



# **Transparency report 2015**

**Ernst & Young  
Accountants LLP  
The Netherlands  
Volume 2**



**Building a better  
working world**



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More information about EY can be found at [ey.com](http://ey.com)



Ernst & Young Accountants LLP's Transparency Report 2015 consists of two volumes. This is the English-language Volume 2. The Dutch-language Volume 1 contains the Report of the Chairman of the Board, the Report of the Policymakers, the Report of the Commissie Publiek Belang (Public Interest Committee) and the Message of the Chairman of EY's Raad van Commissarissen (Supervisory Board) in The Netherlands. This English-language Volume 2 contains more and more detailed information regarding, among other subjects, governance, quality, independence, education and training, and performance and remuneration.



## Country managing partner's letter



Welcome to Ernst & Young Accountants LLP's 2015 Transparency Report Part 2. We appreciate that our stakeholders want to understand what we do to advance audit quality, manage risk and maintain our independence as auditors. This report is one of the ways in which we share with you, our stakeholders, what we are doing in each of these areas.

Executing audits in a high-quality manner continues to be our number one priority. It is at the heart of our ability to serve the public interest and grow the global EY network successfully and responsibly, while achieving our purpose of building a better working world. Auditors play a vital role in the functioning of capital markets throughout the world by promoting transparency and supporting investor confidence. Companies, regulators and other stakeholders count on us to deliver quality and excellence in every engagement.

EY is focused on investing in tools to improve what we do, creating the highest-performing teams and building trust and confidence in the audits we perform.

Regular dialogue with our stakeholders remains a priority for me and my colleagues. During the past year, I have spoken with many of our stakeholders to seek your views and input. Thank you to all of you who took the time to share your views with us in 2015.

I encourage everyone reading this report – investors, audit committee members, companies, regulators and all our stakeholders – to continue to engage with us on our strategy as well as any of the matters covered in this report.

Rotterdam, 30 September 2015

Marcel van Loo

Country Managing Partner

EY The Netherlands

### **Our purpose: Building a better working world**

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

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



# About us

## Legal structure, ownership and governance

As described in the Network arrangements section below, EY member firms are grouped into 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 section of those firms.

EY's activities in the Netherlands are part of the EMEIA Area, which comprises EYG member firms in 99 countries in Europe, the Middle East, India and Africa. Within the EMEIA Area, there are 11 geographic Regions and an 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.

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

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.

Each Region elects a Regional Partner Forum (RPF), whose representatives advise and act as a sounding board to Regional Leadership. The partner elected as Presiding Partner of the RPF also serves as the Region's representative on the Global Governance Council (see page 8).

The Belgium/Netherlands Regional Partner Forum is an advisory body that convenes on a regular basis to discuss matters of interest, provide input to the Europe Advisory Council and advise the Regional Managing Partner and the Regional Leadership Team. The forum has 10 members, 7 from the Netherlands and 3 from Belgium.

Members of the Leadership Teams and of management cannot be elected to the forum. The members of the forum are elected by EY partners in Belgium and the Netherlands in election cycles of three years; membership of the forum cannot exceed 6 years.

### Ownership, control, organization

In the Netherlands, the EY audit firm operates through a UK Limited Liability Partnership named Ernst & Young Accountants LLP. In this report, we refer to Ernst & Young Accountants LLP by its full name, or as 'the firm', 'our firm', 'we' or 'us'. We are a member firm of Ernst & Young Global Limited, a UK company limited by guarantee (EYG). EY refers collectively to the global organization of member firms of EYG.

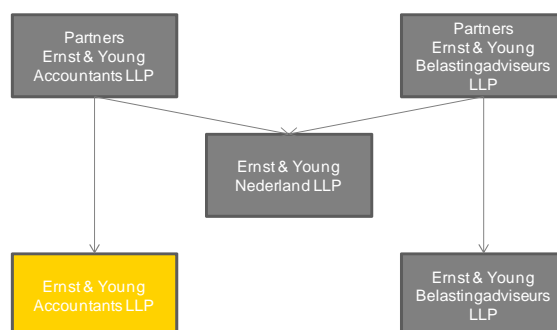
Our firm engages in various professional activities through three service lines: Assurance, Advisory and TAS (Transaction Advisory Services).

#### Ownership

Our firm is owned by the private practice companies of our partners in the Netherlands ('members'). Apart from holding a stake in Ernst & Young Accountants LLP, our members are also co-owners of Ernst & Young Nederland LLP, together with the members of Ernst & Young Belastingadviseurs LLP. The members of our firm and of Ernst & Young Belastingadviseurs LLP are also co-owners of Ernst & Young Europe LLP (EY Europe). EY Europe is an English limited liability partnership, owned by partners of the EYG member firms operating in Europe. It is an audit firm registered with the Institute of Chartered Accountants in England and Wales (ICAEW), but it does not carry out audits or provide any professional services.

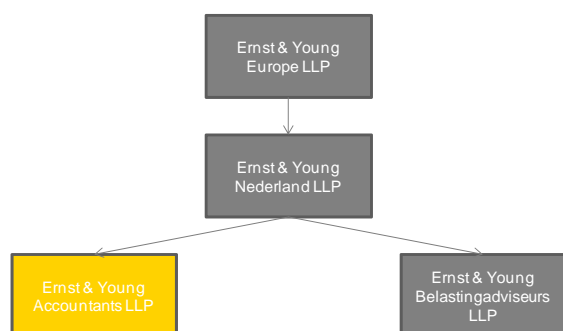
EY Europe is a member firm of both EYG and EMEIA limited.

Our simplified ownership structure is illustrated below. No changes to this structure were made in fiscal year 2014/2015.



## Control

EY Europe has indirect control over our firm through Ernst & Young Nederland LLP. The simplified control structure is illustrated below. No changes to this structure were made in fiscal year 2014/2015.



## Organization

The network of Ernst & Young Accountants LLP operates from 14 offices in the Netherlands and consists of:

- ▶ Ernst & Young Nederland LLP
- ▶ Ernst & Young Belastingadviseurs LLP - tax services
- ▶ Ernst & Young Actuarissen BV - actuarial services
- ▶ Ernst & Young CertifyPoint BV - independent and impartial certification
- ▶ Ernst & Young VAT Rep BV - VAT representation
- ▶ Ernst & Young Real Estate Advisory Services B.V. - real estate investment advice and valuations
- ▶ Stichting Ernst & Young Foundation - support for initiatives by not for profit organizations regarding sustainability and environmental issues
- ▶ Beco Groep B.V. - advice regarding sustainability and environmental issues
- ▶ Centre B.V. - EPM services, including financial consolidation, budgeting, planning and forecasting, to large international clients
- ▶ CFORS B.V. - development of software solutions for banks and insurers, enabling them to comply with new reporting standards, such as Solvency II, CRD IV and IFRS 4
- ▶ Integrc B.V. - advice regarding SAP systems, specifically SAP GRC

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

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

## Governance in the Netherlands

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

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

## Governance of the Audit Firm

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

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

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

Jeroen Kamphuis took over from Jaap Hetebrij as Belgium/Netherlands Professional Practice Director on 1 January 2015.



## Polymakers and Co-Polymakers

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

Polymakers (Assurance Leadership Team):

- ▶ The four members of the Board of Ernst & Young Accountants LLP mentioned above
- ▶ Wouter Smit, the Netherlands Financial Services leader - since 1 January 2015
- ▶ Patrick Rottiers, partner of the Belgian audit firm in EY's global network and responsible for Markets Belgium
- ▶ Yves tiberghien, Markets leader Accounting Compliance Reporting (ACR) in the Belgium/Netherlands Region - as of 1 July 2014
- ▶ Rob Lelieveld - stepped down on 31 December 2014
- ▶ Jaap Hetebrij - stepped down on 31 December 2014

Co-polymakers:

- ▶ Auke de Bos, Netherlands Professional Practice Director
- ▶ Rudi Braes, Belgium/Netherlands Regional Managing Partner
- ▶ Jeroen Davidson, member of the Board of Directors of Ernst & Young Nederland LLP
- ▶ Bernard Heller, Professional Practice Director Europe
- ▶ Jean Yves Jégourel, Assurance Leader Europe
- ▶ Marcel van Loo, chairman of the Board of Directors of Ernst & Young Nederland LLP
- ▶ Mark Otty, Managing Partner Europe
- ▶ Isabelle Santenac, Assurance Leader Europe Financial Services

## EY's Supervisory Board in The Netherlands

In July 2015, Ernst & Young Nederland LLP announced the formation of its Supervisory Board (Raad van Commissarissen, RvC) and our firm (Ernst & Young Accountants LLP) formally dissolved its Public Interest Committee (Commissie Publiek Belang, CPB). During fiscal years 2013/2014 and 2014/2015, the CPB monitored our firm. 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 was the CPB's task to monitor that the public interest takes priority within our firm. The formation of the CPB in 2013, required by the Dutch Code for Audit Firms (*Code voor Accountants-organisaties*), was

fully in line with our own vision regarding the preeminence of the public interest. As discussions in the Netherlands regarding the governance of audit firms evolved, new rules with respect to the supervision of audit firms were adopted or announced during fiscal year 2014/2015. In accordance with these new rules, Ernst & Young Nederland LLP set up its RvC and our CPB was dissolved.

The Chairman of the CPB, Steven van Eijck, has joined the new RvC, whereas the other two CPB members (Mijntje Lückers-Rovers and Frans van der Wel) have ended their monitoring role at our firm. In Part One of this Transparency Report, the CPB reports on its activities during fiscal year 2014/2015. For further details on the competences and functioning of the CPB, we refer to the 2013/2014 Transparency Report.

The new RvC consists of three external, independent members and one dependent member, who forms part of EY's international organization. A fifth member is expected to be appointed next calendar year. The RvC, whose members were appointed for a four year period, started its supervisory activities at the beginning of fiscal year 2015/2016, i.e. 1 July 2015. The three independent members of the RvC are Pauline van der Meer Mohr (Chairman), Steven van Eijck and Monique Maarsen. The dependent member is Jean-Yves Jégourel, a co-polymaker of our firm.

More information on the new RvC is included in Part One of this Transparency Report.

EY Europe's principal governing bodies are:

## Europe Operating Executive

The Europe Operating Executive (EOE) operates as the board of EY Europe. It has authority and accountability for strategy execution and management of EY Europe's operations. The EOE comprises: the Europe Managing Partner; the leaders for Accounts, Talent and Risk Management; the service line leaders for Assurance, Advisory, Transaction Advisory Services and Tax; and all European Regional Managing Partners.

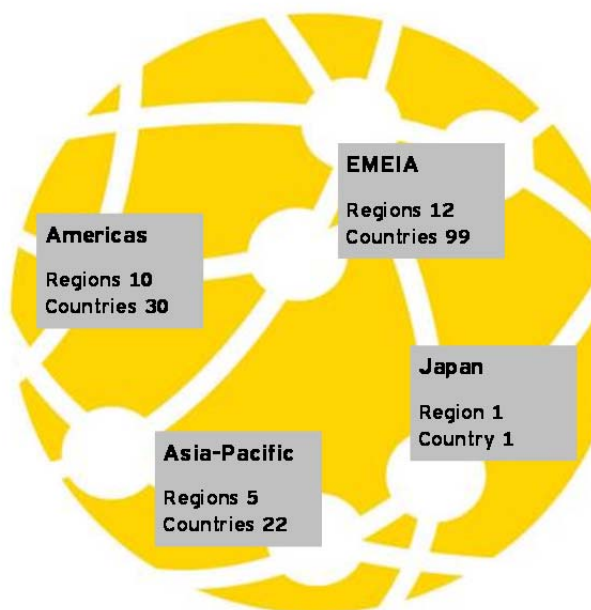


## Europe Advisory Council

Until 3 July 2015, EY Europe had an elected Europe Advisory Council, which comprised a number of partners of the EYG member firms in Europe. It served in an advisory role to the Europe Executive on policies, strategies and other matters, and its approval was required for a number of significant matters, e.g., the appointment of the Europe Managing Partner, approval of the financial reports of EY Europe and material transactions.

From 4 July 2015, the Europe Advisory Council was replaced with the Europe Governance Sub-Committee, which comprises the Presiding Partner of each RPF in Europe. It has a similar role to the one previously conducted by the Europe Advisory Council. Marnix van Rij, chairman of our RPF, is a member.

## Network arrangements



EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, 212,000 people in member firms in more than 150 countries share a commitment to building a better working world and are united by shared values and an unwavering commitment to quality, integrity and professional skepticism. In today's global market, EY's integrated approach is particularly important in the delivery of high-quality multinational audits, which can span multiple jurisdictions.

EY's central entity, EYG, coordinates the member firms and promotes cooperation among them. EYG does not provide services, but its objectives include

promoting the provision of exceptional, high-quality client service by member firms worldwide. Each member firm is a legally distinct entity. Their obligations and responsibilities are governed by the regulations of EYG and various other agreements.

The structure and principal bodies of the global organization during the year ended 30 June 2015 are described below. They reflect the principle that EY, as a global organization, has one shared strategy.

In July 2013, EY streamlined its operating model by creating the Executive and the Regions. The Executive includes the Global Executive (GE), its committees and teams, and the leadership of the four Areas. This streamlined structure allows EY to further enhance its global scale and the delivery of consistent exceptional client service worldwide, with the Executive responsible for one global approach to strategy, quality, risk management, business planning, investments and priorities.

