation	24	3%	23	3%
Other assurance-related	5	1%	7	1%
Total assurance-related	29	4%	30	4%
Assurance	340	43%	319	43%
Other services lines	162	20%	144	19%
Ernst & Young Accountants LLP	502	63%	463	62%
Ernst & Young Belastingadviseurs LLP	230	29%	217	29%
Ernst & Young Nederland LLP and subsidiaries	31	4%	35	5%
Rendering services	763	96%	715	96%
Other income	29	4%	29	4%
Ernst & Young Nederland LLP	792	100%	744	100%

A breakdown of the fiscal year 2017/2018 revenue for rendering services is as follows:

Ernst & Young Nederland LLP 2017/2018 (€000,000)	Statutory audit services	Other assurance services	Assurance-related services	Other Services	Total
NL based EU-PIE clients and their subsidiaries	67 93%	4 6%	1 1%		72 100%
NL based subsidiaries of EU-PIE's based in other EU countries	19 95%	1 5%			20 100%
Other (non EU-PIE) statutory audit clients	138 76%	9 5%	3 1%	32 18%	182 100%
Other assurance clients		73 63%	2 2%	41 35%	116 100%
Other assurance related clients			23 39%	36 61%	59 100%
Other clients				314 100%	314 100%
Total rendering services	224	87	29	423	763

This breakdown can also be stated in accordance with Article 13 (2) (k) of the EU Regulation 537/2014:

Ernst & Young Nederland LLP 2017/2018 (€000,000)		PIE clients		Other clients	Total
		Nether-lands	Other countries		
ad i	Revenues from the statutory audit of (a) annual and consolidated financial statements of public-interest entities and (b) entities belonging to a group of undertakings whose parent undertaking is a public-interest entity.	67	19		86
ad ii	Revenues from the statutory audit of annual and consolidated financial statements of other entities.			138	138
ad iii	Revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm.	5	1	44	50
ad iv	Revenues from non-audit services to other entities.			489	489
Total rendering services		72	20	671	763

In the tables above, revenues from statutory audit services are presented in line with the definition of a statutory audit in Article 1 (1) (p) of the Dutch 'Audit Firms Supervision Act' (*Wet Toezicht Accountantsorganisaties*), including attachments. This definition differs from the definition of a statutory audit in Article 13 (2) (k) of the EU Regulation 537/2014.

In the tables above, revenues from statutory audits at entities belonging to a group of undertakings of which the parent is a public interest entity (i.e., the subsidiaries of a PIE) are limited to those entities of which the parent company (the PIE) is audited by Ernst & Young Accountants LLP or by a member firm of the international EY network.

In the two tables above, we do not report comparative figures for the fiscal year 2016/2017 as we did not collect the necessary data (in particular information about EU-PIE subsidiaries) for these two specifications until 1 July 2017.

Partner remuneration¹

Quality is at the center of the EY strategy and is a key component of EY performance management systems. Our partners and other professionals are evaluated and compensated on the basis of criteria that include specific quality and risk management indicators, covering both actions and results.

LEAD for partners, principals, executive directors and directors (PPEDDs) applies to all partners in EYG member firms around the world. LEAD for PPEDDs reinforces the global business agenda by continuing to link performance to wider goals and values. The process includes goal setting, ongoing feedback, personal development planning and performance review, and is tied to partners' recognition and reward. Documenting partners' goals and performance is the cornerstone of the evaluation process. A partner's goals are required to reflect various global priorities, one of which is quality.

In line with Directive EU/EEA of the European Parliament and of the Council of 16 April 2014, EY prohibits evaluating and compensating lead audit engagement partners and other professionals on an engagement based on the sale of non-Assurance services to their audit clients. This reinforces to our partners and other professionals their obligation to maintain their and our independence and objectivity.

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

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

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

We operate under a system that requires quality to be a significant consideration in a partner's overall year-end rating.

¹ In this chapter 'Partner Remuneration', the word "partner(s)" refers to equity partners only. Associate Partners are not included.

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 we determine our partners' total reward:

- ▶ Experience
- ▶ Role and responsibility
- ▶ Long-term potential

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 our firm.

Within the LEAD framework, each partner is assigned to one of four categories:

- ▶ Needs to progress
- ▶ Progressing
- ▶ Differentiating
- ▶ Strategic Impact

This assignment is based on a partner's responsibilities and past performance. If and when partners consistently outperform or underperform with respect to their category for a long period, or if they take on new responsibilities, they can change categories. The category partners belong to has an influence on their remuneration and its annual growth, but leaves wide margins for individual upward or downward yearly adjustments, according to the performance of the partner during the year in question.

To fine-tune decisions on partner remuneration, Ernst & Young Accountants LLP introduced a performance indicator with a 3-point scale for partners in the Service line Assurance:

