Transparency Report 2013

Ernst & Young Accountants LLP

The Netherlands

EY

Building a better working world

Contents

Country managing partner's letter

Welcome to the Dutch EY 2013 Transparency Report as prepared by Ernst & Young Accountants LLP. The past year has been a significant one for EY globally and in the Netherlands. In January we launched Vision 2020, which sets out EY's purpose, ambition, strategy and positioning.

As we worked to create Vision 2020, we spent time looking keenly at the world around us - speaking with people inside and outside of EY: leading thinkers, clients and our people. In the process, we realized that our purpose is clear - to build a better working world. It is present in:

- Our services that build trust and confidence in the capital markets – helping investors make informed decisions and helping businesses to grow sustainably.
- Our belief that every audit, every tax return, every advisory opportunity, every interaction should make the working world better than it was before.
- Our relationships with our people, our clients, with governments and not-for-profit organizations – through what we say and do and the conversations we convene about the challenges facing economies and the capital markets.

At the heart of building a better working world is our public interest role as an auditor of public companies. Auditors play a vital role in the efficient functioning of our capital markets through promoting transparency and supporting investor confidence. Our clients, regulators and other stakeholders count on us to deliver quality and excellence, and executing audits in a high-quality manner remains central to our role in serving the public interest and growing EY successfully.

As part of Vision 2020, we are investing in tools to improve the audit, creating the highest-performing teams, and focusing on building trust and confidence in the audits we perform in the Netherlands and around the world. My colleagues and I in the Netherlands are excited about playing our part to make Vision 2020 a reality. We look forward to working with you and sharing our progress. Regular dialogue with our stakeholders is a priority for us and what we hear helps inform our views and actions.

In this spirit, we continue to embrace the transparency objectives of the European Union's 8th Company Law Directive and Dutch regulations, which require Dutch statutory auditors of public interest entities to publish annual transparency reports. This Transparency Report 2013 complies with the Directive and Dutch regulations, and covers the fiscal year ending 30 June 2013.

In this report, you can read more about our internal quality-control system – how we instill professional values; how we perform an audit; our review and consultation process and our process for audit quality reviews. For the first time in this report, you can also read more about EY's approach to stakeholder engagement globally and in the Netherlands. Thank you to all of you who have taken the time to share your views with us in 2013. I encourage investors, audit committee members, companies, regulators and all our stakeholders to continue to engage with us, and would welcome your views on the matters covered in this report.

Rotterdam, 30 September 2013

Marcel A. van Loo
Country Managing Partner
EY The Netherlands

Message from the assurance leader

Challenging changes

Fiscal year 2012/2013 was, once again, an eventful year for the audit profession in the Netherlands. The ongoing discussion about the role of the external auditor was fueled by cases that received broad media attention, including the nationalization of SNS Reaal, reports on fraud discovered at several companies and the outcome of court cases. In the debates on these and other events, the role of the auditor was often judged in a more balanced way compared with previous years, as early warnings by auditors to companies' governance bodies were noted and appreciated. In December 2012, the NBA – the professional organization of Dutch auditors – issued a collective and public warning regarding various complex reporting dilemmas in the healthcare sector. A memorandum prepared by the real estate valuators and auditors (*Platform Taxateurs en Accountants*, PTA) on the valuation of real estate assets received significant praise.

The passing of the new Audit Profession Act (*Wet op het accountantsberoep*, Wab) was another significant topic during fiscal year 2012/2013. The Wab introduces both mandatory audit firm rotation and a more strict separation between assurance and advisory services. During the public debate prior to the final approval of the Wab in December 2012, we made our views on these two elements known. In our opinion, mandatory firm rotation is not helpful when it comes to improving audit quality. It is our firm belief that the profession would benefit more from increased quality efforts and more communication about the results of audits, two issues we focus on at our firm. However, as this law was passed, it is now time to look forward and focus on its implementation.

Further new legislation in the Netherlands affecting our profession is imminent. In July 2013, the Minister of Finance announced his intention to use a new law on financial markets to allow the AFM, our regulator, to include firm-specific information in its public reports on inspections. We welcome this initiative, as it will increase transparency regarding the performance of different audit firms. In this respect, firm-specific reporting on audit firms by the UK regulator provides a positive example to keep in mind, as the UK regulator applies this tool in a balanced, judicious way.

At the international level, the discussions within the EU regarding audit policy legislation continue and the outcome remains unclear, although EU legislation will probably be less rigid than the Wab. We continue to participate in this dialogue.

Discussions on the proposals by the International Auditing and Assurance Standards Board (IAASB) to make auditor's reports more relevant for users also continued. We strongly support meaningful change to increase the information value of auditor's reports. In particular, we believe that auditors should highlight matters that, in their opinion, are most significant in the audit. At the same time, we believe that international comparability helps investors and other users. We therefore continue to support global consistency in the structure of auditor's reports.

Amidst these changes and challenges, there was much to celebrate at our firm. Due to the new law on the mandatory rotation of audit firms, the number of Public Interest Entities (*Organisaties van Openbaar Belang*, OOBs) and other companies putting out tenders to change their audit firm has already increased significantly. I am very proud that our organization was able to win several new audit clients, including Ahrend, Antonius Ziekenhuis, Ballast Nedam, Cosun, Kema and Tennet. Of course, we will also lose several OOBs due to mandatory rotation. Aegon, for example, will transfer from EY as of 2014.

As part of our strategy and commitment to Corporate Social Responsibility we acquired Beco, an acquisition that was integrated fully in our firm during this fiscal year. We continue to play an active role in the Dutch Sustainable Growth Forum and contribute actively to the development and application of 'integrated reporting'.

Our Entrepreneur of the Year award continues to recognize and reward entrepreneurs and has itself received praise. We are also very proud to have received the award for best performing auditor from Management Team magazine for the third year in a row.

Looking back at all these events, I can only conclude that fiscal year 2012/2013 was a year of many joys and many worries. In the middle of all these successes and challenges, our firm considers facts, develops opinions and judges proposals from a clear perspective: the perspective of the public interest. It couldn't be otherwise. In a changing world, we change, too, but we firmly continue to focus on what is our essential task: serving the public interest by providing reliable and relevant audits. Taken together, reliability and relevance add up to quality, and only by providing quality can we fulfil our mission of contributing to a better working world and can we further increase the trust of our main stakeholders in the work we do. Issues related to the public interest and quality take up most of our management time. They define our 'tone at the top', our design and implementation of audit procedures and systems, and our participation in the public debate on the future of our profession. During board meetings, the leadership team of Ernst & Young Accountants LLP explicitly asks itself the question of whether intended decisions are in line with the public interest.

Quality and Compliance: Restoring Trust

We continued to work hard to further improve the quality of our work. During fiscal year 2012/2013, our different Industry Sectors worked closely together with the Professional Practice Group (PPG) in the implementation of sector-specific quality plans, including identification of audit-related risks and ways to deal with them – for example, valuations in the real estate sector, liquidity in the building industry, and both valuation issues and system changes in the healthcare sector. All professionals attended meetings on professional skepticism and independence. We strengthened our Engagement Quality Review (EQR) procedures for close-monitoring high-risk clients. We intensified the consultation of experts for complicated audit questions and the number of consultations of our audit teams with the PPG increased further. The ratings from our Audit Quality Reviews (AQRs) improved as compared to fiscal year 2011/2012. It is encouraging to see that, as a result of our efforts over the last few years, none of the 61 engagements selected for internal review during fiscal year 2012/2013 received an 'insufficient' rating.

At the global level, EY makes significant investments that will further customize our methodology to specific needs and improve our tools to improve both the effectiveness and efficiency of our audits.

We implemented the requirements of the Dutch Code for Audit Firms (*Code voor Accountantsorganisaties*) and are convinced that compliance with the Code will help us to improve the perceived and actual quality of our work, either directly or indirectly by strengthening the independence of and communication by our auditors and our firm. As part of this effort, we announced the formation of the Public Interest Committee (*Commissie Publiek Belang*) at our firm in May 2013 and we have started to intensify our stakeholder dialogue.

Our professional organization NBA has proposed new rules to further ensure the independence of the external auditor, transitioning from a principle-based to a rule-based approach. The principles behind these new rules are already embedded in our internal rules and procedures. To the extent that any specific new rules are not already explicit in our own rules and procedures, we will, obviously, add and implement them once they have been finalized and adopted by the NBA.

We participated actively in the public debate about changes to our profession. With the public interest and quality of our audits in mind, we expressed our concern regarding the 'Big Bang' nature of the introduction of mandatory audit firm rotation in the Netherlands. Before 1 January 2016, hundreds of Dutch OOBs will change auditor, a process that has already started. Some non-OOBs decided to adopt the new audit firm rotation rules as well and are also changing external audit firm.

The large number of imminent audit firm rotations pose a threat to audit quality. Massive transitioning will cause loss of knowledge, which takes time to regain.

It is our public duty to ensure sufficient measures are being taken to prevent this from happening.

From our public-interest perspective, this is disquieting. Over the next two years, the huge number of tenders, wind-downs and transitions will pose a serious quality risk, as audit firms affected may find it very difficult to find sufficient time and resources to work to the highest standards in these very unusual and testing circumstances. This is not in the public interest. I hope the current Big Bang nature of the transition can be reconsidered and transformed into a smoother transition spread out over more years.

Of course, we have prepared and continue to prepare for the Big Bang scenario as currently defined. This preparation includes providing transition-support for professionals involved and arranging additional (international) capacity. At the same time, we believe our professional organization NBA should take the lead in developing a transition framework, including a standardized, shorter tendering process and formalized information exchange between the outgoing and the incoming auditor. This would certainly be in the public's interest.

The interpretation of the transition period defined in the Wab for the separation of assurance and advisory services (including tax advice) has led to a public debate between our regulator – the AFM – and the audit firms regarding the appropriateness of contracts signed shortly before the start of the transition period on 1 January 2013. We participated in this debate in an open and constructive manner and provided ample information about the issue on our website. We interpreted the Wab's relevant stipulations in good faith, acting in the public interest and the interest of our clients. During our discussions with the AFM, we have made an important effort to reach an agreement, as protracted controversies between audit firms and their regulator are not in the public interest. I am happy to report that we have recently agreed our position towards the AFM. In order to fulfil this agreement, we have entered into contact with some clients to either discontinue or modify some engagements.

External Quality Assurance Review

In the External Quality Assurance Review section of this Transparency Report, we provide information on our relationship and dialogue with the AFM over the last year. We report on the first joint inspection at our firm by the AFM and the US Public Company Accounting Oversight Board (PCAOB) and on the AFM's findings related to our 2012 internal review of audits of Dutch housing corporations (*woningcorporaties*).

During fiscal year 2012/2013, there were new developments in the two cases in which the AFM had started proceedings against individual auditors of our firm before the Disciplinary Council of Accountants and Auditors of the Netherlands (*Accountantskamer*). Both cases are related to audits that took place several years ago, as they are rooted in the audits of the 2008 financial statements of DSB Bank and Van der Moolen.

The Council heard the DSB Bank case in March 2012 and pronounced its judgment in November 2012, resulting in a reprimand (*berisping*) for the auditor involved. Both parties appealed the judgment.

As for Van der Moolen, the Council heard the case in December 2012 and pronounced its judgment in July 2013. In this case, too, the result was a reprimand (*berisping*) for the auditor.

We have learned lessons from External Quality Assurance Reviews, especially regarding the extent and timing of the documentation of the work performed by our auditors and the overall risk assessments at our clients, including their governance and take appropriate measures where needed.

Continuous improvement

At our firm, learning lessons is part and parcel of putting the public interest first and of efforts to further improve the quality of our work. Against this background, in addition to the Fraud Panel and the Going Concern Panel, we started the Error Evaluation Panel this year. The Panel advises our audit teams when errors in financial reports are noticed after an audit opinion has been issued on them. Through this panel, we gain valuable insights into the causes of such misstatements. This will help us reduce the risk of misstatements in the future, to the extent such misstatements can be prevented by the work of the external auditor.

An independent mindset and professional skepticism are other essential elements of our quality efforts, and so is communication with our stakeholders. True independence cannot be achieved by the mere compliance with independence-related internal and external rules, but only by making no concessions in the drive for quality. In our external communications, too, it is the public interest that determines our choices of when and how we make information available and express our views, in this Transparency Report and otherwise.

Building a better working world

I am confident you will find the information contained in this Transparency Report, especially on the topics mentioned above, useful in judging how we have progressed in our efforts to improve the quality of our work during fiscal year 2012/2013.

Let me finish by thanking all our stakeholders for their continued trust and support in these times of persisting economic challenges. And I am also very grateful to our employees and partners for their dedication shown over the past year. Their determination in building a better working world is the DNA of our firm.

Rotterdam, 30 September 2013

Giljam A.M. Aarnink
Assurance Leader
Chairman Ernst & Young Accountants LLP

Report of the Dutch Public Interest Committee

A New Journey

Ernst & Young Accountants LLP formally established a Public Interest Committee (*Commissie Publiek Belang*, CPB) on 1 July 2013. As members of the CPB, we are delighted to report to society at large on our first actions and plans. We are excited to participate in the journey towards the recovery of public trust in the accounting profession in general and in Ernst & Young Accountants LLP in particular. Communicating about our own vision and activities is an integral part of this journey.

Our remit is clear: safeguarding that the public interest takes priority in the decision-making processes at Ernst & Young Accountants LLP ('the firm'). In other words, we focus exclusively on the public interest, not the firm's interest. Therefore, our role is different from the traditional supervisory role of, for example, non-executive directors at listed companies.

In line with the Dutch Code for Audit Firms (*Code voor Accountantsorganisaties*), we define the public interest as the reliability and relevance of auditors' reports when auditors give assurance on information provided by third parties such as the annual accounts of companies. After all, the fundamental public function of auditors is to provide stakeholders with a reasonable assurance that the information provided by the audited entity meets the applicable requirements.

Regaining trust

Auditors and audit firms will have to weigh interests of different stakeholders when fulfilling their professional duties: users of company accounts such as shareholders, banks and other providers of capital; executive and non-executive directors of these companies; clients and providers of these companies; partners and employees of the audit firm itself; regulators and government. When they balance these sometimes conflicting interests, auditors and audit firms should always prioritize the reliability and relevance of their reports. In doing so, they will meet the most important condition for restoring the public's trust in the relevance and quality of their work.