At the same time, this new operating model allows for greater stakeholder focus in the 28 Regions, permitting member firms to build stronger relationships with clients and others in each country and be more responsive to local needs.

## Global Governance Council

The Global Governance Council (GGC) is the main governance body of EYG. It comprises a representative from each Region and four independent non-executives (INEs). The Regional Representatives, who otherwise do not hold senior management roles, are elected by their RPFs for a three-year term, with provisions for one successive re-appointment. The GGC advises EYG on policies, strategies and the public interest aspects of their decision-making. The approval of the GGC is required for a number of significant matters that could affect EY. Marnix van Rij, chairman of our RPF, is a member of this council.

## Independent non-executives

INEs are appointed from outside EY and bring the global organization, and the GGC, the significant benefit of their varied perspectives and views. Together with several other GGC members they form the Public Interest Sub-Committee of the GGC, which addresses public interest matters including stakeholder dialogue. The INEs are nominated by a dedicated committee.





## Global Executive

The GE brings together EY's leadership functions, services and geographies. It is chaired by the Chairman and CEO of EYG and includes its Global Managing Partners of Client Service and Business Enablement; the Area Managing Partners; the global functional leadership for Talent, Risk Management and Finance; the leaders of the global service lines – Assurance, Advisory, Tax and Transaction Advisory Services; and the Global Leader for Public Policy.

The GE also includes the Chair of the Global Accounts Committee and the Chair of the Emerging Markets Committee as well as a representative from the emerging markets practices. The GE and the GGC approve nominations for the Chairman and CEO of EYG and ratify appointments of the Global Managing Partners. The GE also approves appointments of Global Vice Chairs. The GGC ratifies the appointments of any Global Vice Chair who serves as a member of the GE. Furthermore, the GE appoints Area Managing Partners and approves appointments of Regional Managing Partners. The appointments of the Area Managing Partners are subject to ratification by the GGC.

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

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

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

## GE committees

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

## Global Practice Group

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

## EYG member firms

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

Above all, EYG member firms commit themselves to conducting their professional practices in accordance with applicable professional and ethical standards and all applicable requirements of law. This commitment to integrity and doing the right thing is underpinned by EY's Global Code of Conduct and EY's values (see page 14).

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 may be subject to separation from the EY organization.



# Commitment to quality

## Infrastructure supporting quality

### Quality in our service lines

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

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

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

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

### Professional Practice function

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

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

The Global PPD oversees development of the EY Global Audit Methodology (EY GAM) and related

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

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

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

### Risk management function

The Global Risk Management Leader is responsible for enterprise-wide risk management, including oversight of the quality of EY's four service line functions in Assurance, Advisory, Tax and Transaction Advisory Services.


Member firm partners are appointed to lead risk management initiatives in the service lines and member firms, supported by other staff and professionals. The Global Risk Management Leader is responsible for establishing globally consistent risk management execution priorities and enterprise-wide risk management. These priorities cascade to member firms, and their execution is monitored through an Enterprise Risk Management program.

### The Dutch Professional Practice Group

#### *Organization and structure*

#### **General**

The PPG plays a key role in upholding the quality of the professional assurance services – including audits – that auditors at our firm perform. Jeroen Kamphuis is the Belgium/Netherlands Assurance RM Leader and the Belgium/Netherlands Professional Practice Director (Region PPD). He is a member of our firm's Board. Jeroen Kamphuis



took over this role from Jaap Hetebrij on 1 January 2015. Within the Belgium/Netherlands Assurance RM function, the Dutch PPG deals specifically with issues affected by Dutch legislation, regulations and standards as well as

demands from our firm's Dutch supervisor. Auke de Bos heads the Dutch PPG and is the Netherlands PPD. In addition, in compliance with Dutch legislation, our Dutch firm has a Compliance Officer and a Compliance Office (CO), which are described below.

All in all, the PPG organization consists of about 50 professionals, compared to 40 professionals in fiscal year 2013/2014. These professionals dedicate all or a substantial part of their time to Risk Management, Regulations, Accounting Support, Assurance Support, Learning, and Enabling our practice. More than 80,000 hours in total during fiscal year 2014/2015 (60,000 hours in fiscal year 2013/2014). This significant increase of our investment in our PPG reflects our determination to further increase the quality of our work.

During fiscal year 2014/2015, we welcomed two new partners and two new executive directors to the PPG. Currently, the PPG includes nine partners and six 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.

### **Risk management**

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

Professional Practice Group (PPG). The PPG, therefore, is responsible for most RM activities for this Service Line. We invested in the risk management function by recruiting a partner and executive director.

### **The Dutch Compliance Office**

The principal task of our Compliance Officer is to monitor that our firm, our partners and our employees maintain high standards of integrity and comply with the rules laid down by or pursuant to Sections 13 through 24 of the Dutch Act on the Supervision of Audit Firms (*Wet Toezicht Accountantsorganisaties*). Our Compliance Officer (Nico Pul until 31 August 2015) reports to the policymakers and directly to the Chairman of our Board.

#### *Integrated Risk Analysis drives CO Investigations*

Among other tasks and based on an integrated risk analysis, the CO assesses and monitors the design, implementation and results of our firm's efforts in the area of quality management.

The CO carries out investigations into quality processes and controls, in order to assess and monitor the design and operating effectiveness of the safeguards for high standards of integrity, independence and quality within our organization. To the same end, it also performs topic- or case-driven investigations. Bi-weekly upcoming items and associated risks are discussed with the General Counsel and the Netherlands PPG and acted upon when necessary.

The CO proactively seeks to either prevent compliance issues from arising or discover and remedy them at an early stage. Wherever feasible, the CO can involve EY auditors and/or specialists in projects to further instill the right values within our firm.

Currently, our Compliance Office consists of five full-time staff, including the Compliance Officer, and three part-time staff, including the deputy Compliance Officer.

#### *Focus on Learning*

EY duly noted reports by the AFM addressing the audit profession and our firm, and our responses, as well as the approach the PCAOB and the AFM applied during their regular inspection in 2013 and 2014. This allows EY to better understand the AFM's requirements regarding auditors and audit firms. During inspections, the AFM also provided



additional clarification regarding its interpretation of auditing standards. EY will take these clarifications and other comments shared into account.

Through risk-based investigations, the CO proactively monitored our quality management.

The CO attended meetings with the firm's Public Interest Committee, discussed its valuable suggestions and provided the committee members with various findings, observations and root cause analyses.

### **Components of audit quality control program**

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

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

## **Instilling professional values**

### **Sustainable Audit Quality**

We understand that audit quality is our primary goal. Globally, EY has a multi-faceted Sustainable Audit Quality (SAQ) effort underway to support the execution of the highest-quality audits. SAQ reinforces our quality-driven culture and supports the delivery of the highest-quality audits. It involves a focus on continuous improvement and emphasis on key areas such as professional skepticism.

SAQ includes: tone at the top; resources; simplification; audit transformation/technology innovation; enablement, quality support and monitoring; and accountability.

### **Quality-driven culture**

A step change is necessary to enhance a quality driven culture in our mission to restore trust in our audit profession. Besides tone at the top, the right balanced conditions should enhance our quality driven culture and professionals' behavior. Our local leadership has a key role to really drive and

embed these balanced conditions. In fiscal year 2014/2015 we have set up and enhanced several initiatives balancing on either a quality-people perspective or quality-market perspective with one main goal: shaping the right conditions. In fiscal year 2015/2016 we will continue to strengthen the local leadership role for really embedding initiatives as conditions.

### **Tone at the top**

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

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

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

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

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### **Code of conduct**

We promote a culture of integrity among our professionals. The EY Global Code of Conduct provides a clear set of the standards that guide our actions and our business conduct. It is organized into five categories containing principles that are to be followed by everyone at Ernst & Young Accountants LLP to guide behaviour 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 EY Global Code of Conduct, and through frequent communications, we strive to create an environment that encourages all personnel to act responsibly, including reporting misconduct without fear of retaliation.

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

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In accordance with the Code for Audit Firms, we assessed the whistle-blower and complaints procedures, as described in this section. In our opinion, these procedures have operated effectively during fiscal year 2014/2015 and reports were followed up appropriately.

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

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

During this fiscal year, no internal reports were filed through the EY/Ethics hotline. The EY/Ethics hotline is also open for external reports re Ernst & Young Accountants LLP. In fiscal year 2014/2015, four external reports were filed through our EY/Ethics hotline (2013/2014: one report).

In one case, the person reporting notified EY that one of our professionals occupied another professional position in addition to working for EY. We investigated the matter and took appropriate action. In the second report, the reporter claimed


that EY was wrong in issuing an unqualified audit opinion for one of EY's clients. The reporter had based his claim on an old version of the professional rules governing audits and confirmed that, having reviewed the current version, his claim was unfounded.

The third report was filed by a job applicant who claimed that he/she was discriminated against because of ethnical background, when he/she first applied for a job with EY. The reporter furthermore claimed that, when he/she applied for another job with EY, the EY recruiter in question was influenced by the recruiter who managed the reporter's first application. We investigated the matter and we found proof that the reason the job application was rejected was not related to ethnical background. The fourth report was filed by a former employee, who claimed that his/her former co-workers were preventing him/her from finding a new job because the references they gave were not a good reflection of the reporter's qualities. The reporter asked to clean up his/her employee file and so we did.

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

### **Financial Intelligence Unit - Netherlands**

In accordance with the Dutch Prevention of Money Laundering and the Financing of Terrorism Act (WWFT), specific institutions have a legal duty to report unusual transactions to the Dutch Financial Intelligence Unit (FIU). The act aims to prevent unacceptable financial practices. During fiscal year 2014/2015, 56 suspicious transactions were reported by Ernst & Young Accountants LLP to the Dutch Financial Intelligence Unit (during fiscal year 2013/2014, the number was nine).



## Our values Who we are

People who demonstrate integrity, respect and teaming

People with energy, enthusiasm and the courage to lead

People who build relationships based on doing the right thing

## Internal quality control system

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

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

We recognize that in today's environment – characterized by continuing globalization and the rapid movement of capital – the quality of our audit services has never been more important. As part of Vision 2020, EY continues to invest heavily in developing the audit methodology, tools and other resources needed to support quality service delivery.

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

inspections process is to take effective and appropriate action to improve quality.

### Effectiveness of quality control system

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

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

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

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

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

### Shaping the right conditions

Shaping the right conditions is a critical step change towards an enhanced quality-driven culture and high-quality audits.

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



### *Trust is key*

Our firm serves multiple industry sectors, and our professionals have different backgrounds. Risks vary for each market and specialization, but in all markets our main risk is a loss of trust by any of our relevant stakeholders. The backbone of the audit profession is the requirement that society at large must be able to rely on auditor's opinions. A loss of trust in the audit profession results in discomfort among stakeholders and actions beyond our control by regulators and lawmakers. Therefore, strengthening trust continuously is essential, and we are actively working to achieve this, through our efforts to maintain and further improve the quality of our work and through our dialogue with our stakeholders. Putting the public interest first is embedded in our firm by our tone at the top, our training efforts, the decision-making processes of our policymakers, the work of support and oversight departments such as our Professional Practice Group (PPG), the Independence Desk, Risk management and the analyses, reviews and compliance tests of our Compliance Office (CO). We also refer to page 33 describing our implementation of the measures laid down at the end of 2014 by the NBA, our professional body.

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

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

There are four key areas in "the right conditions" for the quality of our work. As trust depends not only on quality but also on perception, our communications constitute one key area. The other

key areas are our people, our clients and our procedures. All these areas fall under our duty of care.

### *Investing in our duty of care*

The Audit Firms (Supervision) Act puts the audit firm first and not the external auditor. The audit firm has a duty of care towards external auditors working for the firm or associated with it. A "duty of care" means that the audit firm must ensure that its external auditors comply with all legal requirements for external auditors. In addition, the audit firm is responsible for ensuring that the external auditor acts in accordance with the standards, descriptions and procedures in the firm's quality control system. Some important initiatives in this respect are:

#### **Partner portfolios**

Besides the allocation of people with the right knowledge and skills to engagements, it is also of key importance to allocate sufficient time to ensure that audits are executed at the required level of quality. Insufficient time spent by the audit teams, including executives, is one of the root causes of quality issues arising from the execution of our work. Taking into account individual portfolio characteristics, Assurance Risk Management has increased its efforts to monitor the individual portfolios of executives in an effort to establish an adequate level of control of the quantity of engagements managed by individuals.

#### **In-depth root-cause analysis**

Quality reviews, including in-depth root-cause analysis, play a significant role in our concept of a learning organization. In our quality control framework, we have EQRs and AQRs (refer to pages 26/27/28). In the coming year we will enlarge the scope of our reviews both before and after the auditors' report is signed. With 'inflight' reviews we will support selected audit teams within the 'WeCo' population before signing the auditors' report. After sign off, we will set up a dynamic system of 'regulatory' reviews performed by an experienced team.



Performing a root-cause analysis is not a one-off exercise. In the coming year we will look into root causes in more depth and fully integrate our root-cause analyses into our business processes, reviewing the various layers in the organization and both the positive and negative factors affecting quality. In this way we will monitor our improvement and change agenda. We will use our root-cause analyses in a positive way to really support our learning organization.