- ▶ Did not meet expectations
- ▶ Met expectations
- ▶ Exceeded expectations

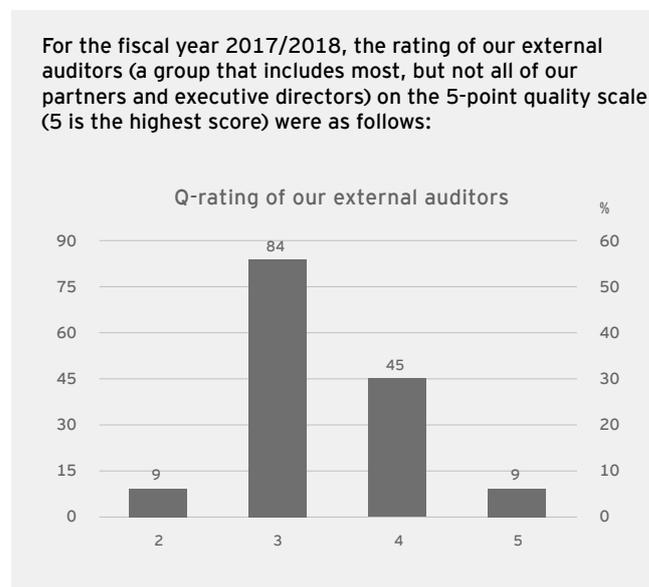
Quality has a decisive influence on the score of a partner on this 3-point scale. Quality itself, in turn, is measured using an indicator with a numerical 5-point scale, where 1 is the lowest score and 5 the highest. To stress the importance of quality in the assessment of the performance of our partners, for our Assurance professionals, a quality rating lower than 3 means automatically that the overall rating of the partner will be "Did not meet expectations".

The criteria used to determine the quality rating are the following:

- ▶ Audit performance
 - ▶ Consultation And Risk Management feedback
 - ▶ Interaction with Assurance and Quality Enablement leadership
 - ▶ Results from other pre-issuance reviews
 - ▶ Inspection results: AQRs, external regulatory and peer review inspections
 - ▶ Adverse quality occurrences

- ▶ Compliance with Assurance and Risk Management policies
- ▶ Complexity of the audit portfolio
- ▶ Other factors
 - ▶ Brand and reputation risk
 - ▶ The "Tone from the Top"
 - ▶ Support for and contribution to Quality
 - ▶ Involvement in the AQR process
 - ▶ Acting in a Quality Reviewer Role, including Engagement Quality Partner.
 - ▶ Annual and quarterly independence confirmations
 - ▶ Attendance at mandatory training events
 - ▶ Leading quality and professional standards training
 - ▶ Meeting CPE requirements
 - ▶ Feedback from third parties

For the fiscal year 2017/2018, the rating of our external auditors (a group that includes most, but not all of our partners and executive directors) on the 5-point quality scale (5 is the highest score) were as follows:



Partners' category and their overall rating on the 3-point scale determine their remuneration. This remuneration includes a basic remuneration and may include a performance award. The total basic remuneration paid to partners by our firm comprises at least 98% of the total distributable income, leaving 2% or less for the performance award pool. The number of partners receiving a performance award can never exceed 15% of the total partner population; each individual performance award itself may never exceed 20% of the total remuneration received by the partner concerned. To qualify for a performance award, the partner's quality rating on the 5-point scale should at least be 3. During the fiscal year 2017/2018, 6 partners were granted a performance award for their exceptional work.

If in a given year, a partner or executive director receives an underperformance rating, improvement steps are agreed upon and monitored during the year. Reoccurrence of underperformance is not accepted and typically results in the partner leaving the Assurance service line or our firm.

When the quality of an auditor's work is not up to standard, we take action. The following measures can be deployed after sub-standard work: a disciplinary discussion (*normoverdragend gesprek*); setting up a remedial action plan to prevent sub-standard work in the future; the request to present the quality shortcomings and the "lessons learned" during learning meetings; a financial penalty; deregistration with our external regulator the AFM, which implies that the partner can no longer sign audit opinions; and in very serious cases, separation from the firm.



Statement of the Policymakers

The policymakers confirm their responsibility for designing and maintaining the internal quality control system. This system as described in this Transparency Report aims to provide reasonable assurance that the legally mandatory audits are performed in accordance with applicable law and regulations. As set out in this report, EY has evaluated and further improved the internal quality control system over the last year.

We continue to improve the quality of our services by implementing our multi-year change program Step Change to Quality. Step Change to Quality is a holistic program for the realization of our quality ambitions. In the reporting year 2017 - 2018, we took several actions including additional steps in our process of culture change, the expansion of pre-issuance reviews, the rationalization of our client portfolio, and improvements to quality monitoring and reporting. We have thus established a solid foundation for further development and quality improvement in the audit process in the coming years.

The Transparency Report was discussed and adopted in the meeting of the policymakers on 29 October 2018. We discussed and evaluated the system of quality control in our meeting on 17 October 2018.

Taking into account the actions mentioned above for further quality improvement, the policymakers confirm the following:

- ▶ The internal quality control system is operating effectively;
- ▶ An internal review of compliance with independence regulations has been conducted;
- ▶ An effective policy concerning the continuing education of our statutory auditors and other professional staff is in place.

Rotterdam, 30 October 2018

Rob Lelieveld (chair)
Auke de Bos
Patrick Gabriëls
Tom de Kuijper

Nico Pul
Mirjam Sijmons
Jules Verhagen



Appendix 1

Statutory audits carried out of Dutch law public interest entities (OOBs)

In the fiscal year that ended on 30 June 2018, Ernst & Young Accountants LLP carried out statutory audits of the following OOBs:

AB Fund N.V.	Basic-Fit N.V.
ABN AMRO Bank N.V.	BCRE-Brack Capital Real Estate Investments N.V.
ABN AMRO Captive N.V.	BNP Paribas OBAM N.V.
ABN AMRO Clearing Bank N.V.	Boats Investments (Netherlands) B.V.
ABN AMRO Groenbank B.V.	CELF Loan Partners B.V.
ABN AMRO Group N.V.	Citycon Treasury B.V.
ABN AMRO Hypotheken Groep B.V.	CNH Industrial N.V.
ABN AMRO Levensverzekering N.V.	Cnova N.V.
ABN AMRO Schadeverzekering N.V.	Credit Europe Bank N.V.
Actiam Beleggingsfondsen N.V.	de VolksBank N.V.
Actua Schadeverzekering N.V.	Delta Lloyd Dollar Fonds N.V.
Add Value Fund N.V.	Delta Lloyd Euro Credit Fund N.V.
Adriana Infrastructure CLO 2008-I B.V.	Delta Lloyd Europees Deelnemingen Fonds N.V.
Airbus Finance B.V.	Delta Lloyd Investment Fund N.V.
Airbus SE	Delta Lloyd Levensverzekering N.V.
Amsterdam Trade Bank N.V.	Delta Lloyd Mix Fonds N.V.
Arena NHG 2014-I B.V.	Delta Lloyd Rente Fonds N.V.
Arena NHG 2014-II B.V.	Delta Lloyd Schadeverzekering N.V.
Arena NHG 2016-I B.V.	Delta Lloyd Select Dividend Fonds N.V.
Argentum Netherlands B.V.	Demir-Halk Bank (Nederland) N.V.
ASN Beleggingsfondsen N.V.	Digi Communications N.V.
ASR Aanvullende Ziektekostenverzekeringen N.V.	Dolphin Master Issuer B.V.
ASR Bank N.V.	DUNIA Capital B.V.
ASR Basis Ziektekostenverzekeringen N.V.	Dutch MBS XVIII B.V.
ASR Levensverzekering N.V.	ELM B.V.
ASR Nederland N.V.	ENEL Finance International N.V.
ASR Schadeverzekering N.V.	Enel Insurance N.V.
Aurorus 2017 B.V.	Essence IV B.V.

Essence V B.V.
 Euronext N.V.
 EXOR N.V.
 Ferrari N.V.
 Fiat Chrysler Automobiles N.V.
 Finata Bank N.V.
 Flow Traders N.V.
 Fortuna Entertainment Group N.V.
 Fugro N.V.
 Generali levensverzekering maatschappij N.V.
 Generali schadeverzekering maatschappij N.V.
 Global Credit Return Fund N.V.
 Globalworth Poland Real Estate N.V.
 Goldfish Master Issuer B.V.
 Heijmans N.V.
 Highlander Euro CDO B.V.
 Highlander Euro CDO II B.V.
 Highlander Euro CDO III B.V.
 Holland Homes MBS 2000-1 B.V.
 Holland Homes Oranje MBS B.V.
 InterBank N.V.
 International Card Services B.V.
 International Endesa B.V.
 Klaverblad Levensverzekering N.V.
 Klaverblad Schadeverzekeringsmaatschappij N.V.
 Koninklijke BAM Groep N.V.
 Koninklijke Boskalis Westminster N.V.
 Koninklijke KPN N.V.
 Koninklijke Philips N.V.
 Lowland Mortgage Backed Securities 2 B.V.
 Lowland Mortgage Backed Securities 3 B.V.
 Lowland Mortgage Backed Securities 4 B.V.
 Lucas Bols N.V.
 MESDAG (Charlie) B.V.
 N.V. Schadeverzekering Metaal en Technische Bedrijfstacken
 N.V. Schadeverzekering-Maatschappij Bovemij
 Nederlandse Financierings-Maatschappij voor
 Ontwikkelingslanden N.V.
 Nederlandse Waterschapsbank N.V.
 NIBC Bank N.V.
 North Westerly CLO II B.V.
 North Westerly CLO III B.V.
 North Westerly CLO IV 2013 B.V.
 Northern Lights B.V.
 NS Insurance N.V.
 Ochiba 2015 B.V.
 Onderlinge Verzekeringsmaatschappij Univé Groningen U.A.
 Onderlinge Waarborgmaatschappij Centrale
 Zorgverzekeraars groep, Zorgverzekeraar U.A.
 Onderlinge Waarborgmaatschappij Centramed B.A.
 ONVZ Aanvullende Verzekering N.V.
 ONVZ Ziektekostenverzekeraar N.V.
 OOM Global Care N.V.
 OOM Schadeverzekering N.V.
 Optimix Investment Funds N.V.
 Ordina N.V.
 OZLME B.V.
 PEARL Mortgage Backed Securities 1 B.V.
 Philips Lighting N.V.
 PostNL N.V.
 Prospero CLO II B.V.
 Proteq Levensverzekeringen N.V.
 Refresco Group N.V.
 RELX Finance B.V.
 RELX N.V.
 Ronson Europe N.V.
 Scildon N.V.
 Shell International Finance B.V.
 Siemens Financieringsmaatschappij N.V.
 Sif Holding N.V.
 Silver Birch CLO I B.V.
 SRLEV N.V.
 Stern Groep N.V.
 STMicroelectronics N.V.
 Südzucker International Finance B.V.
 TenneT Holding B.V.
 The Royal Bank of Scotland N.V.
 TKH Group N.V.
 TomTom N.V.
 Univé Rivierenland Brandverzekeraar N.V.
 Univé Zuid-Holland Brandverzekeraar N.V.
 VastNed Retail N.V.
 Vivat N.V.
 VIVAT Schadeverzekeringen N.V.
 Würth Finance International B.V.
 X5 Retail Group N.V.