The most important condition, but not the only one. In order to regain the trust lost during the financial crisis and its aftermath, auditors and audit firms should also listen to their stakeholders, engage in dialogue, explain their actions. Reputations can only be upheld and improved upon if the effort in quality-of-service is complemented by an effort in communication. That is why, as members of the CPB, we take a two-pronged approach. On the one hand, we monitor the way in which the public interest is prioritized in decision making and in implementation processes at the firm, providing advice, encouragement and criticism when and where appropriate. On the other hand, we are actively engaged in the design and implementation of a structured, intense dialogue between the firm and its key stakeholders. What is more, we participate regularly in this dialogue ourselves and, as members of the CPB, we maintain our own, separate dialogue with relevant stakeholders independently of the communication efforts by the firm itself.

The Public Interest Comes First

As for our monitoring role, safeguarding the priority of the relevance and reliability of auditors' reports is a multi-faceted task. We focus on some essential aspects of the firm's effort in this area, including:

- Education and training
  We look at the firm's policies and activities designed to ensure that its professionals have the independent mindset, qualifications and integrity necessary to provide the relevant and reliable assurance the public rightly demands. We monitor the firm's policies vis-à-vis prospective employees, new employees as well as long-term employees. Does the firm make enough efforts to ensure that the 'public interest first' imperative is actually assimilated by its partners and employees and embedded in its organization? How does the firm educate and train its people to ensure that the public interest is not sacrificed in the pursuit of short-term commercial interests?

- Performance and remuneration
  We discuss with the firm's management how the performance of partners is assessed and how this performance evaluation impacts their remuneration. How is the public interest safeguarded in the remuneration structure? Is the system of incentives and penalizations appropriate and in line with the public interest? Are there no perverse incentives that value quantity of engagements over quality of engagements?

- Quality control
  The firm draws on EY's extensive quality control mechanisms: EY's audit methodology and tools, Audit Quality Reviews (AQRs), Engagement Quality Reviews (EQRs), client assessment-and-acceptance policies, and others. Are these mechanisms implemented appropriately and do they minimize the risks of sub-standard audits sufficiently? Are enough moments of quality-controls built into the regular professional activities performed by the firm's auditors? If there are discrepancies between the results of internal quality reviews and external quality reviews (e.g., by regulators), what causes this discrepancy and is action warranted in order to close the gap? How does the firm deal with external signals regarding (possible gaps in) audit quality – comments by the regulator, complaints by third parties, litigation?

- Independence
  An auditor's independence and professional skepticism is an important condition for a reliable auditor's report. Formal independence requirements are part of the effort to ensure this independence. Are these requirements sufficient and are they implemented with the necessary rigor? Beyond formal requirements, what does the firm do to foster an independent mindset and professional skepticism among partners and employees?

Stakeholder Dialogue

As for the stakeholder dialogue, our Chairman Mr Van Eijck participates in the firm's steering committee on stakeholder dialogue described elsewhere in this Transparency Report. We will, of course, monitor that the firm complies with the best practice defined by the Dutch Code for Audit firms : the firm should engage in an active, structured dialogue with its stakeholders and report publicly on that dialogue. Is the firm capable of listening to the proposals, worries and opinions of key outside stakeholders? Is it capable of picking up important outside signals and of taking them into consideration?

With these questions in mind, we will not only monitor this stakeholder dialogue; as members of the CPB, we will actively participate. We will regularly take part in meetings the firm holds with politicians, regulators, shareholders, non-executives and executives. If and when necessary, we will share our impressions and suggestions regarding these meetings with the Management Team of the firm.

'EY in conversation with society'

We are encouraged to see the important effort the firm has made since the beginning of 2013 to structure and intensify this stakeholder dialogue under the overarching motto 'EY in conversation with society' (*EY in gesprek met de samenleving*). We will continue to participate in this effort and we will see to it that the firm keeps society at large informed of the most important discussions and conclusions resulting from *EY in gesprek met de samenleving*.

In addition to monitoring and joining the firm's stakeholder dialogue, we will frequently participate in external meetings and meet stakeholders independently, without managers or partners of the firm being present. We will also engage in important, specific discussions in the world of auditing with a clear 'public interest' component. For example, over the last few months, our Chairman Mr Van Eijck was present at a Round Table meeting on the audit profession in the Lower House of the Dutch Parliament (*Tweede Kamer*) on 10 June 2013, and he visited the AFM (the firm's regulator) and the Dutch professional organization for auditors NBA.

Mediating in the public interest

In our contacts with various stakeholders, we see our role as one of mediation between the firm and society at large. By mediation we do not mean a role of arbitrage in specific (commercial) disputes between the firm and a third party. What we do mean is mediation in political and societal discussions affecting the firm, the audit profession and the public interest. As a public interest committee consisting exclusively of independent members, we are in the position that we can look at the firm 'from the outside in'. This position should allow us to foster mutual understanding and agreements between the firm, on the one hand, and its various external stakeholders, on the other.

A good example of our engagement in an external discussion from the perspective of the public interest is the current debate regarding the 'Big Bang' character of the introduction of mandatory rotation of audit firms of Public Interest Entities (*Organisaties van Openbaar Belang*, OOBs). We certainly sympathize with the motivation behind mandatory audit firm rotation, i.e. enhancing the independence of the audit firm and individual auditors from their clients. As the law introducing mandatory audit firm rotation was passed at the end of 2012, we do not want to address the question whether mandatory audit firm rotation is the best way to achieve this worthy goal of increased auditor independence. That discussion is now water under the bridge, at least in the Netherlands. However, we do share the concerns of many – including the Management Team of the firm – that the Big Bang character of the law's introduction may harm the public interest. We fear that the reliability and relevance of auditors' reports may suffer from the time pressures originated by the concentration of large amounts of tenders, wind-downs and start-ups in a relatively short period of time. We have advised the Management Team of the firm to prepare a plan that will help to minimize these risks.

We also participated in the debate between the firm and the AFM regarding the transition period for the implementation of the separation between assurance and advisory services described in more detail elsewhere in this Transparency Report. We are satisfied that EY now agreed their position towards the AFM. In general, we think both the audit profession – including the firm – and its regulator are still on a learning curve with respect to the content of external supervision and external quality assurance reviews of auditors and audit firms. During this period, frictions and misunderstandings between both parties are unavoidable. We have noticed that the firm's leadership, despite these hick-ups, wants to continue on the road of constructive dialogue with the AFM and we certainly encourage them to continue on that road. Public trust in the audit profession will benefit when the AFM sets criteria and requirements after discussion with audit firms affected, when the firms meet these requirements and when the AFM recognizes this satisfactory performance in its public reports.

Safeguarding auditor's reputation

The firm does not only provide assurance and assurance-related services. Through two other service lines, it also provides advisory services. What is more, the firm is part of the larger national and international EY network which also provides tax compliance and tax advisory services. All these services are provided under the same EY name. As a result, public trust in the assurance provided by the firm's auditors may suffer due to incidents related to other services provided by the firm or its network. Reputational damage does not stop at the border of a service line. Since external damage to the reputation of the firm's auditors is not in the public interest, we also engage in a dialogue with non-assurance service lines in order to assess these risks and, if and when necessary, ask management to put forward proposals to minimize them.

Our remit requires significant investment in time and attention, especially by our Chairman Mr Van Eijck. Since well before the formal start of the Committee, Mr Van Eijck and Ms Lückerath-Rovers have been very active and Mr Van der Wel has now joined in. Initially, we focused on deepening our knowledge of the firm's business, of the internal organization and the strategy of Ernst & Young Accountants LLP. We participated in a day-long program organized by the firm with this specific purpose in mind.

We also discussed the division of labor within the Committee and the way we interpret our remit of ensuring that the public interest comes first within the firm. The results of these discussions are present in this report, our first one.

An enthusiastic start

Over the last few months, we have had many contacts with people inside as well as outside the firm and its network. As for the internal contacts, we have frequent, scheduled meetings with the firm's Management Team. Either our Chairman or all of us have met with EY's Regional Managing Partner, with EY's Country Managing Partner in the Netherlands – the Chairman of the Board of Ernst & Young Nederland LLP –, with the Chairman of Ernst & Young Belastingadviseurs LLP, with EY's Belgium/Netherlands Independence Leader, with EY's European Regulatory Partner, and with the Chairman of EY's European Advisory Council. Meetings with members of the Belgium/Netherlands Partner Forum have also been scheduled. Apart from these formal, scheduled meetings, we communicate with members of the firm's Management Team and other key functions (Compliance Officer, Dutch Professional Practice Director) on specific topics on numerous occasions.

Outside the firm, we have already talked with politicians, executive and non-executive directors of OOBs, regulators, academics and journalists to hear their view on the audit profession, the public interest and the firm. We will continue these contacts and will include other stakeholders such as (representatives of) shareholders and non-governmental organizations.

We have made an enthusiastic start and we are confident we can keep up the pace of our activities during the firm's fiscal year 2013/2014. We are keenly aware that expectations in society regarding the role of a Committee such as ours are high. In order to meet these expectations, we promise to work hard, listen well and talk clear.

Rotterdam, 30 September 2013

Steven R.A. van Eijck

Mijntje Lückerath-Rovers

Frans van der Wel

About us

Legal structure, ownership and governance

EY refers collectively to the global network of member firms of Ernst & Young Global Limited (EYG). EYG is the central entity of the EY organization, coordinates the member firms and fosters cooperation among them. Every member firm is a legally distinct entity.

As described in the Network arrangements section, EY knows four geographic areas. EY's activities in the Netherlands are a part of the EMEIA area (Europe, Middle East, India, Africa). The EMEIA area consists of 98 countries divided into 11 geographic regions and of the EMEIA Financial Services Region, which facilitates all services provided to the financial sector in the EMEIA area. Both EMEIA and each region are headed by a Leadership Team.

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

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

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

Ownership, control, organization

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

Ernst & Young Accountants LLP engages in various professional activities through three service lines: Assurance, Advisory and TAS (Transaction Advisory Services).

Ownership

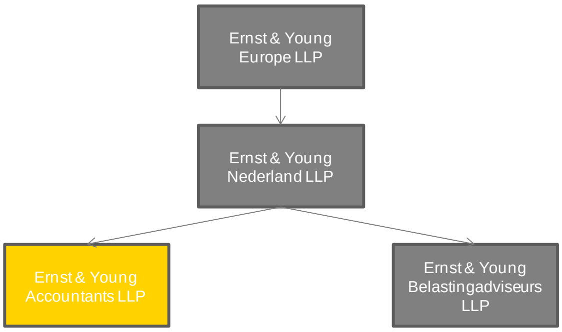
Ernst & Young Accountants LLP is owned by the private practice companies of our partners in the Netherlands ('members').

Apart from holding a stake in Ernst & Young Accountants LLP, our members are also co-owners of Ernst & Young Nederland LLP, together with the members of Ernst & Young Belastingadviseurs LLP.

The members of our firm and of Ernst & Young Belastingadviseurs LLP are also co-owners of Ernst & Young Europe LLP, a UK limited liability partnership owned by members of EYG member firms in Europe.

Control

Ernst & Young Europe LLP has indirect control over our firm through Ernst & Young Nederland LLP. The simplified control structure is illustrated below.



Organization

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

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

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

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

Governance in the Netherlands

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

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

On 1 July 2013, Marcel van Loo took over from Pieter Jongstra as Chairman of the Board of Directors of Ernst & Young Nederland LLP. Likewise, Jeroen Davidson succeeded Kees van Boxel, who has retired, as Chairman of Ernst & Young Belastingadviseurs LLP and member of the Board of Directors of Ernst & Young Nederland LLP. In their capacity as members of the Board of Directors of Ernst & Young Nederland LLP, Marcel van Loo and Jeroen Davidson are registered as co-policymakers as of 1 July 2013.

Governance of the Audit Firm

The Board of Directors of Ernst & Young Accountants LLP is responsible for the commercial, financial and reputational standing of the firm. Appointment procedures, terms of 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 four members of the Board of Directors of Ernst & Young Accountants LLP are elected by Ernst & Young Nederland LLP. The current Board members are Giljam Aarnink (Chairman), Michèle Hagers (Human Resources), Jaap Hetebrij (Belgium/Netherlands Professional Practice Director) and Jules Verhagen (Markets).

Policymakers and Co-Policymakers

In fiscal year 2012/2013, the following persons were responsible for policymaking and co-policymaking (*beleidsbepalers* and *medebeleidsbepalers*) at Ernst & Young Accountants LLP.

Policymakers (Assurance Leadership):

- The four members of the Board of Ernst & Young Accountants LLP
- Patrick Rottiers and Martine Blockx, partners of the Belgian audit firm in EY's global network and responsible for Assurance Enablement and Operations in the Belgium/Netherlands Region.
- Rob Lelieveld, the Netherlands Financial Services leader

Co-policymakers:

- Pieter Jongstra, chairman of the Board of Directors of Ernst & Young Nederland LLP – resigned on 1 July 2013,
- Kees van Boxel, member of the Board of Directors of Ernst & Young Nederland LLP – resigned on 1 July 2013
- Mark Otty, Managing Partner Europe

- Rudi Braes, Belgium/Netherlands Regional Managing Partner – as of 6 November 2012
- Felice Persico, Assurance Leader Europe
- Victor Veger, Assurance Leader Europe Financial Services – resigned on 1 December 2012
- Isabelle Santenac, Assurance Leader Europe Financial Services – as of 22 March 2013
- Bernard Heller, Professional Practice Director Europe – as of 5 June 2013
- Auke de Bos – Netherlands Professional Practice Director – as of 1 February 2013

EY's Public Interest Committee in the Netherlands

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

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

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

Steven van Eijck

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

Mijntje Lückerath-Rovers

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

Frans van der Wel

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

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

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

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

The CPB reports to the Country Managing Partner and informs the Dutch members of the regional Partner Forum (including Financial Services). These members are in touch with the Europe Advisory Council. The members of the Europe Advisory Council are in touch with the Global Advisory Council. The CPB also intends to discuss items directly with other INEs, including INE members of the Global Advisory Council.

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

EMEIA Area

EY is organized in four geographic Areas: Americas, Asia-Pacific, EMEIA (Europe, Middle East, India and Africa) and Japan. The Areas comprise a number of Regions, which consist of member firms or sections of those firms. Our EMEIA Area comprises EYG member firms in 98 countries in Europe, Middle East, India and Africa.

Ernst & Young (EMEIA) Limited (EMEIA Limited), an English company limited by guarantee, is the principal governance entity for the EYG member firms in the EMEIA Area. EMEIA Limited facilitates the coordination of these member firms and cooperation between them, but it does not control them. EMEIA Limited is a member firm of EYG.

In Europe, a holding entity, Ernst & Young Europe LLP (EY Europe) was formed in conjunction with the EYG member firms within the EMEIA Area. EY Europe is an English limited liability partnership, owned by partners of EYG member firms in Europe. It is an audit firm registered with the ICAEW (the Institute of Chartered Accountants in England and Wales) but it does not carry out audits or provide any professional services. To the extent permitted by local legal and regulatory requirements, EY Europe has acquired or will acquire control of the EYG member firms in the European countries in the EMEIA Area. EY Europe is a member firm of both EYG and EMEIA Limited.