#### **Experienced based learning and development**

EY has an extensive training and education programme worldwide. The guiding principle is the continuing education of our professionals. In the Netherlands we are currently tailoring our programmes more closely to the individual needs of our staff, as greater diversity among our employees demands more customized education and training. That is just what young professionals expect from us. This customized approach has been a real element of a number of recent learning and talent initiatives.

- ▶ Development Learning Teams are a key element of our new coaching programme for new staff. The philosophy of the DLTs is that participants can learn from each other: peer learning. The coach is the facilitator of this reciprocal learning process and he or she helps the participants to find their way in our organization and in their work.
- ▶ Communities: we do not want learning to be confined to the classroom or the computer; we also want to learn in the workplace and from direct practical experience. Communities within regions, sectors, or made up of people from a specialist discipline such as US GAAS/GAAP contribute to this.
- ▶ EY University: launched in September 2015, EY University is a new internal education programme for Financial Expert specialization. EY University puts us in a position to attract a broad, interested group of talented people to commit themselves to EY, while participants can familiarize themselves with the different professional opportunities at EY. This learning program fits in seamlessly with our diversity policy.
- ▶ World-class learning: practice-based learning is the starting point for our global learning programmes. Learning based on real events and real experiences using simulations.

All initiatives aim to enhance the learning capacity of our company and the individual partners and employees.

#### *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. We consider the right culture and professional behavior key and continue to invest significantly in these.

#### **Diversity**

Diversity is an important building block of our HR policy that aims for a quality-driven culture. Professionals complement each other in a diverse audit team. A good team has both super-specialists and generalists. It is conspicuous not only for its excellent specialist knowledge, but also for making sound assessments of the business culture of the client, as well as the ability to dare to ask the right question at the right time.

We also promote team diversity by means of mobility between service lines, countries and projects. Teams made up of staff from different backgrounds help our professionals to throw light on problems from different perspectives and to test and develop each other's views in a challenging way. This benefits the professional depth of the team and of individual team members and therefore improves the quality of our audits.

#### **Assessment and remuneration**

Feedback on performance by our professionals is provided throughout the year and annually in our performance evaluation system and process. Quality is an important item in evaluating performance and promoting our people. In fiscal year 2015/2016 we will further enhance reversed feedback into our evaluation process.

Job profiles form the basis for assessment and promotion in our company. These profiles are fine-tuned to the skills that fit within our focus on quality and cultural change. Before an employee can be appointed to partner or executive director, he or she must have satisfied the quality curriculum and the file reviews (NBA, measure 3.2) among other things.

Our annual evaluation system identifies positive and negative performance indicators following on from a quality-driven culture.





Sub-standard quality performance directly impacts the overall performance rating, promotion opportunities and remuneration. Before being promoted to manager, senior staff has to join a one-day assessment session, to verify that both their technical knowledge and their skills are at least meeting expectations. Results of such a session may include the determination of 'matters of attention' or even a formal improvement plan. Before becoming a partner or executive director, senior manager's audit files are subjected to an AQR. Furthermore, the CO is requested to provide input regarding the quality performance of the senior manager, based on the reviews of their work in recent years.

### **Teaming**

Allocating the people with the right knowledge, time and skills to a specific engagement is of key importance to reducing risk. To create the highest performing teams, we also train our professionals in team-building, in which trust is the absolute basis. To create trust we use several instruments of open communication, such as family counselling and innovation labs. In the innovation labs a board member visits an office, and employees from staff to partner can actively participate in strategic thinking.

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.

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

### *The right clients*

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

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

### *The right procedures and infrastructure*

To perform high-quality audits, we have a system of tools, guidance, enablers and quality assurance measures, such as consultations and quality reviews, as described in this transparency report. Performing the right procedures is supported by the tools described in this Transparency Report and by a range of controls and dedicated units, including our Global Audit Methodology, our training programs, our PPG and our consultation procedures. If and when necessary, consultation can be extended to a Region or Area, or even to the Global level. EY makes significant investments at the Global level to improve its professional infrastructure.

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



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

#### *The right communications*

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

Starting with the 2014 financial statements, and in accordance with new rules from our professional association NBA, the auditor's opinion at OOB's (Dutch PIEs) contains more information about critical areas identified and addressed during the audit, as well as remarks by the auditor on the going concern assumption applied. These new Dutch rules are in line with proposals put forward by the IAASB. At the global level, EY piloted this approach; our firm participated in this pilot with eight clients. During fiscal year 2014/2015, the Dutch PPG also set up a panel for the 'new more informative' audit report. This panel advises our audit teams on the application of the new rules. Through this panel, we aim to achieve a seamless implementation of the new audit report by supporting audit teams in sometimes complex matters.

The role of the auditor during shareholders meetings is changing. More and more, the auditor responds to questions raised by shareholders. All partners for listed companies present on their audit actively in the shareholders meeting. These professionals are well trained and supported by guidance and best practices. At our clients, we spend more time with members of the Supervisory Board or, depending on the governance model, Non-Executive Directors. In these meetings we discuss various topics, including strategic,

operational, financial, fraud and compliance risks the company faces. However, because we are auditors, the focus in these risk-related discussions is mainly on financial and audit risks as well as the going concern assumption.

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

We also hold stakeholder meetings to better understand current expectations from our stakeholders and discuss ways our audits, other assurance-related services and communications could be improved and aligned with stakeholders' needs and expectations. During those meetings we also explained to stakeholders various other topics, including our governance model and the Public Interest Committee, new independence rules and quality improvement efforts in the last number of years.

#### **Monitoring effectiveness**

During fiscal year 2014/2015, we continued to insist on strict compliance with our Global Code of Conduct by our partners and other professionals. We expect them to live up to high standards of integrity and professionalism and take action when they fail to do so. Monitoring is a key element of this pursuit of compliance and of our Internal Quality Control System. Risk mitigating controls regarding audit quality and compliance are tested throughout the year. Our monitoring controls, Panels, Consultation and AQR procedures generate valuable information and insights. Their results and the policymakers' statement are included in this Transparency Report.

Nevertheless, we continue to note some deficiencies, in both controls and audit files that we review internally. As such, the number of detected deficiencies is rather low compared to the number of audit engagements we perform 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 2014/2015 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 2014/2015. The breakdown by type of client concerns their qualifications under Dutch law - they are either Public Interest Entities according to Dutch Law (*Organisaties van Openbaar Belang* or OOBs,

including, among others, listed 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 7,100 audits annually, of which about 3,750 are WeCos.

Type of infringement at financial statement audits 2014/2015	WeCo / OOB	WeCo / non-OOB	non-WeCo	Total
1. Engagement Quality Review incorrectly applied		2		2
2. EQR concurrence notice sent to CO after release of auditor's opinion	1		1	2
3. Infringements resulting from Audit Quality Review 2013/2014 test cycle		2		2
4. Insufficient audit evidence in specific areas	1	18	2	21
5. Infringements of duty to secrecy	2			2
6. Mandatory consultation not applied		2	2	4
6. Other		1	3	4
Total	4	25	8	37

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

As we are a learning organization, we take a critical look at the number of infringements and their year-on-year development. The number of internal inspections by our Compliance Office (CO) increased, resulting in an increase in the number of infringements reported by the CO. Where appropriate, action has been taken against, and sanctions have been imposed on, the auditors and teams involved in the infringements.

The firm as a whole benefits from our annual summary of 'lessons learned from infringements'. This summary is distributed to all Assurance personnel.

The infringements mentioned in the table on the previous page can be classified as follows:		Our follow-up has been (in all cases, as a general response, the partners or directors involved have been reprimanded):
1	Engagement Quality Review incorrectly applied	The EQRs were performed at a later stage and confirmed the opinion as issued.
2	EQR concurrence notice sent to the CO after release of auditor's opinion	We exhorted our professionals to comply with these rules.
3	Infringements resulting from the Audit Quality Review 2013/2014 test cycle	Each of the partners and executive directors involved has prepared a mandatory Remedial Action Plan. Implementation of this Plan has been reviewed by the Compliance Office. We refer to the AQR section of this Transparency Report, where improvement procedures are discussed.
4	Insufficient audit evidence in specific areas	These infringements result from internal reviews by the CO. Three of these infringements are related to the latest regular AFM-inspection, whereas six were discovered during an internal review of the audits done in one sector, the public sector. There were four infringements regarding the audit of going concern. Responses are similar to the follow-up of infringements resulting from AQRs. The number of CO inspections increased from 30 in 2013-2014 to 35 in 2014/2015.
5	Infringements of duty to secrecy	The consequences for clients have been mitigated. The employees involved have to engage in extra training on secrecy.
6	Mandatory consultation not applied	In four engagements, no consultations were undertaken by the audit team before the release of the audit report, although this consultation was mandatory. These consultations related to various subject matters.



### Late archiving

Not included in the tables on the previous page and above, are infringements regarding the archiving of audit files, as these 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 WeCo's, external regulations set the maximum period for archiving audit files (45-60 days after signing the auditor's opinion, depending on the applicable regime). For quality and efficiency reasons, we set an internal filing deadline of ten business days after signing the auditor's opinion for all financial statement audits. When justified and subject to approval by the PPG, a longer period may apply.

We met the external rule of 60 days for 99.8% of all audit files. The deadline wasn't met for 14 files (2013/2014: 20). Eight of these were WeCo files; six were non-WeCo files. These files were reported to our Compliance Officer.

We met the internal ten business days archiving rule for 99.2% of the files (2013/2014: 99.2%).

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

### Incidents

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

During fiscal year 2014/2015, we reported 14 (2013/2014: nine) incidents to the AFM.

- ▶ Six cases were related to reputational risks to our firm. In one case, we were stated liable for allegedly issuing a wrong auditor's report. In one case, staff of EY lost a client's management letter. Another incident concerned repeated articles in the newspapers regarding certain developments at municipal governments.
- ▶ Two cases concerned media reports on potential non-compliance at our clients. In none of these cases EY was suspected of wrongdoing or stated liable.
- ▶ Six cases related to publications of annual accounts with our auditors' report where the published annual accounts were not the ones audited by our firm.

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. The CO has started to investigate all cases on reputational Risk. The two cases of non-compliance at clients date from years back and are currently in the courts. One of these cases will be investigated by our CO.

Incidents	2014/ 2015	2013/ 2014	2012/ 2013	2011/ 2012
Criminal offence and violations of the law at client	2	4	1	1
Reputation risk	5	4		
Correction of error(s) in financial statements			3	1
Threat to independence		1		
Improper use of opinion issued by EY	6		3	
Anonymous signals	1		2	
Bankruptcy				1
Total	14	9	9	3



## Client acceptance and continuance

### EY policy

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

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

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

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

### Putting policy into practice

We use the EY Global Tool for Acceptance and Continuance (GTAC), an intranet-based system, for efficiently coordinating client and engagement acceptance and continuance activities in line with global, service line and member firm policies. GTAC

takes users through the acceptance and continuance requirements and identifies the policies and references to professional standards needed to assess both business opportunities and associated risks.

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

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

### Close monitoring

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

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

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 2014/2015, we classified 45 engagements or 1% as 'Close Monitoring', 33% as 'Moderate Risk' and 66% as 'Low Risk'. For our audit engagements at Public Interest Entities as defined by Dutch law (Organisaties van Openbaar Belang, OOBs), these

figures are 2%, 72% and 26%, respectively. The policymakers decide on the external auditor and EQR-reviewer of all listed entities and close monitoring audit engagements.

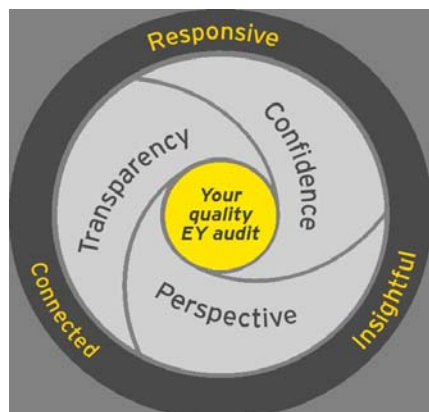
In fiscal year 2014/2015, six statutory audit engagements were terminated during the audit process (tussentijdse beëindiging van een wettelijke controleopdracht). Five of these engagements were related to non-OOB audit clients. Four engagements (including one OOB engagement) were terminated by the client due to bankruptcy. One engagement was terminated by the client because this client wanted to anticipate a new regime under which a statutory audit would no longer be required for this entity. The sixth engagement was terminated by the client after the auditors had expressed their dissatisfaction with the client's answers to their requests for information. The AFM is always informed about statutory audit engagements terminated during the process.

## Performing audits

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

### At the heart of the EY audit is a relentless focus on quality

The EY audit is focused on quality and is bound by a service approach that is connected, responsive and insightful.



**Connected** - bringing all of EY to our clients, with the right people in the right locations, building trust and enriching relationships

**Responsive** - having every person in EY demonstrate the desire and commitment to be proactive, visible and timely

**Insightful** - sharing EY experiences and a point of view tailored to our clients, thereby advancing their thinking

### Standardisation project

Standardisation aims at improving the quality and efficiency of the audits by supporting teams in performing and documenting audits 'the first time right'. We will achieve this by facilitating teams in choosing the appropriate audit approach promoting a more standardised execution of the audit and providing teams with clear examples of how to document the audit.