Appendix 2

As of 30 June 2018, the following EYG member firms are approved to carry out statutory audits in an EU or EEA member state

Member State	Statutory auditor or audit firm
Austria	Ernst & Young Wirtschaftspruefungsgesellschaft mbH
Belgium	Ernst & Young Assurance Services BCVBA
	Ernst & Young Bedrijfsrevisoren B.C.V.B.A
Bulgaria	Ernst & Young Audit OOD
Croatia	Ernst & Young d.o.o.
Cyprus	Ernst & Young Cyprus Limited
	Ernst & Young
	Ernst & Young CEA (South) Services Ltd
	Ernst & Young CEA (South) Holdings Plc
Czech Republic	Ernst & Young Audit, s.r.o.
Denmark	Ernst & Young Godkendt Revisionspartnerselskab
	EY Grønland Statsautoriseret Revisionspartnerselskab
Estonia	Ernst & Young Baltic AS
	Baltic Network OU
Finland	Ernst & Young Oy
	Julkispalvelut EY Oy

Member State	Statutory auditor or audit firm
France	Artois
	Auditex
	Barbier Frinault & Associates
	Conseil Audit & Synthèse
	Ernst & Young Atlantique
	Ernst & Young Audit
	Ernst & Young et Autres
	Picarle et Associates
Germany	Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft
	Ernst & Young Heilbronner Treuhand GmbH Wirtschaftsprüfungsgesellschaft
	EY Revision und Treuhand GmbH Wirtschaftsprüfungsgesellschaft
	Schitag Schwäbische Treuhand GmbH Wirtschaftsprüfungsgesellschaft
Gibraltar	EY Limited
Greece	Ernst & Young (Hellas) Certified Auditors Accountants SA
Hungary	Ernst & Young Könyvvizsgáló Korlátolt Felelősségű Társaság
Iceland	Ernst & Young ehf
Ireland	Ernst & Young Chartered Accountants
Italy	Ernst & Young S.p.A
Latvia	SIA Ernst & Young Baltic
Liechtenstein	Ernst & Young AG, Basel
	Ernst & Young AG, Vaduz
Lithuania	UAB Ernst & Young Baltic
Luxembourg	Compagnie de Revision S.A.
	Ernst & Young Luxembourg S.A.
	Ernst & Young S.A.
Malta	Ernst & Young Malta Limited
Netherlands	Ernst & Young Accountants LLP
Norway	Ernst & Young AS

Member State	Statutory auditor or audit firm
Poland	Ernst & Young Audyt Polska sp. z o.o.
	Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Finance spółka komandytowa
	Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością JZP spółka komandytowa
	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
	Ernst & Young Usługi Finansowe Audyt sp. z o.o.
Portugal	Ernst & Young Audit & Associados - SROC, S.A.
Romania	Ernst & Young Assurance Services S.r.l.
	Ernst & Young Support Services SRL
Slovakia	Ernst & Young Slovakia, spol. s r.o.
Slovenia	Ernst & Young d.o.o.
Spain	ATD Auditores Sector Público, S.L.U
	Ernst & Young, S.L.
Sweden	Ernst & Young AB
United Kingdom	Ernst & Young LLP
	Ernst & Young Europe LLP

Total turnover of these EYG member firms resulting from statutory audits of annual and consolidated financial statements was approximately Euros 2.6 billion.



Appendix 3

Biographies of policymakers

Policymakers as at 31 October 2018



Rob (R.J.W.) Lelieveld (1962, Dutch)

Policymaker of Ernst & Young Accountants LLP since 2 May 2017.

Rob joined EY in 1980 and was appointed partner in 1996. He has more than 35 years of experience as an auditor with clients in various sectors including many international organizations. During his career, he has gained extensive management experience. Rob is a chartered accountant and he followed executive programs at the Kellogg School of Management and at Harvard University. He also completed the INSEAD International Director Program in Fontainebleau.

Rob is the leader of our Management Team Assurance. In addition, he is a member of the board of Ernst & Young Nederland LLP. Rob is also a member of the NBA (Royal Netherlands Institute of Chartered Accountants) 'Steering Group Public Interest' (*Stuurgroep Publiek Belang*).

Former positions and activities:

- ▶ Managing Partner of EY's Financial Services practice in the Netherlands
- ▶ Member of EY's EMEIA Financial Services Leadership team
- ▶ Chair of EY's EMEIA Financial Services assurance partner promotion committee
- ▶ Member of EY's EMEIA Financial Services partner forum
- ▶ Responsible for HR within EY's regional board Holland-Midden in the Netherlands



Auke (A.) de Bos (1965, Dutch)

Policymaker of Ernst & Young Accountants LLP since 1 February 2018 and member of the Board of Directors of Ernst & Young Accountants LLP as of 1 June 2018.

Auke joined EY in 1996 and became partner in 2005. Since 2005, he has worked within the Professional Practice Group of our firm, for the most part as Professional Practice Director for the Netherlands. As such, Auke is responsible for the consistent delivery of external and internal auditing and accounting standards to our professionals, including policies, procedures and methodologies. Within the Management Team Assurance, Auke is responsible for subjects related to his role as Professional Practice Director.

Auke is editor-in-chief of various in-house EY publications. In addition, he is a part-time professor Business Economics at Erasmus University (Rotterdam). He focuses his research and teaching on auditing and corporate governance, subjects on which he has published dozens of articles.

Former positions and activities:

- ▶ Member of the Ernst & Young International Financial Reporting Standards Knowledge Centre in London, 2000-2001.
- ▶ Member of various industry committees in the Dutch auditing sector on behalf of EY.



Patrick (P.J.A.) Gabriëls (1972, Dutch)

Polymaker of Ernst & Young Accountants LLP since 1 September 2017.