EY Europe's principal bodies are:

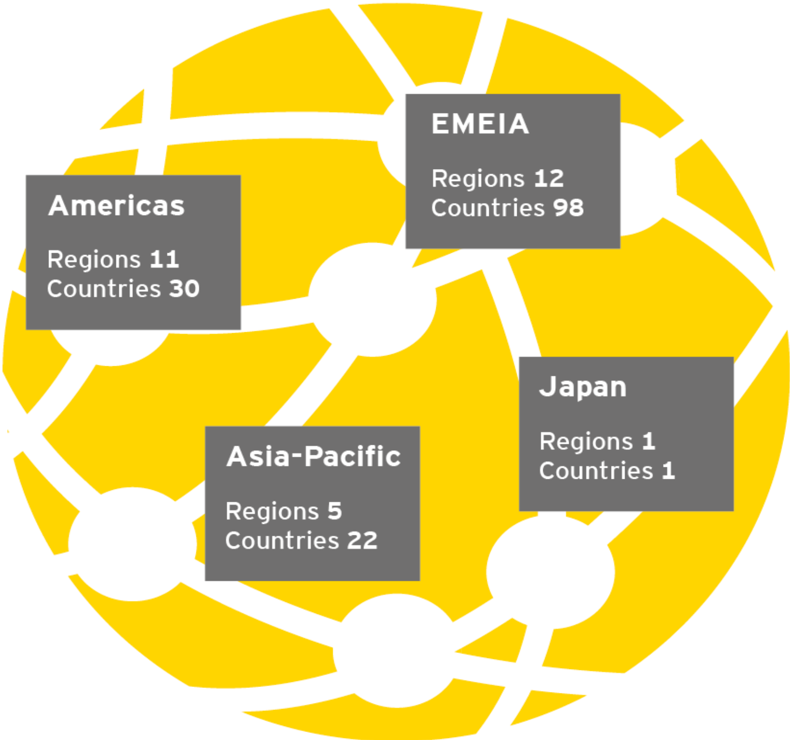
Europe Executive

The Europe Executive effectively operates as the board of EY Europe. It has authority and accountability for strategy execution and management of its operations under four dimensions: people, quality, growth and operational excellence. It is comprised of the Europe Managing Partner; the Europe Chief Operating Officer, the leaders for Markets, People, Quality & Risk Management, the service-line leaders for Assurance, Advisory, Transaction Advisory Services and Tax and all Regional Managing Partners in Europe.

Europe Advisory Council

EY Europe has an elected Europe Advisory Council, which comprises a number of partners of the EYG member firms in Europe. It serves in an advisory role to the Europe Executive on policies, strategies and other matters and its approval is required for a number of significant matters, e.g. appointment of the Europe Managing Partner, approval of the financial reports of EY Europe, and material transactions. For the EY firms in the Netherlands, Marnix van Rij en Cees Visser are members of the Europe Advisory Council; Coen Boogaart, a partner of our firm, is presiding partner of the Council.

Network arrangements



EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, 175,000 people in more than 150 countries share a commitment to building a better working world and are united by shared values and an unwavering commitment to quality, integrity and professional skepticism. In today's global market, EY's integrated approach is particularly important in the delivery of high-quality multinational audits, which can span multiple jurisdictions.

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

The structure and principle global bodies of the global organization during the year ending 30 June 2013 are described below. They reflect the principles that governance and management roles be separated and that EY, as a global organization, has one shared strategy.

Beginning in July 2013, EY has streamlined its operating model into the Executive and the Regions. The Executive will include the Global Executive (GE), its committees and teams, and the four geographic Areas, and will sit across the 29 Regions (formerly called Sub-Areas). Additional roles will be added to the GE: the Global Managing Partner of Client Service and the Global Managing Partner of Business Enablement will be responsible for executing EY's global strategy in the market and strengthening EY's global functions respectively. These two roles will jointly assume the responsibilities of the current Chief Operating Officer when his term expires in December 2014. The Chair of the Global Accounts Committee, representing EY's largest clients, and the Chair of the Emerging Markets Committee, representing EY's emerging market practices, will also join the GE.

This streamlined structure will allow EY to further enhance its global scale and the delivery of consistent exceptional client service worldwide, with the Executive responsible for one global approach to strategy, quality, risk management, business planning, investments and priorities. At the same time, the new operating model will allow for greater stakeholder focus in the Regions, ensuring that EY can build stronger relationships with clients and other stakeholders locally and be more responsive to local needs.

Global Advisory Council

The Global Advisory Council is EY's main advisory body. It comprises a number of member firm partner-level professionals (referred to as partners) drawn from across the four Areas and includes independent non-executive representatives (INEs). The partners, who otherwise do not hold senior management roles, are elected by their peers for a three-year term, with provisions for one successive re-appointment. The INEs are nominated by a dedicated committee. The Global Advisory Council advises EYG on policies, strategies and the public interest aspects of their decision-making. The approval of the Global Advisory Council is required for a number of significant matters that could affect EY. Coen Boogaart, partner of our firm, is presiding partner of the Global Advisory Council; Johan van den Bos is a member.

Independent non-executive representatives

Independent non-executive representatives (INEs) are appointed from outside of EY and bring the global organization, and the Global Advisory Council, the significant benefit of their outside perspectives and views. More information on EY's INEs can be found in the next section.

Global Executive

The Global Executive brings together EY's leadership functions, services and geographies. It is chaired by the Chairman and Chief Executive Officer of EYG, and includes its Chief Operating Officer; the Area Managing Partners; the global functional leaders — the Global Managing Partners of People, Markets, Quality & Risk Management and Operations and Finance; and the global service line Vice Chairs — Assurance, Advisory, Tax and Transaction Advisory Services, as well as the Global Vice Chair for Public Policy. The Global Executive also includes a representative from the emerging markets practices.

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

The Global Executive's terms of reference include the promotion of global objectives and the development, approval and, where relevant, implementation of:

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

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

Global Executive Committees

Chaired by members of the Global Executive and bringing together representatives from the four Areas, the Global Executive Committees are responsible for making recommendations to the Global Executive. There are committees for People, Quality & Risk Management, Markets, Operations and Finance, Assurance, Advisory, Tax, and Transaction Advisory Services.

Global Practice Group

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

EYG member firms

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

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

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

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

Independent non-executive representatives

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

Appointment

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

Support

INEs are entitled to receive information about global affairs. To ensure the effectiveness of each INE, they receive administrative support, and the cost of any independent professional advice that may be required is met.

Term

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

Disagreements

Any disagreement with an INE would be resolved by mediation by the Chairman/CEO of EYG through a defined process of notification and consultation. In the event of an unresolved disagreement, the INE has the right to resign from the position.

Independence

EY has considered the auditor independence standards as they apply to INEs in their role as members of the Global Advisory Council, and are satisfied these standards have been met.

EY's INEs

Lim Hwee Hua

Lim Hwee Hua is a former Minister of State of Singapore for Finance and Transport. As well as being the first woman to be appointed Minister in the history of Singapore, she is also the former *Straits Times* 'World woman of the year'. Before entering politics Lim Hwee Hua worked for Jardine Fleming and subsequently became a Managing Director of Temasek Holdings.

Shyamala Gopinath

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

Sir Richard Lambert

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

Klaus Mangold

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

Mark Olson

Mark Olson's former positions include Federal Reserve Board Governor, Chairman of the US PCAOB, Staff Director of the US Senate Securities Sub-committee of the Banking, Housing, and Urban Affairs Committee, Chairman of the American Bankers Association, bank president and CEO. He was a partner at EY from 1988 to 1999.

Commitment to quality

Infrastructure supporting quality

The Global Managing Partner — Quality & Risk Management (GMP —Q&RM) coordinates organization-wide quality initiatives across EY's four service lines: Assurance, Advisory, Tax and Transaction Advisory Services.

The GMP — Q&RM is overseen by the Chairman and Chief Executive Officer and the Chief Operating Officer of EYG and is a member of the Global Executive. Member firm partners are appointed to lead Quality & Risk Management initiatives in the service lines and member firms, supported by other staff and professionals. The GMP — Q&RM is also responsible for establishing globally consistent Q&RM execution priorities. These priorities are cascaded to member firms, and their execution is monitored through a formal Enterprise Risk Management program.

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

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

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

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

There is often the need for additional resources to augment the resources in the Professional Practice group, including networks of professionals focused on:

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

Assurance Q&RM in the Netherlands: Professional Practice Group

Global Alignment to serve our Clients best

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

Focus on Quality and Quality Improvement

The PPG plays a key role in upholding the quality of the professional assurance services – including audits – that auditors at Ernst & Young Accountants LLP perform. Jaap Hetebrij is the Belgium/Netherlands Assurance Q&RM Leader and Belgium/Netherlands Professional Practice Director (Region PPD). He is a member of our firm's Board. Within the Belgium/Netherlands Assurance Q&RM function, the Dutch PPG deals specifically with issues affected by Dutch legislation, regulations and standards as well as requirements of our firm's Dutch supervisor. Auke de Bos heads the Dutch PPG and is the Netherlands PPD. In addition, in compliance with Dutch legislation, our Dutch firm has a Compliance Officer and a Compliance Office (CO), which are described below.

The PPG keeps all our professionals informed of relevant international and national developments that affect the way in which audits must be conducted. It organizes regular training sessions for our professionals.

Furthermore, the PPG directs our Engagement Quality Reviews (EQR). The PPG must be consulted by an audit team in case of significant professional doubt; the judgment of the PPG in these cases is binding. Last but not least, the PPG can also be consulted by professionals from Service Lines other than Assurance, and it oversees initiatives in the field of risk management.

All in all, the PPG organization consists of about 40 professionals (roughly 30% of them focusing on accounting and the remainder on assurance support), who dedicate all or a substantial part of their time to Assurance Q&RM activities, 51,300 hours in total during fiscal year 2012/2013.

These professionals include nine partners – eight of which are Dutch – and four executive directors. Within the PPG, various teams deal with specific tasks, such as supporting the Assurance service line in its consistent application of the EY Global Audit Methodology, providing technical assistance and consultation regarding the application of auditing and accounting standards, and supporting teams that deal with Initial Public Offerings or other financial market transactions.

Responding to Challenging Times

Fiscal year 2012/2013 was challenging from an audit perspective. Because of the economic recession, we were faced with a high number of companies in financial distress and frequent asset impairments. The number of cases of fraud seemed to increase, too. As a result, the frequency and average complexity of consultations with the PPG increased. To address this challenge, the PPG put in place various quality initiatives.

The PPG co-developed quality plans for various industry sectors, such as financial services, the public sector, real estate, healthcare and housing corporations (woningcorporaties). Within the PPG, the exchange of sector-specific information was encouraged, in order to identify audit-related risks common to various sectors and to apply, where appropriate, lessons learned in one sector to another. The PPG emphasized the importance of the use of experts in areas such as valuations, pensions, tax and real estate. As a result, experts were involved in our audits more often than before.

An Error Evaluation Panel was introduced. This Panel advises our audit teams when errors in financial reports are noticed after an audit opinion has been issued on them. Through this panel, we gain valuable insights into the causes of such misstatements. This will help us reduce the risk of misstatements in the future, to the extent such misstatements can be prevented by the work of the external auditor.

Last but not least, the PPG strengthened our Engagement Quality Review (EQR) procedures for close-monitoring high-risk clients. This included regular meetings with our EQR reviewers to discuss developments and issues relevant to clients and audits.

These initiatives contributed to the quality of the audit practice. Needless to say, we will continue to take new initiatives to respond to changing risks and adapt to new regulations in a timely fashion.

The Compliance Office

The principal task of our Compliance Officer is to monitor that our firm, our partners and our employees maintain high standards of integrity and comply with the rules laid down by or pursuant to Sections 13 through 24 of the Dutch Act on the Supervision of Audit Firms (*Wet toezicht accountantsorganisaties*). Our Compliance Officer - Nico Pul – reports to the policymakers and is a direct report of Chairman Giljam Aarnink.

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

Integrated Risk Analysis drives our Investigations

Among other tasks and based on an integrated risk analysis, the CO monitors the design, implementation and results of our firm's efforts in the area of quality management. For example, the CO monitors whether Engagement Quality Reviews (EQR) are executed for all our engagements with respect to which the law or our internal rules require them, and it verifies whether the EQR clearance is documented appropriately and finished on time.

This year, 'pre-screening' was added to the EQR process - on a sample basis, the CO assessed EQR execution before clearance. A few audits were selected for pre-screening based on their high risk profile, a few others were selected at random. Results showed that EQRs were being performed with the rigor required.

The CO carries out a significant number of investigations into quality processes and controls, in order to assess and monitor the design and operating effectiveness of the safeguards for high standards of integrity, independence and quality within our organization. To the same end, it also performs topic- or case-driven investigations.

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

As of 30 June 2013, our Compliance Office consists of four full-time staff (including one vacancy) and three part-time staff, including the Compliance Officer and the deputy Compliance Officer.

Focus on Learning

The CO duly noted reports by the AFM addressing the audit profession and our firm, and our responses. This allows the CO to better understand the AFM's requirements regarding auditors and audit firms. Further to its December 2012 report on the internal review by audit firms of audits at housing corporations, the AFM provided additional clarification regarding its interpretation of auditing standards and the manner the AFM believes the CO should detail and document investigations and internal reviews. The CO will take these clarifications into account.

Through risk-based investigations, the CO pro-actively monitored our quality management. In fiscal year 2012/2013, a 'controlled operations' dashboard was developed to further formalize overall annual reporting by the CO to the policymakers. The dashboard shows the CO's assessment of the operating effectiveness of pre-defined key controls, including the identification of areas for improvement. Where improvement is necessary, the CO will monitor its progress, issuing reports to the policymakers on a quarterly basis.

In 2013, the CO held a first meeting with the firm's Public Interest Committee, and the CO participated in our firm's project to comply with the Dutch Code for Audit Firms (*Code voor Accountantsorganisaties*) on time.

Ensuring trust is of key importance and requires full commitment to maintaining high-quality standards regarding our work and the associated documentation.

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

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

Instilling professional values

Tone at the top

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

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

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

Our stance consistently has been that no single client is more important than professional reputation - the reputation of Ernst & Young Accountants LLP and the reputation of each of our professionals.