### Conduct controls in the audit

The impact of the tone at the top is an important element of the internal control environment of our audits. The effectiveness of hard controls strongly depends of the conduct controls in the organization. Our professionals are informed and trained in the importance of conduct controls in the audit and their communications. We will further support our audit teams in this area.

### Audit methodology

In May 2015, we released a new Global Audit Methodology (EY GAM), which was redesigned to make it easier to read and use, and to support our new documentation tool, EY Canvas. We have made extensive use of technology to simplify the presentation and, as a result, the content is more accessible and user-friendly. We have made use of intelligent editing, better design and interactive graphics.

EY GAM provides a global framework for delivering high-quality audit services through the consistent application of thought processes, judgments and procedures in all audit engagements. Making risk assessments, reconsidering and modifying them as appropriate, and using these assessments to determine the nature, timing and extent of audit procedures are fundamental to EY GAM. EY GAM also emphasizes applying appropriate professional skepticism in the execution of audit procedures. EY GAM is based on International Standards on



Auditing (ISAs) and is supplemented when necessary to comply with the Dutch auditing standards and regulatory or statutory requirements.

Using technology, our auditors select the audit approach within our methodology applicable to the reporting requirements of the entity being audited. For example, there are approaches to audit both listed entities and entities considered non-complex.

The auditor is presented with a version of EY GAM organized into interdependent phases and 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 two key components: requirements; and supporting forms and examples. The requirements reflect the typical flow of how our firm executes an audit. The forms 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.

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. During fiscal year 2015, we began the phased deployment of our next generation global audit platform, EY Canvas.

#### **EY Canvas**

EY Canvas is web-based, built using state-of-the-art technology to provide heightened data security and allow us to easily evolve our software to respond to changes in the accounting profession and regulatory environment.

Audit engagements in EY Canvas are automatically configured with information relevant to our client's listing requirements and industry, helping keep our audit plans customized and up-to-date and providing direct linkage to our audit guidance, professional standards and documentation templates. It is built with a fresh, clear design and user interface that allows users to visualize risks and their relationship to our planned response and work performed in key areas. EY Canvas also enables a linkage for our group audit teams to communicate interoffice risks and instructions, so that the primary team for each audit has control over planning and monitoring of the group audit. Over the coming year, we will phase out our existing audit support tool, GAMx.

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.

### **Formation of audit engagement teams**

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

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

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

In fiscal year 2014/2015, specialists such as these spent 142,000 hours supporting audit teams of our firm, i.e. 7% of total hours spent on audits by our firm. Their relative spent varies per industry. In



audit engagements in the financial industry, for example, the contribution of specialists is high and amounts, on average, to 10% of total hours spent.

The international exchange of professionals is considered of key importance for servicing international clients well, especially those that report under foreign accounting standards or require knowledge of foreign auditing standards. Professionals in exchange programs make a very valuable contribution to our expertise. During fiscal year 2014/2015, nine Dutch professionals were employed abroad at other EY locations. 19 non-Dutch professionals were employed in our Assurance service line. The rank of these professionals varies from senior staff to partner.

The hours involved in an engagement are monitored and assessed for appropriateness, both the number of hours planned and the actual number of hours spent. The relative number of hours spent on audits in fiscal year 2014/2015 by each rank of staff can be summarized as follows:

Relative number of hours spent on financial statement audits	WeCo/OOB	WeCo/non-OOB	Non-WeCo
Partners & Executive Directors	7%	5%	5%
Senior Manager & Manager	22%	18%	18%
Senior Staff	28%	29%	29%
Staff	43%	48%	48%
Totals	100%	100%	100%

Itemized by engagement risk, the figures are as follows:

Relative number of hours spent on financial statement audits	Close monitoring	Moderate risk	Low risk
Partners & Executive Directors	8%	7%	5%
Senior Manager & Manager	24%	23%	17%
Senior Staff	28%	28%	29%
Staff	40%	42%	49%
Totals	100%	100%	100%

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

## Review and consultation

### Reviews of audit work

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

The nature, timing and extent of the reviews of audit work depend on many factors, including:

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

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

### Consultation requirements

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

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

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



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

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

During fiscal year 2014/2015, the number of formal technical consultations with our PPG was in line with the number of consultations in the previous year. The number of consultations on auditing standards, accounting, fraud and capital markets decreased from 1,215 in fiscal year 2013/2014 to 1,206 in fiscal year 2014/2015. 26 % of these consultations were related to 'going concern' issues (2013/2014: 23%); 23% dealt with topics related to modified audit opinions (2013/2014: 28%). These numbers do not include consultations with our RM/Independence Desk or informal consultations and inquiries. They do include the consultations to the different Panels discussed below.

In fiscal year 2014/2015, audit teams reported 78 instances of potential fraud to the Fraud Panel (71 in 2013/2014). As of October 2014, and due to a global change in policy, an initial risk assessment is made of these original reports, eliminating those cases which are deemed 'clearly inconsequential'. After this assessment, a number of 39 formal consultations to the panel remained. In eight cases (seven in 2013/2014), the panel defined the fraud as material. In all cases, our clients acted appropriately, taking the necessary steps to assess and solve the issue. The number of consultations with the Going Concern Panel slightly increased to 310 in fiscal year 2014/2015 (283 in 2013/2014).

The Error Evaluation Panel was consulted in 76 cases (46 in 2013/2014), including 24 (ten in 2013/2014) errors detected during initial audits. The panel concluded in three cases (non-OOB clients) that a fundamental error had occurred in the audited financial statements of the previous year. In two other cases (both OOBs and initial audits), we concluded that the errors were at least material and possibly fundamental and informed the former auditor. In 58 cases (six OOB, 52 non-OOB), the panel concluded that a material error had occurred (34 in 2013/2014). In 13 cases the

panel concluded that the error was not material. Leaving aside the errors detected during initial audits, the errors could probably have been prevented by more professional skepticism of our audit teams in previous audits. Dutch law requires amongst others that, in case of a fundamental error, a revised set of comparatives is prepared for the year in which the fundamental error occurred and that the auditor reconsiders his auditor's opinion. Material errors are adjusted and disclosed in the first financial statements prepared after the error is detected. Our auditors verify that the disclosure satisfies the applicable requirements.


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

### **Engagement quality reviews**

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

The engagement quality review spans the entire engagement cycle, including planning, risk assessment, audit strategy and execution. Policies and procedures for the performance and documentation of engagement quality reviews provide specific guidelines on the nature, timing and extent of the procedures to be performed and the required documentation evidencing their completion. Our PPD approves all engagement quality review assignments for listed companies and those considered higher risk.

An Engagement Quality Review (EQR, *onafhankelijke opdrachtgerichte kwaliteitsbeoordeling*) is an important part of our quality control system. We introduced the so called 'deep dive', going one step further and deeper in our reviews. We gave in detail instructions for executing EQR and we communicated the



importance of timely involvement and the expected number of hours for an EQR. All executives and reviewers were informed and trained.

With respect to the staffing of the EQR teams, we have opted for a model in which we have two kinds of reviewers: those who spend a substantial part of their time on EQRs and those who only perform a few EQRs. The principle underlying the learning organization: the EQR not only functions as an extra pair of eyes to ensure that formal rules are complied with, it also plays the role, as far as possible, of a colleague with widespread practical experience in conducting and documenting audit assignments of a similar nature to the assignment it assesses itself. The intention is that the team being assessed learns from the knowledge and experience of the reviewer that he/she has gained from doing other reviews. We believe that learning from each other contributes to the right quality culture.

In the Netherlands, EQRs are mandatory for Public Interest Entities or PIEs (*Organisaties van Openbaar Belang* or OOBs). EY's global definition of a PIE is similar to, but not exactly the same as the Dutch definition of an OOB. 49% of the EQRs performed in 2014/2015 (2013/2014: 56%) concerned OOBs or PIEs according to EY's global definition of a PIE. 51% (2013/2014: 44%) of the EQRs were held at specific groups of non-OOB clients, including non-OOB high risk clients, our ten largest non-OOB clients, large municipalities, large pension funds and various state-owned entities. During fiscal year 2014/2015, 584 (2013/2014: 564) EQR references were made to the Compliance Officer regarding 425 engagements (2013/2014: 325). One client may have multiple EQR references, for example due to the review of interim financial statements and/or prudential reports.

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

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

EY has a collaborative culture that encourages and expects people to speak up, without fear of reprisal, if a difference of professional opinion

arises or if they are uncomfortable about a matter relating to a client engagement. Policies and procedures are designed to empower members of an audit engagement team by requiring them to raise any disagreements relating to significant accounting, auditing or reporting matters.


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

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

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

### **Audit partner rotation**

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



independent audit oversight, helps strengthen independence and objectivity and are important safeguards of audit quality.

We employ a database to track partner rotation that enables effective monitoring of compliance with requirements.

We have also implemented a process for partner rotation planning and decision-making that involves consultation with, and approvals by, our Professional Practice and Independence professionals.

### **ViO partner rotation requirements**

Since 1 January 2014, the Dutch Regulation regarding independence of auditors involved in assurance assignments (ViO) has been in force. The ViO stipulates that a long association of senior audit team members with a particular engagement - seven years or more - may create a threat to independence.

After the ViO came into force, we assessed all situations with a possible impact on independence resulting from long association with the client, starting with our audit (WeCo and non-WeCo) clients.

In response to the introduction of the ViO, we developed a policy for team rotation, including measures to safeguard independence if and when, due to specific circumstances, certain team members temporarily extend their association beyond seven years. As from this calendar year 2015, in principle no partner of EY will be involved in an audit engagement for a continuous period of more than seven years, unless specific circumstances at, or relevant mitigating measures by, at the client justify involvement for an eighth year.

### **Other ViO requirements**

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

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

## **Audit quality reviews**

The Global Audit Quality Review (AQR) program is the cornerstone of our process to monitor audit

quality.

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

Implemented annually, the program is coordinated and monitored by representatives of the PPD network, with oversight by the Assurance Leadership.

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

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



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 Risk Management groups. The actions are monitored by our PPD and Assurance leadership. These programs provide important practice monitoring feedback for our continuing quality improvement efforts.

## 2014/2015 AQR results

The 2014/2015 results are in summary:

	2014/2015		2013/2014		2012/2013	
Rating 1	38	91%	58	83%	52	85%
Rating 2	3	7%	11	16%	9	15%
Rating 3	1	2%	1	1%	0	0%
Totals	42	100%	70	100%	61	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

In fiscal year 2014/2015, our Rating 1 score improved to 91%. However, within this Rating 1 ('no or minor findings'), the AQR 2014/2015 saw a relative increase of the number of minor findings in the engagements reviewed. This increase and the four files rated '2' or '3' indicate that there is room - and a need- for further improvement, especially in the areas of reliance on IT, execution of control testing, using the work of management's experts and consultations. We continue our efforts to ensure compliance with statutory rules and with our high quality standards in all aspects of the audit. The message our leadership is continually sending to our partners and staff regarding the

importance of quality in everything we do is part of this effort.

Compared to the previous fiscal year, during the 2014/2015 AQR the number of reviews decreased from 70 to 42 engagements. However, the coverage of audit hours subject to AQR review was similar to last year. This is due to the fact that more large engagements were selected.

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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.

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One of the engagements subject to the AQR resulted in a '3' rating due to a finding related to an overstatement of investments and equity due to misapplication of IFRS-accounting.

Compared to fiscal year 2013/2014, we further improved substantive analytical procedures, audit of fair value measurements and disclosures, audit conclusions and supervision and review, as well as the quality of documentation in our audit, partly in response to recommendations in this area from the AFM.

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

15 engagements selected for AQR had also been subject to an EQR. 14 out of these reviews (94%) were rated '1' in their AQR; one was rated '2' (6%). In fiscal year 2013/2014, these percentages were similar.

Our PPG analyzes which remedial action is needed for engagements rated '2' and '3'. Furthermore, the audit partners involved are required to prepare a Remedial Action Plan (RAP) in which relevant actions aimed at improving their performance are to be included. As at this year a RAP is required for all '2' and '3' ratings. The RAPs are submitted to our firm's Professional Practice Director for approval. The AQR 2014/2015 resulted in four RAPs. In fiscal year 2013/2014, the AQR resulted in one RAP.



Each partner is subject to a regular AQR at least once every three years. In addition to the audits inspected in the regular AQR, our Compliance Officer also selected partners for AQR inspection based on a risk analysis. This risk analysis takes into account any signals that might indicate potential quality issues.

As in previous years, the analysis of the overall outcome of the AQRs 2014/2015 will result in a Quality Improvement Plan (QUIP). A QUIP-based checklist provides all audit teams with reminders of focus areas, as well as best audit practices. The items of the checklist need to be implemented in all engagements and their implementation must be documented.

The root cause analysis of the overall outcome of the AQRs from 2014/2015 will be finalized soon and will be included in the QUIP mentioned above. Common improvement areas will be discussed in internal technical update meetings and will be included as areas of attention during interim reviews at office level ('mini AQR's). In addition, where appropriate, the PPG or our industry groups will develop specific guidance and templates for improvement.

## External quality assurance review

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

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

connection with those audits. Our firm is registered with the PCAOB.

The PCAOB and the AFM performed their first joint inspection at our firm in the first half of 2013. The PCAOB issued their report on 1 May 2014. The AFM included their joint inspection findings in the AFM's regular quality assurance inspection 2013/2014 report for the Big Four audit firms. In last year's Transparency Report, we described the content of this report in more detail.