Patrick joined EY in 2002 and became partner in 2006. During his career, he has served many large multinational enterprises and other listed companies as auditor or advisor. At EY, he has co-founded several initiatives to drive innovation, including EYnovation, HighTechXL and Innovate EY. As a member of the Management Team Assurance, Patrick is responsible for Operations & Innovation.

Former positions and activities:

- ▶ Sector leader of EY's industry group Technology Media and Telecom in the Netherlands



Tom (T.) de Kuijper (1978, Dutch)

Polymaker of Ernst & Young Accountants LLP since 1 June 2018.

Tom joined EY in 2001 and became partner in 2013. During his career at EY, Tom worked with both domestic and international clients. In recent years, he focused on large financial institutions, either as auditor or as advisor. Tom spent two years in Sydney, working at EY's Australian practice. Within the Management Team Assurance, Tom is responsible for the execution of our change agenda.

Former positions and activities:

- ▶ Talent leader EY FSO the Netherlands



Nico (N.M.) Pul (1964, Dutch)

Polymaker of Ernst & Young Accountants LLP since 11 May 2017.

Nico joined EY in 1988 and became partner in 2001. Over the last three decades, he gradually specialized in the financial sector and has been the external auditor of a number of banks, pension funds and insurance companies. Nico has overall responsibility for the design of Step Change to Quality, EY's cross-service line quality improvement program in the Netherlands. In order to execute this role effectively, Nico has taken on several managerial positions. He is also a member of the Board of Ernst & Young Nederland LLP since 1 February 2018. In addition to being a member of the Management Team Assurance, Nico is also Quality Enablement Leader (QEL) of our Service line Assurance.

Currently, Nico is also a member of the board of the Foundation for Auditing Research in Breukelen and a member of the Board of Trustees of the auditing education program (*Curatorium Accountantsopleiding*) of VU University Amsterdam.

Former positions and activities:

- ▶ EY's Compliance Officer in the Netherlands.
- ▶ Professional Practice Director (PPD) of EY's EMEIA FSO Assurance region.
- ▶ Vice-chairman of the NBA's industry committee on Insurers and Pension Funds.
- ▶ Chairman of the Foundation Pension Fund Ernst & Young



Mirjam (M.) Sijmons (1960, Dutch)

Polymaker of Ernst & Young Accountants LLP since 1 February 2018.

Mirjam joined EY at the start of 2018. Within the Management Team Assurance, she is responsible for human resources and for cultural change within our firm as part of our Step Change to Quality program. Mirjam joined EY with a wealth of experience in both managerial and supervisory roles. Since 1 February 2018, she is a member of the board of Ernst & Young Nederland LLP, with responsibilities similar to the ones she holds at our firm.

Former positions and activities:

- ▶ CEO Arboned
- ▶ Member of the board of the ANWB
- ▶ CEO Content
- ▶ Member of the supervisory board of Eneco Groep
- ▶ Member of the supervisory board of Leiden University
- ▶ Member of the supervisory board of Marente



Jules (J.) Verhagen (1963, Dutch)

Polymaker of Ernst & Young Accountants LLP since 1 September 2010.

Jules joined EY in 1986 and became partner in 1997. He has extensive experience as external auditor of multinational companies as well as companies in the health care, health insurance and life sciences sectors. Jules is the vice-chair of our Management Team Assurance and responsible for Markets, client acceptance and continuance and the Stakeholder Dialogue.

Former positions and activities:

- ▶ Chair of EY's industry group Health Care and Life Sciences in the Netherlands
- ▶ Member of EY's Regional Partner Forum in the Netherlands



Appendix 4

Overview of Key Performance Indicators

On 25 September 2014, the working group "Toekomst accountantsberoep" of our professional association NBA published the report "In het publiek belang" ("In the public interest"). Among other important proposals to increase the quality of services provided by Dutch audit firms, this report contained a set of key performance indicators (KPIs) which Dutch Audit firms with an OOB (PIE) license should report on regularly. This proposal by the working group was endorsed by the NBA. On 4 March 2016, the NBA published a guidance document on a standard set of KPIs to be published in the Transparency Report of OOB audit firms. In this Appendix 4, we provide the information regarding these KPIs for our firm. If we cannot give a score for a KPI, we indicate why.

During our fiscal year 2017/2018, within Ernst & Young Nederland LLP some units were transferred from our service line Assurance to Advisory or vice versa, as mentioned in the Report of the Policymakers of this Transparency Report. To allow for better comparison with data for the fiscal year 2017/2018, some data regarding revenue and personnel for our fiscal year 2016/2017 have been adapted to the new situation.

NBA KPIs

Teaming general

1. Number of partners, (senior) managers and other team members (based on FTE). Total numbers per group and numbers as a percentage of total headcount. These figures include FTEs at supporting services within our service line Assurance.

	2017 - 2018		2016 - 2017	
Partners	155	8.0%	156	8.1%
(Senior) managers	425	21.9%	429	22.3%
Other	1,364	70.1%	1,341	69.6%
Total	1,944	100.0%	1,926	100.0%

2. Average number of years of experience, split between partners, (senior) managers and other team members. Only the years of employment/partnership at EY are registered and included for the score of this KPI.

	2017 - 2018	2016 - 2017
Partners	20.1	19.2
(Senior) managers	10.9	10.3
Other	3.9	4.0
Total	6.4	6.5

3. Employee turnover of partners, (senior) managers and other team members, split between key talents / high potentials and others. Total numbers per group and numbers as a percentage of headcount per group.