Code of conduct

We promote a culture of integrity, as well as the performance of high-quality audits, among of our professionals. The Global Code of Conduct provides a clear set of the standards that guide our actions and our business conduct. It is organized into five categories containing principles that are to be followed by everyone within EY The Netherlands to guide behavior across all areas of activity:

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

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

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

The EY/Ethics Hotline provides our people, clients and others outside of the organization with a means to confidentially report activity that may involve unethical or improper behavior, and that may be in violation of professional standards or otherwise inconsistent with the Global Code of Conduct. The hotline is operated by an external organization that provides confidential and, if desired, anonymous, hotline reporting services for companies worldwide. When a report comes into the EY/Ethics Hotline, either by phone or internet, it receives immediate attention. Depending on the content of the report, appropriate individuals from Q&RM, Human Resources, Legal or other functions are involved to address the report. All matters are handled by experienced individuals. For those matters that are reported outside of the EY/Ethics Hotline, the same procedures are followed.

Our policy is to avoid tensions and dissatisfaction among employees and to solve issues quickly if and when they occur. Nevertheless, all employees can submit a formal report through the EY/Ethics hotline (*Klokkenluidersregeling*), which will be followed up diligently.

During this fiscal year, no internal reports were filed through the EY/Ethics hotline.

The EY/Ethics hotline is also open for external reports. In fiscal year 2012/2013, two external reports were filed through our EY/Ethics hotline. One of the reports related to one of our PIE (*Organisatie van Openbaar Belang*, OOB) audit clients. We followed all necessary internal procedures and after investigating the allegations we concluded the report could be closed, which has been notified to the reporter. Unfortunately, and for reasons of confidentiality, it is impossible to be more specific about this particular case.

Through other channels, our firm occasionally receives comments, questions or complaints from clients, liquidators or other stakeholders. Items raised include different expectations regarding the assurance or services delivered, our invoices, or the timeliness in the delivery of our services. Most issues are dealt with satisfactorily at the operational level, i.e. by the teams involved. More substantial comments, questions or complaints are always dealt with at a higher level in the organization. There were only a few cases in the year under review.

In accordance with the Code for Audit Firms, we assessed the whistleblower and complaints procedures, as described in this section. In our opinion, these procedures have operated effectively during fiscal year 2012/2013 and reports were followed up appropriately.

Internal quality-control system

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

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

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

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

Effectiveness of quality-control system

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

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

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

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

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

Risk analysis helps to focus attention and efforts to the topics that really matter. It is one of the core skills our professionals must have and apply day by day, both when designing our firm's quality control system, and when designing and executing audits.

Risk analysis

Trust is key

Our firm serves multiple industry sectors, and our professionals have different backgrounds. Risks vary for each market and specialization, but in all markets our main risk is a loss of trust. The backbone of the audit profession is the requirement that society at large must be able to rely on auditor's opinions. A loss of trust in the audit profession results in discomfort among stakeholders and actions beyond our control by regulators and lawmakers. Therefore, strengthening trust continuously is essential, and we are actively working to achieve this, through our efforts to maintain and further improve the quality of our work and through our dialogue with our stakeholders. Putting the public interest first is embedded in our firm by our tone at the top, our training efforts, the decision-making processes of our policymakers, the work of support departments such as our Professional Practice Group (PPG), and the analyses, reviews and compliance tests of our Compliance Office (CO).

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

Public trust in the audit profession can suffer from disputes between audit firms and their regulators, e.g. the discussions between the AFM and the Big Four firms regarding the transition period for the separation of assurance and advisory services as introduced by the Dutch Audit Profession Act (Wab) of December 2012. Therefore, it was essential to resolve that dispute as quickly as possible and we are satisfied that we have recently reached an agreement with the AFM on this issue.

Trust is gained on the basis of the quality, relevance and reliability of our work. At a high level, we distinguish between three key risks to the quality of our work: not serving the right clients, not using the right people or not executing the right procedures appropriately.

The right clients

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

Based on this assessment, we define our risk response, which, for instance, could result in an Engagement Quality Review (EQR) being performed during the audit process, or in adding specialists to the team. Our risk assessment of a new or existing client may also result in us not accepting a prospective client or in the termination of an existing relationship. We determine the number of hours necessary to perform a high-quality audit without considering the audit fee. If a client is not willing to pay a reasonable fee to allow us to perform the audit at the quality level required, we will decline to enter into or continue our relationship with that client.

The right people

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

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

Feedback is provided throughout the year and annually in our performance evaluation system and process. Quality is an important item in evaluating performance. Sub-standard quality performance directly impacts the overall performance rating, promotion opportunities and remuneration.

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

The right procedures and infrastructure

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

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

In addition to the overall client acceptance and continuance risk assessments, which we perform yearly for our complete portfolio, we assess industry specific risks for the more regulated industries (e.g. Financial services, Health Sciences, *Woningcorporaties*, Public). This assessment includes accounting and auditing risks.

After assessing these risks, which are reassessed every quarter, we set appropriate quality measures. These quality measures vary from required engagement quality reviews to required involvement of experts, consultations with PPG and supporting our professionals with specific work programs and detailed risk questionnaires on specific themes.

For example in Health Care all cure clients related engagements were assessed as moderate risk engagements. New NBA guidance ('Alert 28') was translated into specific audit and documentation guidance. All auditor's opinions regarding the financial statements of care-giving institutions (*instellingen voor medisch specialistische zorg*) have been discussed with the PPG. Specific audit questionnaires dealing with impairments risks, derivatives and appropriateness of invoiced care services supported the audit teams.

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

Monitoring effectiveness

During fiscal year 2012/2013, we continued to insist on strict compliance with our Global Code of Conduct by our partners and other professionals. We expect them to live up to high standards of integrity and professionalism and take action when they fail to do so. Monitoring is a key element of this pursuit of compliance and of our Internal Quality Control System. Risk mitigating controls regarding audit quality and compliance are tested throughout the year. Our monitoring controls, Panels, Consultation and AQR procedures generate valuable information and insight. Their results and the policymakers' statement are included in this Transparency Report. It is our opinion that, overall, the risk management system is effective both in terms of design and operation.

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

Infringements

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

The two most important categories of infringements are those of independence rules and those of rules and regulations regarding audits of financial statements. We provide information on independence-related infringements during fiscal year 2012/2013 in the 'Independence practices' section of this Transparency Report.

The table below shows the number of infringements of external rules and regulations related to the quality or quality control of audits of financial statements during fiscal year 2012/2013. The breakdown by type of client concerns their qualifications under Dutch law – they are either Public Interest Entities (*Organisaties van Openbaar Belang* or OOBs, such as listed and/or regulated clients), statutory audits (*wettelijke controles* or WeCos, i.e. financial statements audits required by law) or other audits of statutory financial statements (indicated below as non-WeCo). In total, we perform about 6,500 audits annually, of which about 3,300 WeCo's.

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

	The infringements mentioned in the table on the previous page can be explained as follows:	Our follow-up has been:
1	One WeCo client should have been changed to OOB status after it had issued certain debt securities on a regulated market. This was not adjusted. As a result, an EQR was not performed on time, but only after issuance of our auditor's opinion.	The EQR has been performed subsequently and confirmed the opinion as issued. We clarified our OOB-status guidance for professionals and increased our efforts to review completeness of our OOB-list based on external data regarding listed entities.
2	In three cases, the mandatory EQR 'concurrence notice' was sent to the compliance officer too late. Two cases related to the review of interim reports. In the other instance the notice was both completed and sent to the audit team in time, but erroneously not sent to the compliance officer.	We increased the number of direct communications with the EQR-professionals and made procedures and requirements more specific.
3	Six infringements were recorded following our 2011/2012 AQR review, that was discussed in the 2011/2012 Transparency report. None of them related to OOBs. These infringements were recorded in fiscal year 2012/2013, as the AQR 2011/2012 was finished in fiscal year 2012/2013.	Each of the partners and executive directors involve has prepared a Remedial Action Plan. Implementation has been reviewed by the Compliance Office. We refer to the AQR section, in which improvement procedures are discussed.
4	Two infringements are related to audit files that did not contain sufficient audit evidence in specific areas. These deficiencies were established following an internal review by the CO.	CO reviews always result in reports to the policymakers in which improvement measures are identified. In these two cases, the partners involved were asked to take improvement measures. Follow-up by the partners involved will be monitored through their inclusion in the next round of AQRs.
5	Of the four infringements classified as 'Other', two are related to internal client acceptance procedures not being completed in time. The other two are related to confidentiality issues: one sending an e-mail to the wrong person and one to the loss of hardcopy files. Both issues were resolved within a day; clients were notified.	The professionals in charge have had a reprimand. No specific measures were necessary in these cases.

Not included in the table on the previous page, are infringements regarding the archiving of audit files, which concerns the timeliness of archiving of the audit file after sign-off only. Archiving means that an electronic copy of the audit file is stored in our archive system, after which it is no longer editable. For OOBs and other WeCos, external regulations set the maximum period for archiving audit files (45-60 days after signing the auditor's opinion, depending on the applicable regime). In 2010, for quality and efficiency reasons, we set an internal filing deadline of ten days after signing the auditor's opinion for all financial statement audits. When justified and subject to approval by the PPG, a longer period may apply.

We met the external rule of 60 days for 99.8% of all audit files, as we did not meet the deadline for 15 files. Three of these were WeCo files, twelve were non-WeCo files. The 15 files were reported to our Compliance Officer. We met the internal archiving deadline rule of ten days for 99.1% of them.

The only infringement regarding engagements other than financial statement audits concerned a Standard 4400 report being more widely distributed than allowed.

Incidents

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

During fiscal year 2012/2013, we reported nine incidents to the AFM.

- Three cases are related to the disclosure by a client of an auditor's opinion prior to or without our firm's approval.
- Three cases concern an error detected in the financial statements of the previous year, one of these errors being classified as 'fundamental'.
- One case related to anonymous notifications of alleged misbehavior by one of our partners.
- Two related to cases at our clients.

We proactively reported all these cases to the AFM, as the AFM includes possible reputational risk in its definition of incidents. Moreover, we keep the AFM informed about our follow-up of incidents and – if applicable – report to the AFM on measures we have taken and their results.

In summary the follow-up has been as follows:

- Clients are always made aware of the requirement to have our approval first, before disclosure of our auditor's opinion. No generic improvement measures had to be taken. Of course, the clients involved have been warned that early disclosure is not allowed. Copies of the financial statements and auditor's opinions disclosed have been taken back and entities that had received these copies have been notified about the disclosure without prior approval.
- As discussed in the Consultation requirements section, an Error Evaluation Panel has been installed. In addition to remediation actions, we will inform our professionals before the end of calendar year 2013 about the lessons learned. The case of a fundamental error is specifically discussed in the Review and Consultation section of this Transparency Report.
- We thoroughly investigated the allegations regarding alleged misbehavior and found nothing to support them. No further actions were necessary.
- The two cases regarding our clients were followed-up by the audit team.

Quality ratings external auditors

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

Regarding 'external auditors' - partners and executive directors registered with our regulator the AFM - rating inputs result from our Audit Quality Reviews (AQRs) and assessments provided by the PPG, the CO, the Independence Desk and the Legal Department. Infringements and incidents are important input as well.

The quality ratings of our external auditors are part of the annual performance review process on a scale of 1 (worst) to 5 (best) as indicated in the table below. Ratings 3 to 5 mean that the external auditor met or exceeded our high expectations, but it does necessarily indicate that further improvement is not needed. The purpose of these ratings is to compare auditors to their peers. Ratings 1 and 2 mean that the external auditor did not meet our expectations. Improvement steps or plans are always made and monitored during the next year in case of a rating 1 or 2.

Quality rating external auditors (partners and executive directors)	2012/ 2013	%	2011/ 2012	%
Quality rating 1	0	0%	0	0%
Quality rating 2	4	3%	9	6%
Quality rating 3	77	56%	71	48%
Quality rating 4	46	34%	53	36%
Quality rating 5	10	7%	14	10%
Totals	137	100%	147	100%

This distribution is in accordance with our expectation, as only professionals that are expected to (at least) consistently meet our high expectations become executive director or partner. Furthermore, reoccurrence of underperformance is not accepted and typically results in the executive director or partner leaving our firm.

Client acceptance and continuance

EY policy

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

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

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

Putting policy into practice

We use the Global Tool for Acceptance and Continuance (GTAC), an intranet-based system for efficiently coordinating client and engagement acceptance and continuance activities in line with global, service line and member firm policies. GTAC takes users through the acceptance and continuance requirements and identifies the policies and references to professional standards needed to assess both business opportunities and associated risks.

As part of this process, we carefully consider the risk characteristics of a prospective client and several due diligence procedures. Before we take on a new engagement or client, we determine if we can commit sufficient resources to deliver quality service, especially in highly technical areas, and if the services the client wants are appropriate for us to provide. The approval process is rigorous, and no new audit engagement may be accepted without the approval of our PPG.

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

We dedicate significant time and resources to the strict implementation of our client acceptance and continuance policies. Of all audit engagements accepted and continued during fiscal year 2012/2013, we classified 78 engagements or 1% as 'Close Monitoring', 25% as 'Moderate Risk' and 74% as 'Low Risk'. For our audit engagements at Public Interest Entities (*Organisaties van Openbaar Belang*, OOBs), these figures are 5%, 73% and 22%, respectively. The policymakers decide on the external auditor and EQR-reviewer of all listed entities and close monitoring audit engagements.

In fiscal year 2012/2013, seven audit engagements were terminated during the audit process (*tussentijdse beëindiging van een wettelijke controleopdracht*), all of them non-OOB. Six engagements were terminated by the client, and one was terminated in joint consultation between the client and the auditor. Reasons for these terminations include bankruptcy of the client or restructuring of the client's business.

Close monitoring

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

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

Performing audits

Audit methodology

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

EY GAM represents our comprehensive methodology and is organized into interdependent phases designed to focus on the client's business and financial statement risks and on how those risks affect our audit of the financial statements. EY GAM consists of three key components: requirements; supplemental guidance; and supporting forms, templates and examples. The requirements reflect the typical flow of how Ernst & Young Accountants LLP executes an audit. The supplements provide the requirements and guidance for specific situations and circumstances that may arise during an audit. The forms, templates and examples include leading practice illustrations and assist in performing and documenting audit procedures.

Enhancements to the audit methodology are made regularly as a result of new standards, emerging auditing issues and matters, implementation experiences, and external and internal inspection results. For example, EY GAM has been updated following the issuance of ISA 610, *Using the Work of Internal Auditors*. We also recently issued a new audit approach tailored for the private middle market that meets the requirements of the ISAs.

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

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

Technology

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

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

Significant investments are made at global level, to respond to changes at our clients and to benefit fully from new technologies. These investments allow us to audit in a smarter way.

We invest to be ready for the future of auditing and to meet the changing expectations of stakeholders of audit services. Data analytics continues to be an important innovation in auditing. If an agreement exists between EY and our audit clients to make client data available to EY, we are successfully pioneering data analytics—from global corporations to small and middle market companies, across multiple industries and geographies. Going forward, we will continue to intensify our efforts of capturing and analyzing data to expand even further the use of data analytics in our audit processes.