The final, firm-specific report on the inspection is expected to be issued in the last quarter of 2015.

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

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

### Inspections

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

In our 2013/2014 Transparency Report we summarized the PCAOB's observations from their joint-inspection.

We took good note of the findings resulting from the joint inspection and have initiated additional actions to improve the quality of our work in the related audit areas, including extra training of our professionals performing audit engagements conducted under PCAOB standards, increased interaction with US colleagues in these audits and integrating them in our teams. The PCAOB granted us a one year period, until May 1, 2015, to address its criticisms regarding our quality controls. This is the normal procedure after PCAOB inspections. The PCAOB informed us early July 2015 that we have addressed its criticism relating to our quality controls to its satisfaction.

#### *AFM - Regular quality assurance inspection*

In last year's transparency report, we described the results of the AFM's regular 2013/2014 inspection, partly performed as a joint-inspection



with the PCAOB. The AFM concluded then that in three of ten engagements that were reviewed, the auditors failed to comply, or complied insufficiently, with applicable rules and standards in performing statutory audits.

We concurred with the conclusions of the AFM. We undertook various actions to address the inspection findings noted and assessed root causes. As a result, we have initiated additional actions to improve the quality of our work in the related audit areas. These included setting up a topic-specific support panel for our engagement teams to help them with their audit of the valuation of land development projects for clients in the public sector. We also developed additional guidance for our EQR reviewers and shared the findings from the inspections with all executives during their technical training.

Mid of August, AFM has taken next steps regarding the enforcement process as a consequence of the findings mentioned in the aforementioned report. Currently, this process is in the preparatory phase which means that the so-called 'penalty officer' (*boetefunctionaris*) prepares a proposal to the Board of the AFM. Then, the Board shall take the final enforcement decision. EY can object and -if rejected- appeal against mentioned decision.

### **Root-cause analysis**

Our root-cause analysis has grown out of many diverse components and sources from various perspectives. It is based, on the one hand, on our regular processes (such as the annual AQR process and EQR feedback) and supplemented, on the other, by the analyses arising from special reviews by the AFM, PCAOB and our own Compliance Office. These root-cause analyses have given us, in combination with our knowledge and experience of our organization, information to identify robust improvement measures. However, the outcomes do not stand on their own and cannot be ranked. To illustrate this briefly with an example: "work and time pressure" is a frequently cited reason, but it is always subject to personal perception and can be caused by many different factors, i.e.: too few people; poor project management; too low budget; insufficient standardization; an assessment and remuneration system that does not fit in with the quality objectives, which in turn is due to differences between individuals' personal objectives and the objectives of the national organization and those of the global organization. The breadth and diversity of outcomes of the root-cause analyses have an important common thread

in our response, i.e. coherence and balance in the preconditions that have to support a quality-driven culture.

### *Learning organization*

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

We inform our regulators periodically about improvement measures implemented and investment targets set, and we take their feedback into consideration going forward.

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

Further steps to enhance our quality driven culture include:

- ▶ detailed and continuous root cause assessment based on the observations resulting from both enhanced internal and external inspections and other input;
- ▶ enhanced feedback and coaching program
- ▶ drive an open way of communication through counseling families, blogs and innovation labs
- ▶ more individual and experienced based learning and training efforts;

- ▶ review and reconfirm portfolios of individual professionals, to make sure portfolio sizes and characteristics are balanced and manageable;
- ▶ embed our new audit tool EY/Canvas and related standardized approaches, designed to simplify the execution of effective and compliant audits.

#### *Other theme specific inspections by the AFM*

In 2015, the AFM initiated various investigations at the Big Four audit firms.

#### **Remediation**

In February 2015, the AFM performed an inspection to assess the measures we had taken and were taking in order to remediate the shortcomings in the three engagements that the AFM had qualified as 'insufficient' in their latest regular inspection. We informed the AFM about our remediation process in general and, more specifically, about the remediation measures taken with respect to the three engagement files deemed insufficient by the AFM. A report by the AFM on the outcome of this inspection is pending.

#### **Corruption**

Also in February 2015, the AFM initiated a theme-specific investigation at the Big Four audit firms into the audit risks at clients who could be involved in corruption and into the audit approach taken at such clients. This investigation started with a self-assessment, with subsequent interviews by the AFM. Early July 2015, the AFM issued its initial findings. We responded to these findings in September 2015. The final report by the AFM is pending.

#### **Change and improvement measures**

In April 2015, the AFM started another theme-specific investigation at the Dutch PIE audit firms, including our firm. The AFM's main goal with this investigation is to monitor the design of the implementation of measures we have taken as a result of the findings and conclusions of the latest regular AFM inspection 2013/2014 and monitor the NBA's measures mentioned in the September 2014 report "In the public interest" of the NBA working group "Future of the auditing profession". We are pleased with the first draft results of this review, but we also realize that improvements are still needed on points such as root-cause analysis and monitoring our objectives. We are developing this further, and should have this up to the required standard before 31 December. Our initial experiences with the AFM in its role supervising the

improvement and change agenda have been very positive. We appreciate their request in this inspection, because it covers the really relevant issues for quality improvement. We also see a critical and advisory supervisory authority ready to work within the specific framework of our organization with scope for details specific to our organization. The AFM report with the conclusions of this monitoring is expected to come out in October 2015. In the coming years, the AFM will monitor the effectiveness of the measures we have implemented.

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

Following articles in the media, AFM started two case specific inspections in 2012. In fiscal year 2014/2015 one inspection was finalized and AFM's report with findings was received. A closing meeting will be held shortly with AFM to discuss the improvement measures that we took following the conclusions of AFM.

The other inspection has currently not yet been completed. AFM has asked additional information which was shared with AFM. We are momentarily awaiting AFM's response.

#### **SISA inspection**


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

SISA includes the attachment of a detailed annex to municipalities' financial statements, which is subject to external audit. In July 2014, the internal audit department of the Dutch Ministry of Finance inspected the 2013 Financial Statement SISA annexes of a number of municipalities, including six audited by our firm. The inspection concluded that for all these six files, the audit had been performed in an adequate way regarding both the audit of the financial statements and the funding information.

#### **Quality Review by the Dutch Educational Inspection (Onderwijsinspectie)**

The financial information of Dutch publicly-funded educational institutions - both financial and funding information - is subject to audits. The audit work required is described in detail in the so-called 'Education Audit Protocol'. The Dutch Educational Inspection performs annual reviews of some of our audit files in order to establish if we performed our





audits adequately and compliant with the Education Audit Protocol. In October 2014, the Educational Inspection performed a review of 13 audit files from the year 2013. The Educational Inspection concluded that the audit of twelve files had been performed adequately regarding both the financial statements and the funding information. Regarding one file, the Educational Inspection had comments regarding the auditing of the funding information. We took measures to improve the audit of this specific engagement.

### **NBA measures 'In the public interest'**

Based on the report "In the Public Interest" ("*In het Publiek Belang*") published in September 2014 by an NBA working group, the NBA adopted its so-called '53 measures'. These measures - intended to ensure the preeminence of the public interest in the audit profession and to foster audit quality - are fully aligned with our own priorities. Many of the measures require action of audit firms, especially those with a PIE-license (*OOB-vergunning*) such as our firm.

We report regularly on our progress in the implementation of these measures, on [our website](#) and in the [NBA monitor](#). What follows is a short summary, per subject area, of the current status of this implementation. We refer to our website and NBA monitor for more detailed information.

#### *Culture*

The NBA exhorts audit firms to embed the right culture in the firm and to measure this culture periodically (measure 1.4). At our firm, we periodically measure our culture at different levels and elements. We are now embedding the outcomes from the latest measurements into our organization. We will fully comply with this measure before the deadline of April 2016. In addition, measure 1.3 deals with the way audit firms profile themselves in the labor market, including the way they present the work at an audit firm. The way we profile ourselves in the labor market is in compliance with the relevant measure.

#### *Governance*

Audit firms are required to have a Supervisory Board at the holding level of their organization in The Netherlands, with various specifically mentioned attributes and competencies. EY's Supervisory Board in The Netherlands started its work on 1 July 2015. Once the Supervisory Board has approved and adopted all the relevant stipulations regarding its own composition, functions, competencies and mandates, we will

fully comply with the measures in this area.

#### *Performance review and remuneration*

These measures deal with the right conditions and incentives in policy areas such as performance review, promotion and remuneration of our partners and employees. We will re-evaluate our sanction policy together with the upgrading of our root cause-analysis and learning organization. We are currently in compliance with these measures, except for the implementation of a claw back regulation, which has to be finalized by January 2016, the approvals of the Supervisory Board (due January 2016) and the full implementation of the requirement to define a curriculum any candidate must have accomplished before being eligible for partner promotion (due July 2017). We are working on these remaining topics and are confident we will meet the deadlines.

#### *Communication*

The measures in this area relate mainly to the use of the new auditor's report and auditors' presentations in shareholders' meetings. We fully comply with these measures.

#### *Quality*

These measures mainly relate to the definition of, and reporting on, quality-indicators, as well as to Engagement Quality Reviews (EQRs) and to remediation actions of the outcome of Audit Quality Reviews (AQRs). We will re-evaluate our current remediation process and fine tune from our perspective of a learning organization. Besides this step we are in full compliance with these measures.

#### *Implementation*

The Supervisory Board is required to monitor the progress of the implementation of the '53 measures' and audit firms are required to report on this progress in their Transparency Report. We comply with these measures. During fiscal year 2014/2015, our Public Interest Committee (*Commissie Publiek Belang, CPB*) monitored the implementation of the measures. With the installation of the Supervisory Board, the CPB was dissolved.



## Compliance with legal requirements

The EY Global Code of Conduct provides a clear set of standards that guide our actions and business conduct.

Ernst & Young Accountants LLP complies with applicable laws and regulations, and EY's values underpin our commitment to doing the right thing. This important commitment is supported by a number of policies and procedures, including:

### **Anti-bribery**

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

### **Insider trading**

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

### **Trade sanctions**

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

### **Data privacy**

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

### **Document retention**

Ernst & Young Accountants LLP's record retention policy applies to all engagements and personnel.

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

### **Litigation**

#### **Transparency in the Public Interest**


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

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

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

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

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



communications may be limited by our duty to respect the privacy of individual persons involved.

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

### **Disciplinary cases**

During fiscal year 2014/2015, no new disciplinary proceedings were initiated against auditors of our firm. Of seven disciplinary proceedings initiated before and pending on 1 July 2014, four were finalized in fiscal year 2014/2015 and three were still pending on June 30, 2015.

#### *Proceedings finalized in fiscal year 2014/2015*

One case concerns a complaint against an auditor who issued an assurance report to a trustee in a bankruptcy. Complainant claimed that the report was not in compliance with applicable regulations. The Disciplinary Council of Accountants and Auditors (*Accountantskamer*) decided that the complaint was unfounded. The complainant appealed against the decision at the Trade and Industry Appeals Tribunal (*‘College van Beroep voor het bedrijfsleven’*). In December 2014, this Tribunal confirmed that the complaint was unfounded.

Another case consisted of a complaint by a counterparty of an audit client of the auditor. The complainant alleged that the auditor had failed to respond to one of complainant's letters and had refused to attend a meeting with complainant to opinion on a final court judgment in proceedings between complainant and the audit client. The Disciplinary Council decided that the complaint was unfounded. The complainant appealed the decision. In July 2015, the Trade and Industry Appeals Tribunal confirmed that the complaint was unfounded.

A third case concerned a complaint against the auditor by a group of investors in a limited partnership. Complainants alleged there were errors in the annual accounts for 2012 of the limited partnership. The Disciplinary Council decided in November 2014 that part of the complaint was well-founded and the auditor received an official warning (*‘waarschuwing’*). So far this judgment has not been appealed.

The fourth complaint that came to an end relates to the auditor of a municipality. As already described in our 2013/2014 Transparency Report this

complaint was withdrawn before the Disciplinary Council hearing took place and the case has been dismissed.

#### *Proceedings still pending*

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

Another case consists of a complaint against two auditors of our firm and is related to the depreciation of replacement investments in the annual accounts of a municipality. The Disciplinary Council decided the complaint was partly inadmissible and partly unfounded. An appeal was filed at the Trade and Industry Appeals Tribunal. The Tribunal has not yet set a date for a hearing.

The third pending case is related to a claim against its auditor filed by indirect shareholders in a private limited liability company. In the past, the auditor also audited the annual accounts of the direct shareholder of that company. Complainants claim that the auditor did not audit the annual accounts properly. Furthermore, they claim that an assurance report issued by the auditor was not in compliance with applicable regulations. In July 2014, the Disciplinary Court decided that part of the claim was inadmissible. The other part was declared unfounded. An appeal was filed at the Trade and Industry Appeals Tribunal by the complainant. The Tribunal has not yet set a date for a hearing.

### **Claims under civil law relating to professional conduct**

During fiscal year 2014/2015, one new case under civil law was brought against the firm. This case was triggered by a notice sent by the European Commission (EC) to TIE Kinetix N.V. In this notice, the EC demanded a partial repayment of EU development grants received by TIE Kinetix N.V., following a recent audit carried out under supervision of the EC.

Given EY's role as external auditor of TIE Kinetix and its involvement in reviewing the audited projects, TIE Kinetix holds EY liable for damages. On 27 March 2015, the District Court of Rotterdam rendered its judgment in the summary proceedings TIE Kinetix had instituted against our firm. In its decision, all claims of TIE Kinetix were denied by the Court.