Turnover 2017 - 2018	# High potentials / key talent	% Headcount of this group	# Non High potentials / key talent	% Headcount of this group
Partners	4	9.1%	9	7.3%
(Senior) managers	42	17.6%	65	29.5%
Other	34	8.1%	218	22.6%
Total	80	11.4%	292	22.3%

Turnover 2016-2017	# High potentials / key talent	% Headcount of this group	# Non High potentials / key talent	% Headcount of this group
Partners	0	0.0%	4	3.3%
(Senior) managers	40	17.3%	45	23.7%
Other	32	8.3%	176	17.9%
Total	72	11.0%	225	17.4%

4. Hours spent on audit engagements (split between OOBs and non-OOBs), other engagements and internal projects by partners, (senior) managers and other team members (excluding specialist hours). Total number of hours and number of hours as a percentage of all hours spent by each group.

2017 - 2018	Partners	(senior) managers	Other	Total
Financial audit (OOB)	39,956	104,882	240,356	385,194
Percentage of total	10.8%	10.8%	7.3%	8.3%
Financial audit (Non-OOB)	95,557	318,479	1,341,992	1,756,028
Percentage of total	25.8%	32.7%	40.5%	37.7%
Other engagements	30,934	123,931	475,667	630,532
Percentage of total	8.4%	12.7%	14.4%	13.5%
Indirect hours	203,649	426,615	1,253,416	1,883,680
Percentage of total	55.0%	43.8%	37.9%	40.5%
Total	370,096	973,907	3,311,431	4,655,434

2016 - 2017	Partners	(senior) managers	Other	Total
Financial audit (OOB)	35,472	95,509	201,871	332,852
Percentage of total	9.3%	9.6%	6.2%	7.2%
Financial audit (Non-OOB)	90,890	316,642	1,292,921	1,700,453
Percentage of total	23.8%	32.0%	39.5%	36.6%
Other engagements	34,681	155,695	498,662	689,038
Percentage of total	9.1%	15.7%	15.2%	14.8%
Indirect hours	220,418	422,809	1,278,382	1,921,609
Percentage of total	57.8%	42.7%	39.1%	41.4%
Total	381,461	990,655	3,271,836	4,643,952

5. Overtime hours as a percentage of total available contract hours.

% of total available contract hours	2017 - 2018	2016 - 2017
Percentage of overtime	11.1%	7.7%

Training and coaching

6. Training hours of partners / employees per group (internal and external trainings). Total hours spent by each group and average number of hours spent per group member.

	Total hours		Hours per group member	
	2017 - 2018	2016 - 2017	2017 - 2018	2016 - 2017
Partner	13,433	10,451	86	67
Sr Manager	18,169	14,954	93	80
Manager	32,302	28,185	142	117
Sr Staff	56,299	57,748	110	117
Staff	200,425	205,328	236	242
Total	320,628	316,666	165	164

7. Average investment (cash out in euros) in training and education per employee.
In the absence of an unambiguous definition of this KPI, we cannot provide a score.

8. Number of internal hours spent on preparation and provision of training/teaching courses.

	2017 - 2018	2016 - 2017
Preparation time	7,051	7,054
Delivery time	10,266	10,036
Total	17,317	17,090

9. Average number of hours spent on an audit by partners, (senior) managers and other team members, split between OOB and non-OOB audit engagements. Hours per group as a percentage of the total number of hours spent by all groups together ('leverage').

	2017 - 2018		2016 - 2017	
	Financial audit (OOB)	Financial audit (Non-OOB)	Financial audit (OOB)	Financial audit (Non-OOB)
Partners	10.37%	5.44%	10.66%	5.35%
(senior) managers	27.23%	18.14%	28.69%	18.62%
Other	62.40%	76.42%	60.65%	76.03%
Total	100.00%	100.00%	100.00%	100.00%

10. Number and ratio of engagements for which the benchmark for KPI 9 is not met.

The benchmark has not yet been defined.

11. People survey results relating to coaching and audit quality topics.

In the fiscal year 2017-2018 we conducted a more limited EY Global People Pulse Survey. In the fiscal year 2016/2017, a full EY Global People Survey took place.

% employees that agree	2017 - 2018	2016 - 2017
EY's purpose of building a better working world is motivating to me.	47%	45%
The partners/leaders I work with have communicated a vision of the future that motivates me.	55%	56%
I have a good understanding of how my job contributes to EY executing its strategy for Vision 2020.	49%	39%
At EY there is open, honest two-way communication.	60%	65%
I have meaningful conversations with my counselor regarding my career development.	75%	69%
My manager(s) provide(s) me with timely feedback.	66%	54%
At EY, I feel my contributions are recognized and appreciated.	59%	62%
EY provides a work environment where I feel free to be myself.	80%	84%
I am able to manage my work responsibilities in a way that allows me to maintain a balance between work and home.	47%	50%
The partners/leaders I work with are committed to providing high quality services to our clients.	83%	82%

Quality measures

12. Audit hours spent per stage of the audit before and after financial year-end.

We cannot provide a score for this KPI, as our current systems do not include the required information with this level of detail.

13. Number of FTEs working for PPG (*Vaktechniek*), other quality-related support functions and the Independence Desk, split between partners, (senior) managers and other team members.