Formation of audit engagement teams

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

In many situations, internal experts are assigned as part of the audit engagement team to assist in performing audit procedures and obtaining appropriate audit evidence. These professionals are used in situations requiring special skills or knowledge, such as information systems, asset valuation and actuarial analysis.

Industry focus is of key importance for our auditors. In addition, many of our audit teams nowadays not only contain IT-specialists, but also specialists on valuations or actuaries topics.

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

Relative number of hours spent on financial statement audits	WeCo/ OOB	WeCo/ non-OOB	Non-WeCO
Partners & Executive Directors	10%	9%	6%
Senior manager & Manager	27%	25%	21%
Senior Staff	29%	30%	28%
Staff	34%	36%	45%
Totals	100%	100%	100%

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

Relative number of hours spent on financial statement audits	Close moni-toring	Moderate risk	Low risk
Partners & Executive Directors	12%	10%	6%
Senior manager & Manager	32%	28%	21%
Senior Staff	25%	28%	29%
Staff	31%	34%	44%
Totals	100%	100%	100%

Of course, regular team members must have the industry knowledge required. Over the past decade our auditors have focused more and more on one or a few industries to be able to perform better audits and thus provide better quality to our stakeholders.

Review and consultation

Reviews of audit work

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

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

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

Consultation requirements

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

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

Our consultation policies also include a requirement that consultations are documented, including written concurrence from the person or persons consulted, in order to demonstrate their understanding of the matter and its resolution.

During fiscal year 2012/2013, the number of formal technical consultations with our PPG increased further. The number of consultations on auditing standards, accounting, fraud and capital markets rose from 1,230 in fiscal year 2011/2012 to 1,307 in fiscal year 2012/2013. 22% of these consultations were related to 'going concern' issues (2011/2012: 21%), whereas 26% dealt with topics related to modified audit opinions (2011/2012: 24%).

These numbers do not include consultations with our Q&RM/Independence Desk or informal consultations and inquiries.

The Fraud Panel discussed 41 consultation requests in fiscal year 2012/2013 (23 in 2011/2012). In eight cases, the panel defined the fraud as (potentially) material. In all these eight cases, our clients acted appropriately, making necessary further assessments in order to solve the issue. The number of consultations with the Going Concern Panel increased from 255 in fiscal year 2011/2012 to 287 in fiscal year 2012/2013, reflecting the tough economic environment.

A new panel was set up during fiscal year 2012/2013 to improve consistency and quality - the Error Evaluation Panel. We believe this panel will contribute to the consistent analysis and adjustment of errors and, as a result, to an improvement in quality going forward, as audit teams will benefit from increased awareness of lessons learned. Audit teams must report potential fundamental or material errors detected in a set of financial statements on which an audit opinion has already been issued to this panel for consultation.

During fiscal year 2012/2013, the panel was consulted in 29 cases. The panel concluded in one case (a non-OOB client) that a fundamental error had occurred. In this case, unintentionally certain information was not properly shared between departments of the client and subsequently with the auditor. This resulted in the incorrect accounting treatment of an asset. Based on the new information, a specific asset had to be treated as a financial interest (deelneming); previously, it was not.

Dutch law requires in summary that, in case of a fundamental error, a revised set of comparatives is prepared for the year in which the fundamental error occurred and that the auditor reviews his auditor's opinion. This follow-up procedure has meanwhile been completed.

In 22 cases, the panel concluded or is expected to conclude that a material error had occurred (20 non-OOB, 2 OOB). In these cases, too, insufficient sharing of information between departments of clients and/or with the auditor is a frequent cause. Material errors are adjusted and disclosed in the first financial statements prepared after the error is detected. Our auditors will verify that the disclosure satisfies the applicable requirements.

For fundamental and material errors, we also analyze whether audit procedures in previous year(s) should have been performed in a better way. In the coming months, we will conclude the assessments of the errors discovered in fiscal year 2012/2013. Based on these assessments, we will decide which errors are to be classified as infringements and what lessons we can learn.

Engagement quality reviews

Engagement quality reviews are performed by audit partners in compliance with professional standards for audits of all listed companies and those considered higher risk. Engagement quality reviewers are experienced professionals with significant subject matter knowledge. They are independent of the engagement team and able to provide objective evaluation of significant accounting, auditing and reporting matters. In no circumstances may the responsibility of the engagement quality reviewer be delegated to another individual.

The engagement quality review generally spans the entire engagement cycle, including planning, risk assessment, audit strategy and execution. It is not limited to a review of the financial statements and conclusions at the time of issuance of our audit report. 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 reviews and approves all engagement quality review assignments for listed companies and those considered higher risk.

An Engagement Quality Review (onafhankelijke kwaliteitsbeoordeling or EQR) is an important part of our quality control system. During an EQR, an audit professional from our firm who does not form part of the audit engagement team checks if significant matters in the audit have been resolved on or before the date of the auditor's report.

To this end, the reviewer may evaluate significant risks identified during the audit and responses to these risks, important judgments made by the engagement team, adjusted and unadjusted misstatements identified, and matters to be communicated to the client's management and those charged with governance.

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

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

In the Netherlands, EQRs are mandatory for Public Interest Entities or PIEs (Organisaties van Openbaar Belang or OOBs). 56% of the EQRs performed during fiscal year 2012/2013 concerned OOBs or PIEs according to EY's global definition of a PIE (EY's global definition of a PIE is similar to, but not exactly the same as the Dutch definition of an OOB). 44% of the EQRs were held at specific groups of non-OOB clients, including non-OOB high risk clients, our ten largest non-OOB clients, large municipalities, large pension funds and various state-owned entities.

The total number of EQRs decreased from 718 in fiscal year 2011/2012 to 496 in fiscal year 2012/2013. Over time, we have learned from previous years' EQRs. This learning process resulted in more detailed technical consultation requirements for our audit teams and allows us to focus our EQRs more and more on clients that require an EQR by law and on clients where we deem an EQR an appropriate response to risk factors. In this perspective, we applied the Global policy change that Moderate risk engagements are not automatically subject to an EQR anymore.

Audit engagement team disagreement-resolution process

EY has a collaborative culture that encourages and expects people to speak up, without fear of reprisal, if a professional disagreement arises or they are uncomfortable about a matter relating to a client engagement. Policies and procedures are designed to empower members of an audit engagement team by requiring them to raise any disagreements relating to significant accounting, auditing or reporting matters. These policies are made clear to people as they join EY, and we continue to promote a culture that reinforces a person's responsibility and authority to make that person's own views heard and canvas the views of others.

Differences of professional opinion that arise during an audit generally are resolved at the audit engagement team level. However, if any person involved in the discussion of an issue is not satisfied with the decision, he or she has both the right and the obligation to see that the issue is referred to the next level of authority until agreement is reached or a final decision is made. Until such time, the parties to the discussion do not withdraw, step aside or otherwise extract themselves from the process.

If the engagement quality reviewer makes recommendations that the engagement partner does not accept or the matter is not resolved to the reviewer's satisfaction, the audit report is not issued until the matter is resolved by following consultation processes for resolution of professional differences. Our documentation requirements for disagreements and their resolution are the same as for other consultations. Anyone involved in the process may separately document his or her personal position in an attachment to the documentation of the final decision.

Audit partner rotation

EY supports mandatory audit partner rotation to help strengthen auditor independence. We comply with the audit partner rotation requirements of the code of the International Ethics Standards Board for Accountants (IESBA) and the independence requirements of the Dutch Institute of Chartered Accountants (NBA), as well as the US Securities and Exchange Commission (SEC) where required. Ernst & Young Accountants LLP 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 help strengthen independence and objectivity and are important safeguards of audit quality.

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

We have tools to track partner rotation that enable effective monitoring of 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.

In fiscal year 2012/2013, external audit partners rotated on 39 engagements out of 233 engagements regarding to which audit rotation rules apply. Sometimes, we rotate an auditor for other reasons than mandatory rules. When industries change or regulations relevant to an industry become more complex, we rotate off partners early. This fiscal year 2012/2013 one partner rotated off for that reason, as the partner handled only one client in that industry.

In the near future, audit partner rotation will occur in a very different context in The Netherlands. The passing of the new Audit Profession Act (Wet op het accountantsberoep, Wab) was a significant topic during fiscal year 2012/2013. In addition to a more strict separation between assurance and advisory services, the Wab introduces mandatory audit firm rotation for OOBs after eight years. At the same time, EU law still demands audit partner rotation every seven years. This means that, in practice, the key audit partners will need to rotate off shortly before the firm rotates off.

During the public debate prior to the final approval of the Wab in December 2012, we made our views on these two elements of stricter separation between assurance and advisory services ad mandatory audit firm rotation known. It is our firm belief that the profession would benefit more from increased quality efforts and more communication about the results of the audit. Mandatory firm rotation is not always the right answer, as mandatory audit partner rotation normally is effective enough for the purpose of auditor's independence. However, given that this law was passed, it is time to look forward and focus on its implementation.

Audit quality reviews

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

The global AQR program is implemented annually and is coordinated and monitored by representatives of the PPD network, with oversight by the global Q&RM network.

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

It is our goal that all audit engagements meet the highest expectations of quality, and we strive to improve any situations where these expectations are not met. For all findings or deficiencies, whether material or minor, we look at the findings from internal and external inspections to identify root causes, develop action plans and seek to improve audit quality. For engagement reviews resulting in findings or deficiencies deemed less than material but greater than minor, we addressed the results with individual partners in the same way as those with material findings.

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

2012/2013 AQR results

During fiscal year 2012/2013, our AQR program resulted in the inspection of 61 audit engagements. The central review team was headed by international team leaders and the teams executing the AQRs also included a considerable number of international reviewers, ensuring that the norms applied were in accordance with our international quality standards.

None of the engagements subject to an AQR during fiscal year 2012/2013 resulted in any material findings or deficiencies. This 100% score in terms of absence of material findings and deficiencies compares to a 97% score in fiscal year 2011/2012, when 59 engagements were reviewed.

	2012/2013		2011/2012		2010/2011	
Rating 1	52	85%	45	76%	54	65%
Rating 2	9	15%	12	21%	26	31%
Rating 3	0	0%	2	3%	3	4%
Total	61	100%	59	100%	83	100%

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

The overall results of the AQR 2012/2013 program improved compared with previous years. The results also indicate that there is still room - and a need - for further improvement, especially in the areas of documentation of risk assessments, reliance on IT and use of electronic audit evidence, use of tax professionals and management experts, and the proper use of electronic audit evidence, journal entry testing and service organizations. We will continue our efforts to ensure compliance with statutory rules and with our high quality standards in all aspects of the audit. The message our leadership is continually sending to our partners and staff regarding the importance of quality in everything we do is part of this effort.

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

Compared to fiscal year 2011/2012, we further improved the quality of documentation in our audits, in part in response to recommendations in this area from the AFM.

27 engagements selected for an AQR during fiscal year 2012/2013 had also been subject to an EQR. 25 out of these 27 engagements were rated '1' in their AQR (93%); the other two were rated '2'.

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

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

During fiscal year 2012/2013, almost the same number of audit engagements were subject to an AQR as in the previous fiscal year. Each partner is subject to an AQR at least once every three years. However, the number of individual partners may vary from year to year, also depending on the offices selected for review.

In addition to the audits inspected in the regular AQR, our Compliance Officer also selects additional partners for AQR inspection based on a risk analysis. This risk analysis takes into account any signals that might indicate potential quality issues. The results of these additional inspections – not included in the table above – are also reported to the policymakers. These additional inspections did not result in any '3' ratings. Two engagements were rated '2' (29%) and five rated '1' (71%). The '2' ratings will be followed-up in the same way as the '2' ratings of the regular AQRs.

The analysis of the overall outcome of the AQRs from fiscal year 2011/2012 resulted in a Quality Improvement Plan (QUIP). A QUIP-based checklist provides all audit teams with reminders of focal areas, as well as best audit practices. The items of the checklist must be implemented in all engagements, and their implementation must be documented.

In order to further foster high-quality audits, 'mini AQRs' were organized during fiscal year 2012/2013. They consist of an internal review of the quality of the interim reports produced during an audit. The aim is to pro-actively review quality before the audit opinion is issued.

External quality-assurance review

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

The last completed regular quality assurance inspection by AFM took place in 2009. The final report on the inspection was issued on 22 november 2010.

We respect and benefit from the AFM's inspection process. We thoroughly evaluate points raised during the inspection in order to identify areas where we can improve audit quality. Together with our AQR process, external inspections aid us in making our audits and related control processes of the highest quality in the interests of investors and other stakeholders. Information on AFM can be found on its website www.afm.nl.

AFM inspections

Joint inspection by the AFM and the PCAOB

In addition to inspecting audit firms located in the United States, the US Public Company Accounting Oversight Board (PCAOB) also strives to inspect registered audit firms in non-US jurisdictions, with a focus on audits of non-US subsidiaries of American enterprises and audits of non-US companies listed in the US. During these inspections, the PCAOB assesses if the execution of audits and the issuance of audit reports by these audit firms complies with professional standards, including the US PCAOB, with the US Sarbanes-Oxley Act, and with the rules of the US Securities and Exchange Commission (SEC).

Recent legislation allows the AFM and the PCAOB to perform joint inspections in the Netherlands. In 2012, within the framework of this legislation, the AFM and the PCAOB agreed on a formal arrangement – a statement of protocol – in which the cooperation regarding inspections and the exchange of information were defined. Joint inspections by the AFM and the PCAOB in the Netherlands are expected to be scheduled once every three years.

The first joint AFM-PCAOB inspection at our firm took place in the first half of 2013 and focused on 2012 financial statements audits. For the AFM, this inspection was also the first part of its 2013 regular inspection, the first regular AFM inspection at our firm since 2009. The AFM and the PCAOB selected three audit engagements.

The preliminary observations indicated that for two of the three engagements inspected, the audit had been performed in compliance with applicable rules and standards. In the case of the third engagement, certain comments have been made related to audit procedures performed to evaluate and test certain internal controls and related account balances related to revenues, accounts receivable and inventories.

Upon receipt of the individual inspection comments, we undertook a process to assess and as necessary, execute remedial actions to address the inspection issues noted. These efforts did not identify any circumstances that would impact our previous audit conclusions for this engagement. We took good note of the preliminary findings of the AFM-PCAOB inspection and have initiated additional actions to improve the quality of our work in the related audit areas, including extra training of our professionals performing audit engagements conducted under PCAOB standards and increased interaction with US colleagues in these audits and/or adding them to the team.

In the coming months the AFM will perform the second part of its regular 2013 inspection with the review of additional audit engagements. Results thereof are expected in 2014.