Five claims under civil law were pending on 1 July 2014, one was finalized in fiscal year 2014/2015 and four were still pending on 30 June, 2015. In these four pending cases, the Courts have not yet rendered their decisions. These decisions may take several years. We refer to our Transparency Reports of recent fiscal years for further information.

In the one civil law procedure that was finalized during this fiscal year, the District Court of Rotterdam rendered its judgment in proceedings initiated by ROC Zuid-Holland Zuid against our firm. ROC Zuid-Holland Zuid was not granted a subsidy because they had used the wrong forms in their application. ROC Zuid-Holland Zuid held EY liable because in their view we should have warned them to use the proper forms. The Court denied their claim.

#### *The Landis case*

Over the years, the Landis case - connected to work we performed in the years 1999 - 2001 - has received some media attention. In fiscal year 2011/2012 we entered into a settlement agreement with receivers and the banks, 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 denied any liability and have not received any communication from them since. In addition, Vereniging VEB-NCVB holds us liable on behalf of the shareholders of Landis and we have recently received a demand letter from Stichting Actie Landis leed II. In compliance with NBA guidance in these matters, and as we are still engaged in discussions, we do not discuss this case in further detail in this report.





# Independence practices

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

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

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

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

## **EY Global Independence Policy**

The EY Global Independence Policy contains the independence requirements for member firms, professionals and other personnel. It is a robust policy predicated on the IESBA Code of Ethics, supplemented with more stringent requirements where prescribed by a given regulator. The policy also contains guidance to help people apply the independence rules. The EY Global Independence Policy is readily accessible and easily searchable through EY's intranet.

The Dutch Independence Supplement explains the Dutch statutory requirements regarding independence for all EY professionals. Various communications occurred with independence leaders throughout the world in order to foster compliance with these far reaching requirements. During fiscal year 2014/2015, our Independence Team performed a great number of Public Company Independence Procedures. In most cases, we determined if EY would be free - from an independence point of view and under the applicable Dutch independence regulations - to

accept a future audit engagement at a Dutch PIE entity that had emitted a 'request for proposal'.

## **Global Independence System**

The Global Independence System (GIS) is an intranet-based tool that helps our professionals identify the listed entities from which independence is required and the independence restrictions that apply. Most often these are listed audit clients and their affiliates, but they can be other types of attest or assurance clients. The tool includes family-tree data relating to affiliates of listed audit clients and is updated by client-serving engagement teams. The entity data includes notations that indicate the independence rules that apply to each entity, helping our people determine the type of services that can be provided or other interests or relationships that can be entered into. In the recent past, and in response to the mandatory rotation requirements taking effect in The Netherlands as of January 1, 2016, a large majority of OOB (PIE) entities sent out a 'request for proposal' for the audit engagement. EY developed a screening and reporting protocol in order to assess our independence situation regarding a prospective client ahead of the start of the audit and engagement period. Once EY is appointed as auditor, we keep tracking non-audit services continuously, both in The Netherlands and abroad, to ensure timely termination of prohibited non-audit services.


## **Global Monitoring System**

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

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

## **Independence compliance**

EY has established a number of processes and programs aimed at monitoring the compliance with independence requirements of EY member firms



and their people. These include the following activities, programs and processes:

#### **Independence confirmations**

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

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

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

#### **Global independence compliance reviews**

EY conducts a number of testing and member firm visits to assess compliance with independence matters. These reviews include aspects of compliance related to 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 2015 testing cycle, Ernst & Young Accountants LLP tested more than 210 partners and other personnel.

The Global Independence Audit last occurred during June 2014.

#### **Non-audit services**

We monitor compliance with professional standards governing the provision of non-audit services to audit clients through a variety of mechanisms. These include the use of tools (e.g., GTAC – see page 22 and Service Offering Reference Tool (SORT) – see below), training and required procedures completed during the performance of audits and internal inspection processes.

Starting calendar year 2014, and in response to the new Dutch independence rules, we have increased our monitoring of other services on Dutch PIEs (OOB) under the new Dutch independence rules. Various improved prevent controls embedded in GTAC processes, combined with robust detect controls using queries and exceptions reports, allow us to comply with the new Dutch regulations.

#### **Global independence learning**

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

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

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

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

#### **Service Offering Reference Tool**

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. We restrict services from being provided that could present undue independence or other risks. Service Offering Reference Tool (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**

The Business Relationship Evaluation Tool (BRET) process helps to support our business relationships' compliance with independence requirements. Our people are required to use BRET in many circumstances to evaluate and obtain advance approval of potential business relationship with an audit client.



## **Audit committees and corporate governance**

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

### **Independence monitoring**

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

The central RM team deploys approximately 10 FTEs that serve all professionals and service lines. In addition to its various key control functions, Central RM handles all independence-related consultations and we continue to receive, on average, some 1,500 independence-related email inquiries and about 1,000 independence confirmation requests annually in the Netherlands alone. The nature of the questions has shifted more to the new independence rules applicable in the Netherlands. Questions that require consultation with subject matter experts are discussed with Area and Global resources. Questions relating to the new rotation requirements following the ViO (Decree on auditors' independence in the Netherlands) are addressed by a consultation group of Independence and the PPG.

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

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

Compliance with the requirements of RMS is monitored through our Personal Independence Compliance Testing (PICT) program, which is designed to cover both partners and other executives (directors and (senior) managers). Our sample sizes vary from year to year and aim to ensure that all partners are tested at least once every five years with certain partners in managerial roles to be selected more frequently.

Approximately 60 partners were tested in the period covered. Last year's test results at the partner level were positive overall. Although PICT testing for partners revealed a higher 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, no independence breaches were noted during our reviews.

Our testing program for other executives resulted in similar findings with a higher number of formal violations but no independence breaches. Over 150 persons were tested. All untimely recorded securities that were noted were held by professionals who were not involved in audits for clients of which they held securities.

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

We have been reviewing business relationships entered into by EY for several years. We generally track, on average, some 300 active business relationships. All of them have been subject to a documented review by the Independence team. Directorships of all Dutch professionals are monitored through a dedicated database. All confirmations provided by Dutch Professionals are reviewed and approved if authorized by our policies. Additional monitoring through public records exists for all partners and executive directors. Indeed, on a regular basis our RM



organization searched public records to assess whether any Partner or Assurance Director holds a position that was potentially not disclosed.

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



# Continuing education of statutory auditors

## Staff turnover

In 2014/2015 our Assurance service line welcomed 402 new employees; 135 women and 267 men.

As of 30 June 2015, our firm had 2,243 employees on a full-time basis (2,063 on 30 June 2014). Of these employees 1,630 FTE worked for our Assurance Service Line (1,493 FTE on 30 June 2014). We had 138 FTE partners (138 on 30 June 2014). Of these partners, 100 worked for our Assurance Service Line (99 on 30 June 2014). 59 executive directors worked for our Assurance Service Line (35 on 30 June 2014). Absenteeism was 2.9%. In addition, parental leave amounted to 2.7%. Staff turnover at our firm was 19% (previous fiscal year 15%); in the assurance service line 19% (previous fiscal year 15%).

Employees that left our assurance service line in 2014/2015	Women	%	Men	%
0-3 year experience	37	18%	75	20%
4-6 year experience	23	26%	47	21%
6 year and more experience	39	20%	77	16%
Overall turnover	99	20%	199	19%

Employees that left our assurance service line in 2014/2015	Women	%	Men	%
Above average last rating	19	11%	46	12%
Average last rating	46	17%	85	17%
Below average last rating	34	68%	68	45%
Overall turnover	99	20%	199	19%

## 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 our people develop the right technical and personal leadership skills, wherever they are located around the world. Core audit training courses are supplemented by learning programs that are developed in response to changes in accounting and reporting standards,

independence and professional standards, and emerging practice issues.

We require our audit professionals to obtain at least 20 hours of continuing professional education each year and at least 120 hours over a three-year period. Of these hours, 40% (8 hours each year and 48 hours over a three-year period) must cover technical subjects related to accounting and auditing.

In addition to formal learning, professional development occurs through coaching and experiences our professionals receive on the job. Coaching helps to transform knowledge and experience into practice.

We have developed a coaching program for new hires. Over the next two years, they will work in four to six-member Development & Learning Teams under a coach's guidance. Coaches attend a special training program, including coaching skills self-assessment, coach training and peer feedback. The DLTs are based on the premise that participants can learn from each other, i.e. engage in peer learning. The coach guides this mutual learning process. These programs will help strengthen the coaching culture at the levels of both new hires and experienced staff.

Experienced professionals are expected to coach and develop less experienced personnel to create a continual learning environment. We also manage the assignment of our people to particular engagements in a systematic way that helps to ensure they have exposure to a range of experiences as part of their own development.

During fiscal year 2014/2015, our firm's professionals spent 245,000 learning hours as compared to 220,000 in fiscal year 2013/2014.

The hours include staff and senior staff external education hours (138,000) to become auditor, one day a week on average per year. 100% of our professionals met the learning effort requirements regarding continuing professional education (*Permanente Educatie, PE*), professional skepticism and - where applicable - IFRS and/or US GAAP & US GAAS.

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

audit. This requires multiple competencies that are part of our learning programs.

As part of our Personal Career Design campaign, we started with the EY University. This learning program is based on our World Class Learning principles. Our financial experts participate in the core curriculum. This curriculum includes auditing, accounting, IT, sustainability and fraud investigations.

We invested in data analytics learning as part of our investments in innovating our high quality audits with increased client value. Data analytics is integrated in our Audit Academy curriculum. On top of this curriculum, we developed for our EY University a specific traineeship for staff to further specialize in data analytics.

In June 2015 we launched EY Canvas, our new audit tool as part of Audit Transformation, with a training for all our personnel. Audit Transformation is about making the EY audit business more quality-conscious, agile, efficient and relevant so teams can deliver against their primary aim – to provide the highest-quality audits in the profession.

The program comprises four key initiatives: EY Atlas (new research tool), EY Canvas (new audit tool), EY Helix (new analytics suite) and the Private Middle Market (PMM).

In addition, we trained partners serving listed entities in their communication in the Annual Shareholders' Meetings of the listed entities.

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

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

Hours by rank (000)	2014/ 2015	%	2013/ 2014	%
Partners and executive directors	11	4%	11	5%
Senior managers and managers	31	13%	29	13%
Senior staff	53	22%	43	20%
Staff	150	61%	137	62%
Totals	245	100%	220	100%

Quality and relevance of our work, i.e. meeting internal and external quality standards when

serving the public interest, are the basis of mandatory learning, which is partly based on the ranks and roles of professionals. A high level overview of mandatory trainings are (details in the table on the next page):

- ▶ Induction training for new hires, Audit Academy for Staff, Senior Staff and Managers, Professional skepticism for graduates.
- ▶ Summer courses for our executives during which recent developments and new standards and policies are covered, public interest learning, executive academies and same time updates.
- ▶ A great deal of effort was put in training our professionals on serving public interest in line with the mandatory NBA learning program *Zeg wat je ziet* and *dossiermentoring*. The public interest learning consists of a pre-learning meeting, an interactive session and a workshop. In the module dossiermentoring, all partners and executive directors were reviewed and coached on their own audit file. All executives (managers, senior managers, directors and partners) had to take the so-called annual ISA test (*Kennistoets*). This test consists of numerous questions, testing participants' knowledge of our audit methodology and audit standards.
- ▶ IFRS and PCAOB (role based).

Main goal of the mandatory training is to enable our professionals to fully comply with accounting and reporting standards, independence and professional standards, and to appropriately address emerging practice issues within EY and in the profession. The trainings are based on World Class Learning, including simulations and focus on development of relevant competences for the audit profession.

The executive learning event in August and September 2015 included technical trainings on our new Global Audit Methodology (topic based GAM), standardization, data-analytics and local content, but also workshops on leadership, highest performing teams and feedback. In October, we will roll out our local learning program. The objective of local learning is to integrate learning with peer coaching and experience in small learning teams.

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



### Accreditation

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

### Monitoring

At least once a year we monitor the compliance of the executives with their mandatory training requirements. During fiscal year 2014/2015, all professionals have complied with their Permanent Education (PE) obligations. If partners and executive directors exceed this PE requirement, by attending additional trainings, this is taken into account when their quality ratings are established.

Core technical education - number of participants 2014/2015	Induction	Summer courses, Executive Events	Public Interest (Zeg wat je ziet)	Zeg wat je ziet (team and client)	Independence	VIO	ISA test	Dossier-mentoring	IFRS	PCAOB
Partners and executive directors	-	162	138	143	157	149	143	115	101	46
Senior managers and managers	-	297	278	248	364	356	224	5	180	103
Senior staff	-	252	104	8	429	469	-	-	43	1
Staff	181	403	11	-	394	663	-	-	1	-
Hours per training	80	16-36	2-8	4	1.5	1.5	2	4	28-32	0.5-4
Total hours	14,208	23,680	2,744	1,596	2,016	2,456	734	480	3,810	1,931



## Knowledge and internal communications

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

- ▶ Global Accounting & Auditing Information Tool (GAAIT), which includes local and international accounting and auditing standards as well as interpretive guidance.
- ▶ Publications such as International GAAP, IFRS developments and illustrative financial statements.
- ▶ *Global Accounting and Auditing News*, a weekly update covering assurance and independence policies, developments from standard setters and regulators as well as internal commentary thereon.
- ▶ *Point of view and Overviews*, which provide important perspectives on current public policy and regulatory developments.
- ▶ Practice alerts and webcasts covering a range of global and country-specific matters designed for continuous improvement in the member firms' Assurance practices.