FTE	2017 - 2018				2016 - 2017			
	Partner	(Senior) manager	Other	Total	Partner	(Senior) manager	Other	Total
Professional Practice Group	13.4	26.3	2.2	41.9	14.0	19.3	4.6	37.9
Quality Enablement Group	4.0	22.1	8.4	34.5	3.0	8.6	5.4	17.0
Operations		7.4	7.9	15.3		3.8	5.9	9.7
Compliance Office	3.0	2.9		5.9	3.0	0.9		3.9
Independence	1.5	5.9	6.3	13.7	1.5	3.9	6.5	11.9
Total	21.9	64.6	24.8	111.3	21.5	36.5	22.4	80.4

14. Number of consultations relating to audit and accounting topics.

Number of consultations	2017 - 2018	2016 - 2017
Accounting	62	59
Auditing	868	926
Independence	626	477
Total	1,556	1,462

15. Number of annual report reviews (*Accounting Review*, ARs) conducted by experts outside the audit team before issuance of the audit opinion (including annual report reviews as part of the OKB process. OKB ("*Opdrachtgerichte Kwaliteitsbeoordeling*") is the term used in the Netherlands for EQRs i.e. Engagement Quality Reviews).

	2017 - 2018	2016 - 2017	2015 - 2016
Number of annual report reviews (ARs) conducted by experts outside the audit team before issuance of the audit opinion	202	198	160

16. Number of EQRs (OKBs) performed - total number and number as a percentage of the number of legally mandatory audits (*wettelijke controleopdrachten*, WeCos) performed.

The total number of EQRs performed was 484 (in fiscal year 2016/2017: 434). Of these EQRs, 418 (in fiscal year 2016/2017: 374) were performed on statutory audits.

	2017 - 2018	2016 - 2017
Number of OKBs performed on statutory audits (WeCos)	418	374
Percentage of statutory audits (WeCos) on which an OKB was performed	16%	14%

17. Number of hours spent on OKBs (total and average per OKB performed) split between partners, (senior) managers and other team members.

	Partners	Senior managers	Total
2017 - 2018			
Number of hours spent on OKBs	7,711	7,231	14,942
Average number of hours per OKB performed	16	15	31
2016- 2017			
Number of hours spent on OKBs	6,438	6,079	12,517
Average number of hours per OKB performed	15	14	29

18. Hours spent on OKBs: total number of hours spent on audit engagements on which an OKB is performed (1), total number of hours spent on OKBs (2), and (2) as a percentage of (1).

	2017 - 2018	2016 - 2017
Number of hours spent on audit engagements on which an OKB is performed	863,345	807,301
Number of hours spent on OKBs	14,942	12,517
Hours spent on OKB as a percentage of the hours spent on the audit engagement	1.7%	1.6%

19. Hours spent by IT specialists as part of audit engagements (split between OOBs and non-OOBs): total number of hours and number of hours spent by IT specialists on audits as a percentage of the total number of hours spent on audits.

IT Specialists	OOB		Non-OOB		Total	
	2017 - 2018	2016 - 2017	2017 - 2018	2016 - 2017	2017 - 2018	2016 - 2017
Hours specialists	51,555	49,155	97,709	102,700	149,264	151,855
Hours financial audit	524,409	465,992	2,048,151	2,018,386	2,572,560	2,484,378
Hours specialists as a percentage of total hours financial audit	9.8%	10.5%	4.8%	5.1%	5.8%	6.1%

20. Number and ratio of engagements for which the defined benchmark for KPI 19 is not met.

The benchmark has not yet been defined.

21. Hours spent by other specialists as part of audit engagements (OOBs and non-OOBs): total number of hours and number of hours as a percentage of all hours spent on all audits.

Actuary	OOB		Non-OOB		Total	
	2017 - 2018	2016 - 2017	2017 - 2018	2016 - 2017	2017 - 2018	2016 - 2017
Hours specialists	22,182	22,220	8,717	9,470	30,899	31,690
Hours financial audit	524,409	465,992	2,048,151	2,018,386	2,572,560	2,484,378
Hours specialists as a percentage of total hours financial audit	4.2%	4.8%	0.4%	0.5%	1.2%	1.3%

TAX	OOB		Non-OOB		Total	
	2017 - 2018	2016 - 2017	2017 - 2018	2016 - 2017	2017 - 2018	2016 - 2017
Hours specialists	11,514	11,231	27,064	28,699	38,578	39,930
Hours financial audit	524,409	465,992	2,048,151	2,018,386	2,572,560	2,484,378
Hours specialists as a percentage of total hours financial audit	2.2%	2.4%	1.3%	1.3%	1.5%	1.6%

Valuation	OOB		Non-OOB		Total	
	2017 - 2018	2016 - 2017	2017 - 2018	2016 - 2017	2017 - 2018	2016 - 2017
Hours specialists	5,399	4,242	14,481	18,945	19,880	23,197
Hours financial audit	524,409	465,992	2,048,151	2,018,386	2,572,560	2,484,378
Hours specialists as a percentage of total hours financial audit	1.0%	0.9%	0.7%	0.9%	0.8%	0.9%

22. Number of hours spent on activities to improve the accounting profession (NBA, university, publishing etc.).

	2017 - 2018	2016 - 2017
Teaching at university	4,970	4,425

No data is available regarding the number of hours spent on NBA and publishing.

23. Number of issued audit opinions as part of legally mandatory audits (Statutory audits, split between PIEs and Other).

	2017 - 2018	2016 - 2017
Statutory audits - PIE	185	219
Statutory audits - non-PIE	2,409	2,446
Total Statutory audits	2,594	2,665

24. Number of internally reported or identified independence violations - total and as a percentage of total headcount of EY NL (not only Assurance).

	Independence		Administrative requirements		Total	
	2017 - 2018	2016 - 2017	2017 - 2018	2016 - 2017	2017 - 2018	2016 - 2017
Total breaches/violations	20	21	118	88	138	109
Percentage of total number of employees	1.0%	1.1%	5.9%	4.4%	6.9%	5.5%

25. Number of internal warnings for independence violations - total and as a percentage of total headcount.

We refer to KPI 24. EY does not differentiate between violations resulting or not resulting in warnings; all violations are followed up.