The Audit Profession Act, the provision of non-assurance services to audit clients, the transition period

On 1 January 2013, the Dutch Audit Profession Act (*Wet op het accountantsberoep*, Wab) came into force, after its adoption by the Upper House of Parliament (*Eerste Kamer*) on 11 December 2012. The Wab introduces mandatory audit firm rotation regarding OOBs. It also bars audit firms from offering non-audit services to OOB audit clients, commonly known as the separation of assurance and advisory services. This prohibition came into force on 1 January 2013, with a transition period of two years for engagements entered into before 1 January 2013 for which a contractual obligation to honor the engagement exists.

In early 2013, the AFM started an inspection into the way the Big Four audit firms in the Netherlands – including our firm – had interpreted and implemented the transition period of two years, asking these firms to provide information regarding engagements entered into during November and December 2012. Based on its analysis of these engagements, the AFM came to the conclusion that, in a number of cases, the firms – including our firm – had not acted in accordance with the legislator's intentions regarding the transition period by entering into new engagements which the AFM deemed too broadly scoped and too long-term.

We did not agree with the interpretation of the AFM as the law allows a two year transition period and the majority of the engagements conducted related to agreed-upon and ongoing non-assurance services, only formally recorded in engagement letters in the period under review. We stressed from the very beginning of the debate with the AFM on this matter that our interpretation of the transition period had been made in good faith. During the first half of 2013, we reported on the position we took in the resulting debate with the AFM, e.g. through press releases and a public analysis of the engagements in question. This information is available on our website.

Disagreement between audit firms and the regulator on this issue is not in the public interest. Therefore, we decided to restrict the criteria for the mooted engagements during the first quarter of 2013, and we entered into discussions with a number of clients to dissolve (parts of) the contracts affected. In June 2013, the AFM further clarified their position and, in response, we aligned our position to that of the AFM, with the following results for the mooted engagements.

- Tax compliance services started and related to 2012 tax returns, will be continued and finalized. We will not start 2013 tax returns related work, unless we know we will rotate off as audit firm starting 2015 or earlier.
- Tax advice services started will be finalized. New requests for tax advice resulting from these contracts will not be assumed, unless we know we will rotate off as audit firm starting 2015 or earlier or this would pose our clients in unreasonable positions.

The facts with regard to the relevant engagements are as follows:

- 72 engagement letters were signed between 1 November 2012 and 31 December 2012.
- 15 engagement letters were not in scope or specific.
- 9 engagements have been terminated by EY.
- 9 engagements have been finalized in the mean time.
- 37 engagements relate to tax compliance (filings) and tax advice engagements and two relate to other types of services. The 39 remaining engagements were formally entered into during the final two months of 2012, however almost always as part of a longstanding tax advice relationship between EY and the client. We deal with these engagements in line with our policy referred to above.

Derivatives held by Housing Corporations (Woningcorporaties)

In 2012, the AFM asked the Big Four audit firms, including our firm, to review their audit files with respect to derivative financial instruments held by Dutch housing corporations. Prompted by the recent financial problems of a number of Dutch housing corporations, our firm had already commenced an internal review of the quality of our external audits of such corporations, with a focus on the 2010 audit of financial derivatives. 23 out of our 70 housing corporation audit clients held derivative positions on 31 December 2010. A review of a sample of 10 of these 23 audit files was performed under the direction of our Compliance Office.

At the Big Four firms, the AFM itself investigated the quality of audits on housing corporations, the quality controls of the audit firms under review and especially the quality of the internal reviews of the audits. In December 2012, the AFM issued a non-firm-specific report on this investigation, noting that all Big Four firms had taken measures to ensure the quality of their audits of housing corporations, although their nature, depth and timing differed.

In December 2012, the AFM informed our firm that it would further analyze the quality of the internal reviews of the housing corporation audits. Subsequently, the AFM reported its findings and observations regarding one file review, which included their assessment that the rigor and supporting documentation of internal reviews should increase. We will take these findings and observations into account during future internal reviews.

Disciplinary proceedings initiated by AFM

As DSB Bank's external auditor, Ernst & Young Accountants LLP expressed an unqualified opinion on the company's 2008 financial statements in June 2009. A few months later, the bank went bankrupt. This prompted the AFM to launch an investigation into the external audit of the bank's financial statements. As a result of its investigation, the AFM filed a disciplinary complaint (*tuchtklacht*) against the auditor with the Disciplinary Council of Accountants and Auditors of the Netherlands (*Accountantskamer*).

Our firm also reviewed the audit files, and we concluded that our auditor had performed his duties appropriately and that the unqualified opinion was correct. External factors may cause a company's circumstances to change rapidly, unexpectedly and dramatically. Therefore, an unqualified opinion issued by an external auditor on a certain date can never be an absolute guarantee that the company cannot go bankrupt during the next twelve months.

The Council heard the case in March 2012 and pronounced its judgment in November 2012, resulting in a reprimand (*berisping*) of the auditor involved. Both parties appealed the judgment at the Trade and Industry Appeals Tribunal (*College van Beroep voor het bedrijfsleven*).

In another disciplinary case, in July 2012 the AFM informed us of its decision to file a complaint with the Disciplinary Council of Accountants and Auditors against a former auditor of our firm. The AFM's complaint is related to an investigation by the AFM conducted in the period 2009 – 2011 into the audit of the 2008 financial statements of Van der Moolen. The Council heard the case in December 2012 and pronounced its judgment in July 2013, resulting in a reprimand (*berisping*) of the auditor involved. Both parties did not appeal the judgment.

We have learned lessons from external and internal reviews. Going forward, we will be even more alert to overall risk assessments of our clients, including their governance and the impact risks may have on the audit and the audit opinion. We will also continue to stress to all professionals in our firm the need to document their work and their conclusions in our filing systems sufficiently and timely, in accordance with our standards and policies. An example of a measure taken, is the introduction of the going concern panel as described in the 'Review and Consultation' section of this Transparency Report.

Closing remarks

Although we may differ with the AFM on specific issues or audit engagements, we wish to reiterate that we fully support external supervision of the audit profession in general and the work of the AFM in particular.

The inspections of the AFM contribute to increased professional skepticism and higher audit quality. During fiscal year 2012/2013, we have taken many valuable suggestions from the AFM on board and have adopted our processes and procedures accordingly. We always investigate cases in which the AFM raises questions regarding the possible failure by our auditors to comply with certain external or internal rules. Where appropriate, we take disciplinary measures against the auditors involved.

Compliance with legal requirements

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

Anti-bribery

EY's global Anti-bribery Policy provides our people with direction around certain unethical and illegal activities. It emphasizes the obligation of our people to comply with anti-bribery laws and provides greater definition of what constitutes bribery. It also identifies reporting responsibilities when bribery is discovered.

Insider trading

EY's 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.

Data privacy

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

Document retention

Ernst & Young Accountants LLP's record retention policy applies to all engagements and personnel. This policy emphasizes that all documents must be preserved whenever any person becomes aware of any actual or reasonably anticipated claim, litigation, investigation, subpoena or other government proceeding involving us or one of our clients that may relate to our work.

Litigation

Transparency in the Public Interest

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

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

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

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

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

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

Disciplinary cases

Disciplinary proceedings other than those initiated by the AFM are described in this section. AFM-related topics, including disciplinary proceedings, are described in the section on External Quality Assurance Reviews. At the start of fiscal year 2012/2013, three cases were pending at the Disciplinary Council of Accountants and Auditors (*Accountantskamer*).

One complaint was filed by P1 Holding B.V.. P1 Holding was of the opinion that the auditor should not have issued an unqualified audit opinion on the annual accounts 2008 and 2009 of our client Q-Park N.V. The Disciplinary Council decided the complaint was unfounded.

Another complaint was related to a situation in which the partner involved did not represent the firm. This complaint was declared unfounded as well.

The third complaint, concerning a report of one of our colleagues into the financial administration of a company that went bankrupt, was also declared unfounded. The Disciplinary Council found that the auditor applied the right professional standard and acted as he should have. In this case, in May 2013, an appeal was filed at the Trade and Industry Appeals Tribunal (*College van Beroep voor het bedrijfsleven*, which is the tribunal for appeals from the Council).

During fiscal year 2012/2013, one new complaint was filed against an auditor of our firm with the Council. The complaint did not concern the work performed by the auditor, but the reluctance of this auditor to become part of an on-going discussion between one of our clients and the person who filed the complaint. This discussion started with a transaction in the early 1990s between the client and this person. Our firm was not involved in any way in this transaction. In August 2013, the complaint was declared unfounded. At the time of writing, the term for appeal has not yet expired.

In March 2013, the Trade and Industry Appeals Tribunal passed judgment against a former auditor of our firm in the Landis case. This case related to audits of the 1999 and 2000 financial statements. The complaint regarding the 1999 financial statements audit was denied. The judgment following the complaint regarding the 2000 financial statement audit was a six-month suspension of the auditor in question. This auditor retired from our firm in 2003.

The Tribunal also rendered a decision in another pending case. In this case the company that was audited filed a complaint because the auditor did not discover a fraud in the financial statements and therefore should not have issued an unqualified audit opinion on the annual accounts. The appeal was denied because the complaint was filed too late.

Claims under civil law

During fiscal year 2012/2013, one new case under civil law was brought against the firm. Ernst & Young Accountants LLP was included in proceedings between buyers and sellers of a group of companies. One pending case was withdrawn by the claimant before the court could come to a decision. In four other pending cases, the courts have not rendered their decisions yet. These cases may take several years.

The Landis case received a lot of media attention. We settled this case (which is connected to work we performed in the years 1999 – 2001) with receivers and the banks in fiscal year 2011/2012, without accepting any liability. In August 2013, (supervisory) directors of Landis have sent a letter to us claiming that we would be liable for the money they will have to pay to the Landis estate following a court decision between receivers and the (supervisory) directors. We disclaim any liability to the (supervisory) directors and will contest this in court if necessary. We believe it is the world upside down if (supervisory) directors would be able to deny their own responsibility and pass this on to the auditor. This is supported by the decision of the Enterprise Chamber in December 2011, in which the (supervisory) directors were held responsible for the mismanagement of Landis.

As we are still engaged in these and other discussions, we do not discuss this case in further detail in this report and disclose on a more aggregate level. This is compliant with NBA guidance in this respect.

Independence practices

EY's independence practices are designed to enable Ernst & Young Accountants LLP and our people to comply with the independence standards applicable to specific engagements, including, for example, the independence standards of the International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (IFAC) and the applicable Dutch regulations.

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

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

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

EYG Independence Policy

The EYG Independence Policy contains the independence requirements for member firms, professionals and other employees. It is a robust policy predicated on the IESBA independence code, with more stringent requirements where prescribed by a given regulator. The policy also contains guidance to help people apply the independence rules. The EYG Independence Policy is readily accessible and easily searchable through EY's intranet. During the past year we have created a Dutch Independence Supplement which explains the new requirements and which is available online for professionals anywhere in the world. Furthermore, various communications took place with independence leaders throughout the world in order to foster compliance with these far reaching requirements. The Dutch Independence team is also embedded into the firm's Wab related initiatives ('Our New World'), thereby ensuring that our guidance is compliant and that questions from professionals are not only appropriately responded to but feedback is continuously integrated into the Our New World process.

Global Independence System

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

During 2012/2013, we have substantially increased our review of both existing audit clients and other significant public entities, as part of our effort to get ready for future firm rotations. We currently track most OOBs to assess the expected rotation date and have developed internal screening and decision protocols to assess our independence well ahead of the expected request-for-proposal dates. For the largest target companies we track our non-audit services continuously, both in The Netherlands and abroad. These additional processes imply a considerable investment for EY, in The Netherlands and beyond.

Global Monitoring System

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

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

Independence compliance

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

Independence confirmations

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

Annually, Ernst & Young Accountants LLP is included in an Area-wide process to confirm compliance with the EYG Independence Policy and requirements and to report identified exceptions, if any.

All of EY's professionals, and certain others based on their role or function, are required to confirm compliance with independence policies and procedures at least once a year. All partners are required to confirm compliance quarterly.

Global Independence Compliance Reviews

EY conducts a number of testing and member firm visits to assess compliance with independence matters. These include reviewing for non-audit services, business relationships with the companies we audit and financial relationships of member firms.

Each year, EY's global Independence team establishes a program for testing compliance with personal independence confirmation requirements and with reporting of information into GMS. For the 2012/2013 testing cycle, Ernst & Young Accountants LLP tested more than 240 partners and other personnel.

Ernst & Young Accountants LLP confirms that the Global Independence Compliance Review next review is scheduled to occur in November 2013 as part of the normal recurring cycle. Our previous review took place in the June 2012.

Non-audit services

Compliance with professional standards governing the provision of non-audit services to audit clients is designed to be achieved through a variety of mechanisms. These include the use of tools (e.g., GTAC - see page 30 and Service Offering Reference Tool (SORT) - see below), training, and required procedures completed during the performance of audits and internal inspection processes.

Furthermore, we have substantially increased our monitoring of other services on OOBs since the effective date of the new Dutch independence rules. Various changes in our prevent controls embedded in GTAC and GIS processes, are combined with robust detect controls using queries and exceptions reports. These prevent and detect controls allow us to measure our compliance with the new Dutch regulations.

Global independence learning

EY develops and deploys a variety of independence learning programs. All professionals and certain other employees are required to participate in annual independence learning to help maintain our independence from the companies we audit.

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

The annual independence learning program covers independence requirements focusing on recent changes to policy, as well as recurring themes and topics of importance. Timely completion of annual independence learning is required and is monitored closely. We have supplemented this program with local content through its 'Our New World' initiative to cover local independence requirements.

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

Service Offering Reference Tool (SORT)

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

Business Relationship Evaluation Tool (BRET)

BRET helps to ensure our business relationships comply with independence requirements. Our people are required to use BRET to evaluate and obtain advance approval of any potential business relationship with an audit client.

Audit committees and corporate governance

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

Independence monitoring

Our Belgium/Netherlands Central Quality & Risk Management (Q&RM) group deals with cross-service line Q&RM matters in both countries. Among other tasks, it monitors compliance with relevant independence requirements. The Independence Desk is managed by our Regional Independence Leader Piet Hemschoote. The Central Q&RM team deploys approximately 30 FTEs that serve all professionals and service lines of both countries. In addition to its various key control functions, Central Q&RM handles all independence-related consultation requests in our region and we continue to receive, on average, some 5,000 independence-related e-mail inquiries annually in the Netherlands alone, be it that the nature of the questions has shifted much more to the new independence rules applicable in the Netherlands. Furthermore, the ‘Our New World’ task force has received numerous questions from both professionals and clients, which have allowed us to update our guidance and be more proactive with FAQ guidance. Questions that require consultation with subject matter experts are discussed with Area and Global resources.