## Performance management

A comprehensive performance management process requires our people to set goals, have clear work expectations, receive feedback and talk about their performance. The Performance Management and Development Process (PMDP) is designed to help our people grow and succeed in their careers.

Under the PMDP, periodic job performance reviews are combined with annual self-appraisal and annual reviews. As part of the annual review process, each professional, in conjunction with his or her counselor (an assigned, more experienced professional), identifies opportunities for further development. Professionals and their counselors are guided by a set of expectations that articulate the knowledge, skills and behaviors that should be maintained and developed for their respective rank. These expectations derive from, and align with, EY's global strategy and values.

## Measuring the engagement of our professionals: the Global People Survey

The EY Global People Survey is a powerful strategic tool for assessing the effectiveness of our strategy and maximizing the potential of the organization through our people. It is used to (1) measure the engagement levels of our people, (2) identify potential problems within the business, (3) evaluate the effectiveness of high priority programs and initiatives, (4) make appropriate adjustments to align operations with our purpose, ambition and strategy, and (5) identify those elements that impact critically important business outcomes.


The Global People Survey is conducted every two years amongst all EY employees (including partners) worldwide. In the years in between, a shorter version of the GPS is held, the People Pulse. In 2015, the full Global People Survey was held in May. 1444 people of the Service Line Assurance in The Netherlands were invited to participate in the survey and 1129 responded. This 78% response rate was the highest in years (2013: 57%, 2014: 68%).

Moreover, we received a very high Engagement score (81%) in The Netherlands. This is an increase of nine percentage points compared to 2013. 88% of our people said that they are very proud to work for EY, an increase of seven percentage points compared to 2013. The survey indicated that the key drivers for engagement are: confidence in our direction through leadership, an inclusive work environment anchored in EY's values and a motivation to contribute.

It was especially satisfying that this high Engagement score was achieved in a year that was perceived as quite challenging by our people. This perception was due to - among other reasons - the mandatory rotation of audit firms in The Netherlands and its labor-intensive consequences: a high number of offers to prospective new clients, starting up at many new clients and winding down the relationship at old ones. Productivity was high and, according to our people, teamwork was crucial to get the work done.

In July 2014, a new Management Team took over at Ernst & Young Accountants LLP. It is very encouraging that the new strategy of this Management Team is perceived as such and welcomed by the people. The strongest rise in scores in the Global People Survey was achieved for the questions: "I am encouraged to come up with





new and better ways of doing things" (+18 percentage points) and "In the last year, I have seen actions taken to make a positive change in my work experience" (+29 percentage points).

During fiscal year 2014/2015 we formed 'Counselling Families' in the Service Line Assurance in The Netherlands. Counseling Families are small groups of professionals from all ranks that have regular contact and discuss both our strategy as well as internal and external changes and developments. Because of initiatives such as this one, the score for the question "At EY there is open, honest two-way communication" increased by 15%.

### **Clients' assessment of our service quality**

To create a consistent, positive client experience that differentiates us from the competition, we are eager to develop a deeper understanding of clients' expectations and we strive to deliver exceptional service in all our client interactions. To this end, we use our Assessment of Service Quality (ASQ) program: an integral part of our Account Management Framework and a powerful means of measuring clients' expectations and satisfaction. In addition, the ASQ is a strong relationship tool allowing us to gain a better understanding of our clients' sentiments towards us and to strengthen our relationships with them.

During fiscal year 2014/2015, we conducted more than 200 interviews with clients as part of our ASQ program. In 39% of the cases we were able to improve our relationship compared to the previous year, in 59% of the cases relationships are the same and only in 2% of the cases our relationship became inferior.

# Revenue and remuneration

## Financial information

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

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

### Revenue and gross profit per partner

On 30 June 2015 Ernst & Young Accountants LLP consisted of 138 partners (on 30 June 2014: 138). In the financial year ending 30 June 2015, the average revenue per partner was EUR 3 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 were finalized.

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

### Revenue segments

(€000)	2014/ 2015	%	2013/ 2014	%
Statutory audits	207,261	31%	199,830	31%
Other assurance	48,849	7%	50,816	8%
<b>Audit/other assurance</b>	<b>256,110</b>	<b>39%</b>	<b>250,646</b>	<b>39%</b>
Compilation	20,509	3%	21,651	3%
FAAS	11,731	2%	7,656	1%
Fraud investigation and dispute services	3,307	0%	4,450	1%
Other assurance-related	26,238	4%	28,358	4%
<b>Total assurance-related</b>	<b>61,786</b>	<b>9%</b>	<b>62,115</b>	<b>10%</b>
<b>Assurance</b>	<b>317,896</b>	<b>48%</b>	<b>312,761</b>	<b>49%</b>
Other service lines	94,714	14%	82,005	13%
<b>Ernst &amp; Young Accountants LLP</b>	<b>412,610</b>	<b>62%</b>	<b>394,766</b>	<b>62%</b>
Ernst & Young Belastingadviseurs LLP	207,480	31%	201,992	32%
Ernst & Young Nederland LLP and subsidiaries <sup>1</sup>	18,240	3%	13,902	2%
<b>Rendering services</b>	<b>638,330</b>	<b>96%</b>	<b>610,660</b>	<b>96%</b>
Other income	24,171	4%	24,615	4%
<b>Ernst &amp; Young Nederland LLP - consolidated</b>	<b>662,501</b>	<b>100%</b>	<b>635,275</b>	<b>100%</b>

<sup>1</sup> Ernst & Young Actuarissen BV, Ernst & Young VAT Rep BV, Ernst & Young CertifyPoint BV, Ernst & Young Real Estate Advisory Services B.V. en Centre B.V.



2014/2015 (€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	42,949 84%	274 1%	43,223 84%	5,713 11%	251*) 0%	1,756*) 3%	397*) 1%	51,340 100%
Audit clients - WeCo/non- OOB	164,312 54%	3,055 1%	167,367 55%	24,070 8%	39,354 13%	63,953 21%	7,460 2%	302,203 100%
Assurance clients - non- WeCo	- 0%	45,521 61%	45,521 61%	4,064 5%	12,308 17%	9,789 13%	2,347 3%	74,030 100%
Assurance clients - assurance- related				27,938 48%	10,418 18%	17,660 31%	1,676 3%	57,692 100%
Other clients					32,382 21%	114,322 75%	6,360 4%	153,064 100%
Rendering services	207,261	48,849	256,110	61,786	94,713	207,480	18,240	638,330
Other Income								24,171
Total								662,501

\*) these services were rendered before 31 December 2014

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



## Partner remuneration

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

The Global Partner Performance Management (GPPM) process is a globally consistent evaluation process for all partners in EYG 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.

EY prohibits 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 performance measures have been developed to account for:

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

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

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We operate under a system that requires partner's overall year-end rating to be aligned with the partner's quality rating.

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

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

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

The information on compliance with the quality standards results in a separate quality rating that is part of the GPPM process on a 3-point rating scale ('did not meet expectations', 'met expectations', 'exceeded expectations'). This process is completed annually before the end of October. There is a cap on the overall rating if the assessment of either the Quality and effective risk management or the People engagement and teaming metric is 'did not meet expectations'. In such circumstances, a partner/executive director cannot receive an overall rating higher than a 3 and may be considered for a 2 rating on a scale of 1 (low) to 5 (high). These ratings also allow us to compare auditors with their peers.

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%. 10 of our assurance partners registered as external auditors incurred a downward adjustment to their remuneration due to their quality performance (2013/2014: four). 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 20% and averaging 10%. To qualify for performance awards, quality must meet or exceed our standards. During fiscal year 2014/2015 62% (2013/2014: 62%) of our partners were granted awards for their performance.

### *Quality ratings of external auditors*

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

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





In the table below the outcome of the annual performance review process during fiscal year 2014/2015 is shown.

Quality rating external auditors (partners and executive directors)	2014/2015	%	2013/2014	%
Quality did not meet our expectations	12	8%	8	6%
Quality met our expectations	105	69%	90	65%
Quality exceeded our expectations	35	23%	40	29%
Totals	152	100%	138	100%

When establishing a quality-rating, the following criteria are used:

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

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

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

In order to move quality forward and motivate our professionals, we consider it also very important to apply positive incentives. Positive incentives such as awards for excellent work, provided they are communicated broadly, often have a more direct beneficial impact on behavior towards good quality work than negative measures.

### 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 this covenant with the NBA in June 2012. By signing the covenant, we confirmed our commitment to put the public interest first. During fiscal year 2014/2015, our firm adhered to the Code.

#### *The Public Interest Committee*

Among various other initiatives, the Code demanded the establishment of a Public Interest Committee (*Commissie Publiek Belang*, CPB) within audit firms with a license to audit Public Interest Entities (Organisaties van Openbaar Belang, OOB's). The CPB's main task consisted in monitoring how an audit firm ensures that the public interest takes priority over other interests in internal procedures and decision-making. Because of new rules and regulations in The Netherlands, EY announced in July 2015 that it had installed a Supervisory Board (Raad van Commissarissen, RvC) in The Netherlands. As this new RvC will take over many of the remits of the CPB, the CPB was formerly dissolved. A report by the CPB on its activities during fiscal year 2014/2015 is included in Part One of this Transparency Report.

#### *The Stakeholder Dialogue*

The Code stresses the importance of an audit firm's dialogue with its stakeholders. At EY, we embrace the importance of open communication and transparency vis-à-vis our stakeholders. We practice this policy of transparency in the direct fulfilment of our professional duties, e.g. through meaningful audit reports and management letters and through an active role of our auditors at the shareholders' meetings of our clients. In addition, beyond activities related to individual engagements, we regularly meet with external stakeholders such as shareholders, non-executives and executives of (prospective) clients, government, regulators and others. 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. Steven van Eijck, until 30 June 2015 Chairman of our CPB and currently member of EY's new Supervisory Board (Raad van Commissarissen, RvC) in The Netherlands, 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 2014/2015, we organized many meetings with our external stakeholders. As a central theme for fiscal year 2014/2015, the Steering Committee chose 'Working towards trust' ( 'Werken aan vertrouwen'). This theme is both closely connected to our global promise of 'Building a better working world' and very topical in The Netherlands. We discussed this issue, for example, at a meeting with financial investors and analysts in January 2015. We discussed how auditors could be more transparent themselves and how they can contribute to more transparent reporting by the companies they audit. Another topic at this meeting was what auditors - in their endeavor to restore trust - can learn from other sectors where trust was damaged, e.g. the financial sector.

During calendar year 2014, we organized - as in other years - six Round Tables with non-executive directors of PIEs and other large Dutch companies and institutions, discussing - among other topics - 'Monitoring by non-executives of companies' fiscal policies'. Although the stakeholder dialogue is primarily an initiative of our Service Line Assurance, we are acutely aware of the importance of the public interest in other service lines and of the many links - including reputational - that bind the service lines together. Trust in our auditors also depends on the reputation of EY's tax advisors in The Netherlands. Hence our interest in broadening the stakeholder dialogue to non-assurance issues, too.

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

Notwithstanding the importance of these meetings and activities, our stakeholder dialogue is not limited to the members of the Steering Committee or the EY participants in these particular meetings. All our partners and executive directors must recognize the importance of this dialogue and actively engage in it wherever possible and suitable. It offers

us invaluable new insights into how to foster the public interest and it enriches our professional work. We stress the importance of this participation to our partners and executives and prepare them for it through our internal media and training programs.

#### *Compliance with the Code*

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

A detailed overview of our compliance with the Code is disclosed on our website. This Transparency Report either provides information or refers to other disclosures of information (our website) with respect to the items mentioned in the Dutch Code for Audit Firms.



## 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 2015. The AQR 2015 report and the present Transparency Report were discussed and adopted in the meeting of the policymakers on 18 September 2015. 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 for keeping them up to date on developments in their respective fields.

Rotterdam, 30 September 2015

Michèle Hagers (Chairman)

Joep Heijster

Jeroen Kamphuis

Patrick Rottiers

Wouter Smit

Yves tiberghien

Jules Verhagen



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

In the financial year ended on 30 June 2015, Ernst & Young Accountants LLP performed statutory audits of the following OOB's:

ABN AMRO Levensverzekering N.V.

ABN AMRO Schadeverzekering N.V.

Actua Schadeverzekering N.V.

Adecco International Financial Services B.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.

Ballast Nedam N.V.

Bank Mendes Gans N.V.

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

BCRE - Brack Capital Real Estate Investments N.V.

BEST 2010 B.V.

Beter Bed Holding N.V.

BNP Paribas Fund III N.V.

CITADEL 2010-I B.V.

CITADEL 2010-II B.V.

Citycon Treasury B.V.

CNH Industrial N.V.

CNova N.V.

Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.

Courtine RMBS 2013-I B.V.

De Lage Landen International B.V.

Delta Lloyd Azië Deelnemingen Fonds N.V.

Delta Lloyd Bank N.V.

Delta Lloyd Deelnemingen Fonds N.V.

Delta Lloyd Dollar Fonds N.V.

Delta Lloyd Euro Credit Fund N.V.