26. Number of audit files that have been subject to a quality review (other than OKB).

	2017 - 2018	2016 - 2017
Number of audit files that have been subject to a quality review (other than OKB)	40	48

27. Number of audit files that have been subject to a quality review performed by an external oversight institution.

	2017 - 2018	2016 - 2017
Number of audit files that have been subject to a quality review performed by an external oversight institution	19	25

28. Conclusions of the accounting firm based on additional review and/or remediation procedures performed as a result of the findings reported by external regulators

We refer to the section on External Quality Assurance Review in this Transparency Report.

29. Number of fines (including amounts) imposed on the firm by external regulators.

	2017 - 2018	2016 - 2017	2015 - 2016
Number of penalties received from external oversight institutions	0	0	1

30. Number of partners that have been eliminated from the auditor register - total and as a percentage of the total number of partners.

	2017 - 2018	2016 - 2017
Number of partners that have been eliminated from the AFM Auditors register	14	8
As a percentage of the total number of partners	9%	5%

All eliminations are the result of departure at EY, another role at EY or retirement.

31. Number of annual report adjustments made relating to fundamental errors (Dutch GAAP) and / or material errors (IFRS) regarding companies for which EY was also the auditor in the prior financial year - total and as a percentage of the total number of audit opinions issued.

	2017 - 2018	2016 - 2017
Annual report adjustments	87	55
As a percentage of total number of audit opinions	1.9%	1.2%

The number of fundamental errors in 2017 - 2018 is 5 (2016 - 2017: 5).

32. Number of adjustments made relating to material errors at audit clients based on the outcome of reviews performed by external regulators - total and as a percentage of total issued audit opinions.

	2017 - 2018	2016 - 2017
Annual report adjustments	0	0

33. Number of audit engagements terminated early.

	2017 - 2018	2016 - 2017	2015 - 2016
Number of early terminated audit engagements	12	12	7

34. Number of claims received including status and expected outcome assessment.

We refer to the paragraphs on Litigation in the section 'Compliance with legal requirements' of this Transparency Report.

35. Number of incidents reported to external oversight institutions.

We refer to the paragraphs on incidents in the section 'Internal quality control system' of this Transparency Report.

	2017 - 2018	2016 - 2017	2015 - 2016
Number of incidents reported to external oversight institutions	1	4	9

36. Number of proceedings with the Disciplinary Council (*Accountantskamer*) including outcome.

We refer to the paragraphs on Litigation in the section on 'Compliance with legal requirements' of this Transparency Report.

37. Number of EY/Ethics Hotline complaints including outcome of complaint resolution process.

	2017 - 2018	2016 - 2017
Number of internal reports	0	1
Number of external reports	0	0



Appendix 5

Glossary

AFM	Autoriteit Financiële Markten	Dutch public regulator of the audit profession and various financial industries
AQR	Audit Quality Review	Annual internal review of a number of completed audit files in accordance with EY's globally defined rules and procedures for AQRs
CO	Compliance Office	The department in our firm that monitors its compliance with applicable law and regulations and corresponding internal policies and procedures. As of 1 July 2018, our CO was absorbed by the new Internal Audit Department (IAD)
EMEIA	Europe, Middle-East, India and Africa	One out of four areas of EY globally. WEM (Western Europe & Maghreb) is a region within EMEIA, the Netherlands is part of WEM
EYG	Ernst & Young Global Limited	EY's central entity
EY GAM	EY Global Audit Methodology	A generic set of rules that describe the way EY performs audits globally. Of course, during each audit other applicable regulations (if any) are taken into account as well
EQR (Dutch: OKB)	Engagement Quality Review / Opdrachtgerichte Kwaliteitsbeoordeling	Internal review of key audit areas and issues by another professional, independent from the audit team, before the audit is completed
FSO	Financial Services Organization	The only non-geographical Region within EY's EMEIA area
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 specific securities are allowed to be held or not.
GPPM	Global Partner Performance Management	Performance measurement tool for partners
IFAC	International Federation of Accountants	Global organization for the accountancy profession
IFRS	International Financial Reporting Standards	International set of accounting principles

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-ons
OKB	Opdrachtgerichte Kwaliteitsbeoordeling	Dutch language equivalent of our Engagement Quality Review (EQR)
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
PACE	Process for Acceptance of Clients and Engagements	EY's global tool for structuring the client acceptance and continuance process, resulting in a risk rating score
PCAOB	Public Company Accounting Oversight Board	US public regulator of 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 upfront as well as during the audit cycle
QEG	Quality Enablement Group	The department in our firm that implements quality initiatives and actions and supports audit quality.
QEL	Quality Enablement Leader	A partner with specific responsibility for implementing the quality initiatives and actions and for supporting audit quality.
QUIP	Quality Improvement Plan	Action plan describing steps and plans to improve quality
SAQ	Sustainable Audit Quality	EY's globally consistent approach to implementing the highest level of audit quality across the organization
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	Statutory audit required by Dutch law; a non-WeCo is a financial statement audit not required by Dutch law
WEM	Western Europe & Maghreb	One of the regions in EY's EMEIA area, the Netherlands belongs to WEM
Wta / Bta	Wet toezicht accountantsorganisaties / Besluit toezicht accountantsorganisaties	Dutch law and additional rules applicable to audit firms.

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ED None

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