Q&RM’s key controls and monitoring procedures cover the following areas: monitoring independence training and independence confirmations, recording personal financial interests in the Global Monitoring System (GMS) held by professionals at the level of manager and above, testing compliance with Q&RM policies, including client and engagement acceptance and independence assessment of non-audit services, business relationships, directorships, gifts and hospitality and data quality control in our systems. Our GMS systems, for example, currently monitors in excess of 6,000 securities held by our Dutch professionals.

Our independence monitoring activities enabled all of our partners and other professionals to complete mandatory training on the new independence policy and confirm their independence through our annual confirmation process (quarterly for partners).

Compliance with the requirements of GMS is monitored through our Personal Independence Compliance Testing (PICT) program, which is designed to cover both partners and other executives (directors and (senior) managers). Our sample sizes vary from year to year and are to ensure that all partners are tested at least once every three years with certain partners in managerial roles to be selected more frequently. 100 partners were tested in the period covered. While our 2012/2013 test results at the partner level were positive overall, PICT testing for partners revealed a smaller number of formal violations with internal policies, such as late entry in our monitoring system of non-prohibited listed investments and the use of incorrect ISIN codes. The findings resulted in one independence breach which was caused by specific circumstances.

Our expanded testing program for other executives confirmed a need for improvement with respect to timely and complete reporting of securities, notably with respect to certain securities related to other financial products such as mortgages or long term benefit arrangements. The findings during our last cycle resulted in one independence breach, whereas most untimely recorded securities were held by professionals who were not involved in audits for clients of which they held securities.

Compliance with Q&RM policies, including acceptance of non-audit services, is managed through our Compliance Teams. In addition to the reviews by the Global Independence Compliance Team (GICT), EY has a local compliance review process in place. All tests performed through the local compliance review process are reviewed by the EMEIA Compliance Team. The most recent review of the EMEIA Compliance Team took place in June 2012 with the follow up visit scheduled for November 2013. We refer to our 2012 transparency report for the prior year findings.

We have been reviewing business relationships entered into by EY for several years. We generally track, on average, some 800 active business relationships. All of them have been subject to a documented review by the Independence team. Directorships of all Dutch professionals are monitored through a dedicated database. All confirmations provided by Dutch Professionals are reviewed and approved if authorized by our policies. Additional monitoring through public records exists for all partners and executive directors. Indeed, on a yearly basis our Q&RM organization searched public records to assess whether any Partner or Assurance Executive Director holds a position that was potentially not disclosed.

Gifts and Hospitality arrangements are reviewed by our central Q&RM team whenever the value of the gift or hospitality is estimated to be over € 750.

Our Data Quality monitoring enables us to determine that data supporting independence compliance is correctly reflected in our systems. During the 2012/2013 round of monitoring acceptance and continuance of clients and engagements, our Data Monitoring Group (DMG) expanded its use of exception-based reports to improve the quality of our core data available throughout our systems.

Creating high-performing teams

EY is building a better working world for its people by recruiting, managing and retaining top talent and developing the highest-performing teams and outstanding leaders.

A strategic objective is to attract and build life-long relationships with a diverse group of talented assurance professionals.

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

Recruitment and hiring

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

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

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

As of 30 June 2013, Ernst & Young Accountants LLP had 1,766 employees on a full-time basis (1,849 on 30 June 2012). Of these employees 1,325 FTE worked for our Assurance Service Line (1,398 FTE on 30 June 2012). We had 133 FTE partners (138 on 30 June 2012). Of these 133 partners, 97 worked for our Assurance Service Line (101 on 30 June 2012). 35 executive directors worked for our Assurance Service Line (33 on 30 June 2012).

For fiscal year 2012/2013, the turnover rate, i.e. the number of employees that left Ernst & Young Accountants LLP expressed as a percentage of the total number of employees, was 22% (19% in the previous fiscal year). For the Assurance service line, this rate was 21% (18% in the previous fiscal year).

Valuing diversity and inclusiveness

The global workforce is becoming more diverse - a trend to be celebrated and encouraged. For global organizations such as EY, an important aspect of creating the right working environment is a focus on inclusiveness.

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

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

Continuing education of statutory auditors

Professional development

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

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

During fiscal year 2012/2013, our firm's professionals spent 255,000 learning hours as compared to 290,000 in fiscal year 2011/2012 and 251,000 in fiscal year 2010/2011. A reassessment of the learning program allowed for increased focus and more efficient delivery, resulting in less learning hours spent.

This includes staff and senior staff external education hours (150,000) to become auditor, typically one day a week. The remainder (105,000) equals on average some 80 hours per professional. 100% of our professionals met the learning effort requirements regarding continuing professional education (*Permanente Educatie*), professional skepticism and – where applicable - IFRS and/or US GAAP & US GAAS.

All executives (managers, senior managers, directors and partners) had to take the so-called annual ISA test. This test consists of dozens of questions, testing participants' knowledge of our audit methodology and audit standards. We also organized 'executive events', during which recent developments and new standards and policies are discussed.

Finally, we put a great deal of effort in training our professionals in the area of professional skepticism. The training course consists of three components: a pre-learning meeting, an interactive session and a workshop. It was well-received and we are convinced that our professionals will benefit from it, and, most importantly, that professional skepticism is better applied during our audits.

In 2013/2014, we will roll out a 'public interest first' training program, which also focuses on the appropriate professional attitude.

The hours invested in learning can be summarized as follows:

Hours by rank (000)	2012/ 2013	%	2011/ 2012	%
Partners and executive directors	11	4%	11	4%
Senior managers and managers	35	14%	37	13%
Senior staff	50	20%	54	18%
Staff	159	62%	188	65%
Totals	255	100%	290	100%

In addition to formal learning, professional development occurs through coaching and experiences our professionals receive on the job. Coaching helps to transform knowledge and experience into practice. Experienced professionals are expected to coach and develop less experienced personnel to create a continual learning environment.

Performance management

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

Knowledge and internal communications

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

EY has made significant investments in knowledge and communication networks to enable rapid dissemination of information, built around intranet and email applications. These systems provide access to hundreds of knowledge databases. Examples include:

- Global Accounting & Auditing Information Tool (GAAIT) is EY's standard accounting and auditing research tool. It includes local and international accounting and auditing standards and interpretative guidance.
- 'Global Accounting and Auditing News' is a weekly newsletter providing coverage of global Assurance and Independence policies and procedures, news from the International Accounting Standards Board and International Federation of Accounts (IFAC), and internal commentary and guidance regarding international accounting, auditing and independence developments.
- 'Your EY Daily News' is a daily e-newsletter that reports on the latest news and information about EY and its services.
- 'Perspectives' is a quarterly global e-magazine that provides strategic updates on all four service-lines, as well as observations and viewpoints on issues affecting EY and its clients.
- 'EY Point of View and Overviews' are publications that provide perspective on current public policy and regulatory developments of importance to our profession, stakeholders and capital markets.
- Practice alerts and webcasts include a range of global and country-specific practice alerts and specific webcasts within the Assurance practice, including those highlighting inspection findings as an opportunity for practice improvement.

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

Internal surveys and continuous improvement

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

The bi-annual Global People Survey was held in the second quarter of 2013. The responses provided by our partners, professionals and staff in the Netherlands clearly indicate that the depth and quantity of recent and upcoming changes in the audit profession cause uncertainty and worries among our people.

At the same time, responses regarding the way we conduct our business show that the Global Code of Conduct is adhered to when our people perform their professional work. Time pressure has increased, as our people are even more aware they need to comply with all quality requirements and thus reduce risks.

Our people are proud to be part of EY. They appreciate the work experience and learning opportunities our firm offers, and they value the team spirit when jointly providing services to clients.

Revenue and remuneration

Financial information

The financial information presented below represents consolidated revenues and includes expenses billed to clients and revenues related to billings to other EYG member firms. Also, revenue amounts disclosed in this report include revenues from both audit and non-audit clients.

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

Revenue and profit per partner

As of 30 June 2013 Ernst & Young Accountants LLP consisted of 133 partners. In the financial year ending 30 June 2013, the average revenue per partner was EUR 3.0 million. Non-assurance and tax services revenues at OOB audit clients, as mentioned in the top row of the table on the next page, decreased slightly because existing engagements have been finalized.

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

Revenue segments

(€000)	2012/ 2013	%	2011/ 2012	%
Statutory audits	198,288	31%	196,980	32%
Other assurance	48,724	8%	52,849	8%
Audit/other assurance	**247,012**	**39%**	**249,829**	**40%**
Compilation	23,993	3%	25,593	4%
Financial accounting advisory services	4,233	1%	5,937	1%
Fraud investigation and dispute services	6,473	1%	3,536	1%
Other assurance-related	25,902	4%	28,248	4%
Total assurance-related	60,601	9%	63,314	10%
Assurance	307,613	49%	313,143	50%
Other service lines	93,999	14%	81,889	13%
Ernst & Young Accountants LLP	401,612	63%	395,032	63%
Ernst & Young Belastingadviseurs LLP	197,986	31%	193,453	31%
Ernst & Young Nederland LLP and subsidiaries[1]	14,501	2%	10,773	2%
Rendering services	614,099	97%	599,258	96%
Other income	20,839	3%	28,328	4%
Ernst & Young Nederland LLP - consolidated	634,938	100%	627,586	100%

[1] Ernst & Young Actuarissen BV, Ernst & Young VAT Rep BV, Ernst & Young CertifyPoint BV

2012/2013 (€000)	Statutory audit services	Other assurance services	Total assurance services	Assurance-related services	Advisory and transaction advisory services	Tax advisory services	Other non-audit services	Total
Audit clients - statutory audit - WeCo/OOB	49,058 65%	1,889 2%	50,947 67%	7,544 10%	9,496 13%	5,116 7%	2,131 3%	75,234 100%
Audit clients - WeCo/non-OOB	149,230 58%	4,244 2%	153,474 60%	15,991 6%	25,696 10%	57,013 22%	4,135 2%	256,309 100%
Assurance clients - non-WeCo		42,591 62%	42,591 62%	3,904 6%	6,121 9%	14,434 21%	1.873 2%	68,923 100%
Assurance clients - assurance-related				33,162 49%	17,868 26%	16,449 24%	644 1%	68,123 100%
Other clients					34,818 24%	104,974 72%	5,718 4%	145,510 100%
Rendering services	198,288	48,724	247,012	60,601	93,999	197,986	14,501	614,099
Other Income								20,839
Total								634,938

2011/2012 (€000)	Statutory audit services	Other assurance services	Total assurance services	Assurance-related services	Advisory and transaction advisory services	Tax advisory services	Other non-audit services	Total
Audit clients - statutory audit - WeCo/OOB	53,330 64%	1,012 1%	54,342 65%	9,972 12%	10,875 13%	5,311 7%	2,864 3%	83,364 100%
Audit clients - WeCo/non-OOB	143,650 57%	5,351 2%	149,001 59%	16,680 7%	21,651 9%	61,777 24%	2,026 1%	251,135 100%
Assurance clients - non-WeCo		46,486 69%	46,486 69%	5,553 8%	3,232 5%	11,400 17%	953 1%	67,624 100%
Assurance clients - assurance -related				31,109 49%	12,839 20%	18,898 30%	392 1%	63,238 100%
Other clients					33,292 25%	96,067 72%	4,538 3%	133,897 100%
Rendering services	196,980	52,849	249,829	63,314	81,889	193,453	10,773	599,258
Other income								28,328
Total								627,586

Partner remuneration

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

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

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

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

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

Our partner compensation philosophy calls for meaningfully differentiated rewards based on a partner's level of performance, as measured by the GPPM process. Partners are assessed annually on their performance in quality service delivery, leading people, operational excellence and market leadership and growth.

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

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

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

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

An important part of our firm's partners' quality assessment is based on information resulting from our Audit Quality Reviews (AQRs) and input provided by the Compliance Office, the Independence Desk, the Professional Practice Group and the Legal Department. This results in a separate quality rating that is part of the GPPM process on a scale of 1 to 5. This process is completed annually before the end of October. The overall rating cannot exceed the quality rating by more than 1.

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

Outperforming partners can be granted performance awards generally ranging from 5% to 25%. To qualify for performance awards, quality must meet our standards or be above standard (quality rating of 3 or higher). Each year on average some 50% of the partners are granted awards for their performance.

Working with our stakeholders and communities

Stakeholder dialogue

As an auditor of listed companies and other public interest entities, Ernst & Young Accountants LLP is acutely aware of the important public interest role we play in promoting trust and confidence in business, capital markets and economies.
We take our public interest responsibilities seriously, and work hard to maintain an open and frank dialogue with our stakeholders as part of our broader commitment to building a better working world.

Our environment is shaped by a wide range of policy makers, including governments, regulators, standard setters and international organizations. When meeting with our stakeholders, we provide our perspective and seek to better understand their point of view.
We encourage improvements in corporate governance, financial reporting and other matters that affect our capital markets more broadly.
EY is engaging increasingly with global organizations like the Financial Stability Board, the International Forum of Independent Audit Regulators, and the Basel Committee on Banking Supervision. EY also participates in global forums, such as the World Economic Forum, that bring together thought leaders on issues important to us and our stakeholders.

Selected stakeholder engagement globally in 2013

During the past year, international organizations and policy makers around the world have focused on a number of issues affecting our profession, including the independence of auditors, the quality of audits, and the usefulness of financial reporting. Policy options such as enhanced auditor reporting; more meaningful corporate disclosure; mandatory audit firm rotation or tendering; and increased transparency of audit committee auditor oversight are being debated in a number of jurisdictions. These options are critical to the continuing relevance of audit, the attractiveness and sustainability of the audit profession, and our ongoing ability to fulfill our public interest role.

EY has met regularly with investors, regulators, legislators and other policy makers in 2013 to discuss these issues. These conversations have highlighted the importance of strong corporate governance, with active and engaged audit committees who are transparent with shareholders about their oversight of the external auditor. There is a strong desire for meaningful change to increase the usefulness and informational value of the auditor's report, and we believe that auditors should be required to highlight matters that, in the auditor's judgment, are most significant in the audit.

Investors are among our key stakeholders.
This past year EY has continued to increase its investor engagement around the world to make sure EY understands investor perspectives on auditing, financial reporting, corporate governance and other capital market issues. For example, during 2013, EY held three dialogue dinners with investors and other stakeholders from around the globe. These are the latest in a series of dinners convened since 2011 to foster discussion about ways to improve corporate governance. Some of these discussions have covered a range of topical governance matters, while others have focused on governance in particular geographic markets or sectors of the economy. These dinners are independently moderated and held on a Chatham House or off-the-record basis to encourage frank discussion.

EY continues to participate in the Global Auditor Investor Dialogue, an informal network of leading global institutional investors, and major global auditing networks to exchange views on current financial reporting and auditing issues. EY has also become a member of the Asian Corporate Governance Association and continues to be an active member and sponsor of the International Corporate Governance Network. These organizations enhance EY's ability to hear the perspectives of a wide variety of investors and others and better understand their views.

Dutch Code for Audit Firms & Public Interest

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

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

The Public Interest Committee

An essential element of the Code is the establishment of a Public Interest Committee (*Commissie Publiek Belang*, CPB) within an audit firm. The CPB's main task is to monitor how an audit firm ensures that the public interest takes priority over other interests in internal procedures and decision-making. In May 2013, we announced the official formation of our CPB. More details on the CPB can be found elsewhere in this Transparency Report and on our website. A report by the CPB on its activities is also included in this Transparency Report.

The Stakeholder Dialogue

The Code stresses the importance of an audit firm's dialogue with its stakeholders. At EY, we regularly meet with our external stakeholders (shareholders, government, regulators, non-executives, executives and others) in different forums. During fiscal year 2012/2013, our firm organized a number of events for external stakeholders, including various Round Tables with non-executive directors during which we discussed, among other subjects, the roles of non-executive directors and auditors as 'gatekeepers' for society at large. Further to our adherence to the Code, we decided to intensify and structure this stakeholder dialogue.

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

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

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

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

Compliance with the Code

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

For more about our views

A selection of recent thought leadership is available on the EY Insights application for mobile and tablet devices and on our website (http://www.ey.com/NL/nl/home/library). This website included Dutch publications, such as Inform, Zicht op toezicht and Eye on Finance.

Commitment to our communities

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

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

Supporting communities though charitable giving

We contribute to not-for-profit organizations that are aligned with our corporate responsibility strategy, as well as those that address the most pressing needs of the communities in which we live and work.

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

During fiscal year 2012/2013, many diverse and very successful projects allowed others to benefit from our expertise in accounting, tax, finance and general business advice. Our focus lies on not-for-profit organizations that are engaged in sustainable entrepreneurship, the environment and education. These are the priorities in our sustainability policy. We support these organizations chiefly by sharing our knowledge and competences with them. We have entered into three partnerships with not-for-profit organizations since the Foundation was set up: Urgenda, Business in Development (BiD) Network and Enviu.

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

Demonstrating environmental stewardship

We believe that any commitment to a greener world starts with us. As such, we're challenging ourselves to work in an environmentally responsible manner and to find new ways to reduce our carbon footprint and waste.

EY continues to build out its greenhouse gas measurement and reporting. Working with in-house Climate Change and Sustainability Services professionals, EY has established a global methodology for calculating environmental impacts. EY is looking for ways to evolve and employ leading practices to make sure it has a credible global footprint.

The UN Global Compact's ten principles

Human rights

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

Labor

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

Environment

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

Anti-Corruption

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

Statement of the Policymakers

The policymakers confirm their responsibility for designing and maintaining the system of quality control. In conformity with EY's guidelines and regulations, reviews were held, focusing on the effectiveness of the systems of quality control, during and after the fiscal year ended on 30 June 2013. The AQR (Audit Quality Review) 2013 report, reports of the Compliance Officer and the present Transparency Report were discussed and adopted in the meeting of 16 September 2013 between the policymakers and the Compliance Officer. That date is considered the date of the review of the system of quality control.

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

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

Rotterdam, 30 September 2013

Giljam Aarnink

Martine Blockx

Michèle Hagers

Jaap Hetebrij

Rob Lelieveld

Patrick Rottiers

Jules Verhagen

Appendix: Ernst & Young Accountants LLP public interest entity audit clients

In the fiscal year ended on 30 June 2013, Ernst & Young Accountants LLP performed statutory audits of the following public interest entities (Organisaties van Openbaar Belang):

Actua Schadeverzekering N.V.

Adecco International Financial Services B.V.

AEGON Bank N.V.

Aegon Levensverzekering N.V.

AEGON N.V.

AEGON Schadeverzekering N.V.

AEGON Spaarkas N.V.

Akbank N.V.

Algemene Friese Onderlinge Schadeverzekeringsmaatschappij "Zevenwouden" U.A.

AMG Advanced Metallurgical Group N.V.

AnderZorg N.V.

Anthos Bank B.V.

Ares Euro CLO I B.V.

Ares European CLO II B.V.

ASTARTA Holding N.V.

Azivo Zorgverzekeraar N.V.

Bank Mendes Gans N.V.

Bank of Tokyo-Mitsubishi UFJ (Holland) N.V.

BCR Finance B.V.

Beter Bed Holding N.V.

BinckBank N.V.

Blue Square Re N.V.

BNP Paribas Fund II N.V.

BNP Paribas Fund III N.V.

Brit Insurance Holdings B.V.

CELF Loan Partners B.V.

Chagoi 2010 B.V.

Cinema City International N.V.

CITADEL 2010-I B.V.

CITADEL 2010-II B.V.

CITADEL 2011-I B.V.

Columbia Securities N.V.

Onderlinge Univé Dichtbij U.A.

Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland)

Copernicus Euro CDO-I B.V.

Delta Lloyd Azië Deelnemingen Fonds N.V.

Delta Lloyd Bankengroep N.V.

Delta Lloyd Deelnemingen Fonds N.V.

Delta Lloyd Dollar Fonds N.V.

Delta Lloyd Donau Fonds N.V.

Delta Lloyd Euro Credit Fund N.V.

Delta Lloyd Europa Fonds N.V.

Delta Lloyd Europees Deelnemingen Fonds N.V.

Delta Lloyd Investment Fund N.V.

Delta Lloyd Levensverzekering N.V.

Delta Lloyd Mix Fonds N.V.

Delta Lloyd N.V.

Delta Lloyd Nederland Fonds N.V.

Delta Lloyd Rente Fonds N.V.

Delta Lloyd Schadeverzekering N.V.

Delta Lloyd Select Dividend Fonds N.V.

Delta Lloyd Zorgverzekering N.V.

DUNIA Capital B.V.

EADS Finance B.V.

ECAS 2011-1 Loan B.V.

Eerste Friesche Onderlinge Paarden Verzekeringsmaatschappij U.A.

ELM B.V.

EMF-NL 2008-1 B.V.

EMF-NL 2008-2 B.V.

EMF-NL Prime 2008-A B.V.

ENEL Finance International N.V.

Enel Insurance N.V.

ENEL Investment Holding B.V.

Enexis Holding N.V.

Eurocommercial Properties N.V.

European Aeronautic Defence and Space Company EADS N.V.

European Assets Trust N.V.

Eurosail-NL 2007-1 BV

Eurosail-NL 2007-2 BV

Facultatieve Verzekeringen N.V.

Fortuna Entertainment Group N.V.

Generali Levensverzekering Maatschappij N.V.

Generali Schadeverzekering Maatschappij N.V.

Green Lion I B.V.

Green Lion II B.V.

HeidelbergCement Finance B.V.

Highlander Euro CDO B.V.

Highlander Euro CDO II B.V.

Highlander Euro CDO III B.V.

Highlander Euro CDO IV B.V.

Holland Colours N.V.

HypoVereinsFinance N.V.

Iberdrola International B.V.

IllyNL B.V.

ING Bank N.V.

ING Beleggingsfondsen Paraplu II N.V.

ING Beleggingsfondsen Paraplu III N.V.

ING Beleggingsfondsen Paraplu N.V.

ING Groep N.V.

ING Insurance Services N.V.

ING Re (Netherlands) N.V.

ING Verzekeringen N.V.

Insinger de Beaufort European Mid Cap Fund N.V.

Insinger de Beaufort Umbrella Fund N.V.

International Endesa B.V.

IZA Zorgverzekeraar N.V.

IZZ Zorgverzekeraar N.V.

Kardan N.V.

Kazakh Mortgage-Backed Securities 2007-1 B.V.

KBC Internationale Financieringsmaatschappij N.V.

Koninklijke Brill N.V.

Koninklijke DSM N.V.

Leidsche Verzekering Maatschappij N.V.

Levensverzekering Maatschappij "De Onderlinge van 1719 U.A."

Macintosh Retail Group N.V.

Magritte Finance 2004 B.V.

Menzis N.V.

Menzis Zorgverzekeraar N.V.

Mizuho Corporate Bank Nederland N.V.

Monuta Verzekeringen N.V.

Movir N.V.

Mutual Insurance Association "Munis" (Onderlinge Verzekeringsmaatschappij 'Munis') U.A.

N.V. Bank Nederlandse Gemeenten

N.V. Levensverzekering-Maatschappij "De Hoop"

N.V. Nederlandse Gasunie

N.V. Schadeverzekering Maatschappij De Nederlanden van Nu

N.V. Univé her

N.V. Univé Schade

N.V. Univé Zorg

N.V. Zorgverzekeraar UMC

Nationale-Nederlanden Bank N.V.

Nationale-Nederlanden Levensverzekering Maatschappij N.V.

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

Nationale-Nederlanden Services N.V.

New Sources Energy N.V.

Neways Electronics International N.V.

Northern Lights B.V.

OHRA Ziektekostenverzekeringen N.V.

OHRA Zorgverzekeringen N.V.

Onderlinge Levensverzekering-Maatschappij "s-Gravenhage" U.A.

Onderlinge Verzekering Maatschappij Univé "De Onderlinge" U.A.

Onderlinge Verzekeringen Overheid (OVO) U.A.

Onderlinge Verzekeringsmaatschappij Univé Groningen U.A.

Onderlinge Waarborg Maatschappij Zorgverzekeraar Zorg en Zekerheid U.A.

Onderlinge Waarborgmaatschappij "Univé Noord Groningen" B.A.

Onderlinge Waarborgmaatschappij Centrale Zorgverzekeraars groep, Aanvullende Verzekering Zorgverzekeraar U.A.

Onderlinge Waarborgmaatschappij Centrale Zorgverzekeraars groep, Zorgverzekeraar U.A.

Onderlinge Waarborgmaatschappij voor Instellingen in de Gezondheidszorg Medifire B.A.

Onderlinge Waarborgmaatschappij voor Instellingen in de Gezondheidszorg Medirisk b.a.

OOM Global Care N.V.

OOM Schadeverzekering N.V.

Optas Pensioenen. N.V.

Oranjewoud N.V.

Orca Finance Netherlands N.V.

PACCAR Financial Europe B.V.

Palmboomen Cultuur Maatschappij Mopoli (Palmeraies De Mopoli) N.V.

Permeke Finance 2004 B.V.

Qiagen N.V.

Rabo Herverzekeringsmaatschappij N.V.

Rabohypotheekbank N.V.

Reis- en Rechtshulp N.V.

Robeco Afrika Fonds N.V.

Robeco Balanced Mix N.V.

Robeco Direct N.V.

Robeco Duurzaam N.V.

Robeco Dynamic Mix N.V.

Robeco Growth Mix N.V.

Robeco Hollands Bezit N.V.

Robeco Life Cycle Funds N.V.

Robeco N.V.

Robeco Safe Mix N.V.

Robeco Solid Mix N.V.

Rodamco Europe Finance B.V.

Rolinco N.V.

Ronson Europe N.V.

Roto Smeets Group N.V.

Saecure 10 B.V.

Saecure 6 NHG B.V.

Saecure 7 B.V.

Saecure 8 NHG B.V.

Saecure 9 B.V.

Siemens Financieringsmaatschappij N.V.

Société Générale Bank Nederland N.V.

Spyker N.V.

Stern Groep N.V.

Stichting Eleven Cities No. 4

Stichting Profile Securitisation I

TD Bank N.V.

Telefonica Europe B.V.

Theodoor Gilissen Bankiers N.V.

TIE Kinetix N.V.

Tiels Onderling Fonds tot uitkering bij overlijden "Gustaaf Adolf" U.A.

UBS Bank (Netherlands) B.V.

UBS Investment Bank Nederland B.V.

UNIT4 N.V.

Univé Midden Brandverzekeraar N.V.

Univé Oost Brandverzekeraar N.V.

Univé Reest Aa en Linde Brandverzekeraar N.V.

Univé Zuid-Holland Brandverzekeraar N.V.

UVM Verzekeringsmaatschappij N.V.

Van Lanschot N.V.

Veherex Schade N.V.

Vesteda Residential Funding II B.V.

VGZ Zorgverzekeraar N.V.

VimpelCom Holdings B.V.

VVAA Levensverzekeringen N.V.

VVAA Schadeverzekeringen N.V.

Würth Finance International B.V.

Yapi Kredi Bank Nederland N.V.

Ziggo N.V.

Zorgverzekeraar Cares Gouda N.V.

In fiscal year 2012/2013 the external auditors of these clients were:

Alexander Beijer

Andre Wijnsma

Arjan Verwoert

Arno van der Sanden

Arnold Heij

Bernard Roeders

Bert Hilverda

Coen Besters

Coen Boogaart

Frank Blenderman

Frans de Bruijn

Gerard Arnold

Hanneke Overbeek

Hildegard Elgersma

Hugo Hollander

Jaap Hetebrij

Jaap Pieters

Jan Niewold

Jasper Kolsters

Jeff Sluijter

Jeroen Preijde

Joep Heijster

Jos Spijker

Jules Verhagen

Kees de Lange

Kees Reckers

Lex van Overmeire

Maarten Koning

Madelon Bangma

Marcel de Kimpe

Marcel Huizer

Marcel van Loo

Mark-Jan Moolenaar

Mauk Spierings

Nico Pul

Nico Warmer

Nicole Silverentand

Oscar Jonker

Paul Nijssen

Pieter Jongstra

Remco Bleijs

Rene Koekkoek

René van Tiggele

Richard Eveleens

Rob Goutman

Rob Lelieveld

Ron de Prie

Stephan Seijkens

Steven Spiessens

Steven van den Ham

Victor Veger

Wim Kerst

Wim Thuss

Wim van Hoeven

Wouter Smit

Zaina Ahmed-Karim

EY | Assurance | Tax | Transactions | Advisory

About EY

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

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

Ernst & Young Accountants LLP

Ernst & Young Accountants LLP is registered in England and Wales with registered number OC335594 and has its registered office at 1 Lambeth Palace Road, London SE1 7EU, United Kingdom. Ernst & Young Accountant LLP has its principal place of business at Boompjes 258, 3011 XZ Rotterdam, the Netherlands and is registered with the Chamber of Commerce Rotterdam, number 24432944.

Ernst & Young Accountants LLP holds a license from the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten, AFM) for the performance of statutory audits (license number 13000742). This license is also valid for the performance of statutory audits for Dutch public interest entities (Organisaties van Openbaar Belang, OOBs).

ey.com