Delta Lloyd Europees Deelnemingen Fonds N.V.

Delta Lloyd Investment Fund N.V.

Delta Lloyd Levensverzekering N.V.

Delta Lloyd Mix Fonds N.V.

Delta Lloyd N.V.

Delta Lloyd Rente Fonds N.V.

Delta Lloyd Schadeverzekering N.V.

Delta Lloyd Select Dividend Fonds N.V.

Delta Lloyd Zorgverzekering N.V.

Demir-Halk Bank (Nederland) N.V.

DUNIA Capital B.V.

Eerste Friesche Onderlinge Paarden  
Verzekeringsmaatschappij U.A.

ENEL Finance International N.V.

Enel Insurance N.V.

ENEL Investment Holding B.V.

Enexis Holding N.V.

Esperite N.V.

Eurocommercial Properties N.V.

Fiat Chrysler Automobiles N.V.

Fortuna Entertainment Group N.V.

Fresenius Finance B.V.

Generali Finance B.V.

Generali Levensverzekering Maatschappij N.V.

Generali Schadeverzekering Maatschappij N.V.

GTB Finance B.V.

Heijmans N.V.

Highlander Euro CDO B.V.

Highlander Euro CDO II B.V.

Highlander Euro CDO III B.V.

Highway 2012-I B.V.





Iberdrola International B.V.	N.V. Schadeverzekering Metaal en Technische Bedrijfstakken
IllyNL B.V.	N.V. Schadeverzekering-Maatschappij Bovemij
ING Bank N.V.	N.V. Univé her
ING Groep N.V.	N.V. Univé Schade
ING Paraplufonds 1 N.V.	N.V. Univé Zorg
ING Paraplufonds 2 N.V.	N.V. VGZ Cares
ING Paraplufonds 3 N.V.	N.V. Zorgverzekeraar UMC
ING Paraplufonds 4 N.V.	Nationale-Nederlanden Bank N.V.
International Endesa B.V.	Nationale-Nederlanden Levensverzekering Maatschappij N.V.
IZA Zorgverzekeraar N.V.	Nationale-Nederlanden Schadeverzekering Maatschappij N.V.
IZZ Zorgverzekeraar N.V.	Nationale-Nederlanden Services N.V.
Kardan N.V.	New Sources Energy N.V.
Kempen European High Dividend Fund N.V.	Neways Electronics International N.V.
Kempen European Participations N.V.	NN Group N.V.
Kempen European Property Fund N.V.	NN Non-Life Insurance N.V.
Kempen Global High Dividend Fund N.V.	NN Re (Netherlands) N.V.
Kempen Global Sustainable Equity Fund N.V.	NS Insurance N.V.
Kempen Orange Fund N.V.	OHRA Ziektekostenverzekeringen N.V.
Kempen Oranje Participaties N.V.	OHRA Zorgverzekeringen N.V.
Kempen Profielfondsen N.V.	Onderlinge Verzekeringsmaatschappij Univé Groningen U.A.
Koninklijke Boskalis Westminster N.V.	"Onderlinge Waarborgmaatschappij Centrale Zorgverzekeraars groep, Aanvullende Verzekering Zorgverzekeraar u.a."
Koninklijke Brill N.V.	Onderlinge Waarborgmaatschappij Centrale Zorgverzekeraars groep, Zorgverzekeraar U.A.
Koninklijke DSM N.V.	Onderlinge Waarborgmaatschappij voor Instellingen in de Gezondheidszorg Medirisk b.a.
Legal & General Nederland Levensverzekering Maatschappij N.V.	Onderlinge Waarborgmaatschappij Zorgverzekeraar Zorg en Zekerheid U.A.
Lunet RMBS 2013-I B.V.	OOM Global Care N.V.
Macintosh Retail Group N.V.	OOM Schadeverzekering N.V.
Menzis N.V.	Orange Lion 2011-6 RMBS B.V.
Menzis Zorgverzekeraar N.V.	Orange Lion 2013-10 RMBS B.V.
Mizuho Bank Nederland N.V.	Orange Lion 2013-9 RMBS B.V.
Monuta Verzekeringen N.V.	Orange Lion VII RMBS B.V.
Movir N.V.	Oranjewoud N.V.
Mutual Insurance Association 'Munis' (Onderlinge Verzekeringsmaatschappij 'Munis') U.A.	PACCAR Financial Europe B.V.
N.V. Bank Nederlandse Gemeenten	
N.V. Nederlandse Gasunie	



Palomboen Cultuur Maatschappij Mopoli (Palmeriaes De Mopoli) N.V.

Qiagen N.V.

Rabo Herverzekeringsmaatschappij N.V.

Reis- en Rechtshulp N.V.

Ronson Europe N.V.

Roto Smeets Group N.V.

Siemens Financieringsmaatschappij N.V.

Silver Birch CLO I B.V.

Stern Groep N.V.

Stichting Orange Lion IV RMBS

Stichting Orange Lion V RMBS

Stichting Profile Securitisation I

STORM 2010-II B.V.

STORM 2010-III B.V.

STORM 2010-IV B.V.

STORM 2011-I B.V.

STORM 2011-III B.V.

STORM 2011-IV B.V.

STORM 2012-I B.V.

STORM 2012-II B.V.

STORM 2012-III B.V.

STORM 2012-IV B.V.

STORM 2012-V B.V.

STORM 2013-I B.V.

STORM 2013-II B.V.

STORM 2013-III B.V.

Storm 2013-IV B.V.

Storm 2014-I B.V.

Storm 2014-II B.V.

STRONG 2011-I B.V.

Südzucker International Finance B.V.

TD Bank N.V.

Telefonica Europe B.V.

TenneT Holding B.V.

Theodoor Gilissen Bankiers N.V.

Tiels Onderling Fonds tot Uitkering bij Overlijden Gustaaf Adolf U.A.

UBS Bank (Netherlands) B.V.

UBS Investment Bank Nederland B.V.

Univé Dichtbij Brandverzekeraar N.V.

Univé Rivierenland Brandverzekeraar N.V.

Univé Zuid-Holland Brandverzekeraar N.V.

UVM Verzekeringsmaatschappij N.V.

Van Lanschot N.V.

Veherex Schade N.V.

Vesteda Finance B.V.

Vesteda Residential Funding II B.V.

VGZ Zorgverzekeraar N.V.

Vimetco N.V.

VVAA Levensverzekeringen N.V.

VVAA Schadeverzekeringen N.V.

Würth Finance International B.V.

Yapi Kredi Bank Nederland N.V.

In fiscal year 2014/2015 the external auditors of these clients were:

André Wijnsma

Arno van der Sanden

Arnold Heij

Bernard Roeders

Coen Boogaart

Daniël Groot Zwaartink

Frans de Bruijn

Gerard Arnold

Giljam Aarnink

Guus van Eimeren

Hildegard Elgersma

Jan Niewold

Jasper Kolsters

Jeroen Preijde

Jeroen Vernooij

Joep Heijster



Jos Spijker

Jules Verhagen

Kees de Lange

Lex van Overmeire

Maarten Koning

Madelon Bangma-Tjaden

Marcel van Loo

Marco Rooks

Mark-Jan Moolenaar

Mauk Spierings

Nico Pul

Nicole Silverentand

Nout van Es

Oscar Jonker

Paul Nijssen

Peter de Pater

René Koekkoek

Richard Eveleens

Ron de Prie

Ruud Bulkman

Sander Arkesteijn

Stephen Seijkens

Steven Spiessens

Steven van den Ham

Tom de Kuijper

Tom Wiffrie

Victor Veger

Warmolt Prins

Wim Kerst

Wouter Smit

Zaina Ahmed-Karim

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

### Policymakers as at 30 September 2015



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



Joep Heijster (1969) has been a member of our Assurance Management Team since July 2014. Joep joined EY in 1992 and became partner in 2005. Joep's clients' experience lies in Real Estate, Hospitality and Construction, as well as in family businesses. In earlier years Joep was the Managing Partner for the cluster Venlo-Maastricht and he was responsible for the sector Real Estate, Hospitality & Construction for the region South Netherlands. Joep has working experience with various multinationals and PIE's/OOB's. He has been a teacher at Maastricht University.



Jeroen Kamphuis (1967) has been a member of our Assurance Management Team since January 2015. Jeroen joined EY in 1990 and became partner in 2004. He spent 2 years working for EY in Germany. Jeroen's client experience lies in Transport & Logistics as well as with Professional services firms. Jeroen has working experience with various multinationals and PIE's/OOB's. In recent years, Jeroen was, amongst other roles, industry leader Transport & Logistics, managing partner of our Rotterdam office and regional managing partner of our offices in Zuid Holland. Before being appointed in our Assurance Management Team, Jeroen was member of our Regional Partner Forum.



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





Wouter Smit (1970) is our Assurance Leader for FSO Netherlands since January 2015 and in that role attends part of the meetings of our Assurance Management Team. Wouter joined EY in 1995 and was promoted partner in 2006. His client portfolio consists mainly of large international financial services companies, many of them listed, in the Netherlands and in the US.



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



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

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

Responsibility	Name	Joined EY in	Policymaker since	Gender	Nationality
Chairman	Michèle Hagers	1989	14-02-2011	Female	Dutch
Markets Netherlands	Jules Verhagen	1986	01-09-2010	Male	Dutch
PPD	Jeroen Kamphuis	1990	01-01-2015	Male	Dutch
Talent (incl. HR)	Joep Heijster	1992	01-07-2014	Male	Dutch
FSO Netherlands	Wouter Smit	1995	01-01-2015	Male	Dutch
Markets Belgium	Patrick Rottiers	1988	01-07-2011	Male	Belgian
ACR BeNe	Yves tiberghien	1987	01-07-2014	Male	Belgian



## Members of the Public Interest Committee

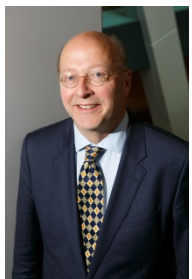


Dr. Steven van Eijck (1959, male) has extensive experience in academics, politics, business and philanthropy. Among other posts, he is currently Chairman of the Major Alliance Netherlands and president of RAI Association which is responsible for the mobility industry.

He was junior minister (*staatssecretaris*) at the Dutch Ministry of Finance (2002-2003) and served as Government Commissioner on policies regarding adolescents. Until joining government, Mr Van Eijck was a senior associate professor 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.



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



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.



## Appendix 3: Overview of Key Performance Indicators

On 25 September 2014, the workgroup 'Toekomst accountantsberoep' published the report 'In het publiek belang'. Part of this report is a set of KPIs on which EY will have to report to AFM.

NBA's initial planning for finalization and implementation of this set of KPIs was end of 2014.

Recently we have been informed that NBA's project 'Kwaliteitsindicatoren' is included in NBA's plan for 2015. EY is looking forward to receiving the planning and the final definition of the set of KPI's from the NBA. The current set of KPIs does not have a formal status yet. Nevertheless EY has decided to provide the information collected for these KPIs in the transparency report. The set of KPIs has overlap with EY's internal KPIs reported in this Transparency report.

In the overview below it is indicated if:

- ▶ the KPI matches another internal EY KPI reported in this transparency report: a reference to that KPI is made
- ▶ the KPI has been implemented as part of the implementation of the 'NBA-kwaliteitsindicatoren' and the results are available
- ▶ the KPI does not match internal EY KPIs and implementation requires more external or internal information

### The KPIs include the following topics:

#### Teaming General

- 1 Number / ratio partners / Executive Directors, (senior) managers and other team members
- 2 Average number of years of experience split between partners / Executive Directors, (senior) managers and other team members
- 3 Employee turnover of partner / Executive Directors, (senior) managers and other team members (based on FTE) split between key talents / high potentials and others
- 4 Number of hours and percentage ratio of partner / Executive Directors, (senior) managers and other team members spent on audit engagements (split between OOBs and not OOBs), other engagements and internal projects
- 5 Number of overtime hours and ratio compared to total available contract hours

#### Training and coaching

- 6 Average number of training hours per employee (internal and external trainings)
- 7 Average investment (EUR cash out) in training and education per employee
- 8 Number of internal hours spent on preparation and giving training courses
- 9 Average hour's ratio between partner / Executive Directors, (senior) managers and other team members (leverage) split between OOBs and non OOBs audit engagements
- 10 Number and ratio of engagements for which the benchmark is not met
- 11 People survey results relating to coaching and audit quality topics

#### Quality measures

- 12 Number and ratio of audit hours spent per stage of the audit before and after financial year-end
- 13 Number of FTEs split between partners / Executive Directors, (senior) managers and other team members working for PPG (including Independence desk) and / or CO
- 14 Number of consultations relating to audit and accounting topics
- 15 Number of annual report reviews conducted by experts outside the audit team before issuance of the audit opinion (including annual report reviews as part of the OKB process)
- 16 Number of OKBs performed - total and compared to the number of legally mandatory audits performed
- 17 Number of hours spent on OKBs (total and average per OKB performed) split between partner / Executive Directors, (senior) managers and other team members
- 18 Average number of hours performed on OKBs compared to total number of hours spent as part of audit engagements on which an OKB is performed
- 19 Number of hours and ratio spent by IT specialists as part of audit engagements (split between OOBs and non OOBs)
- 20 Number and ratio of engagements for which the defined benchmark is not met
- 21 Number of hours and ratio spent by other specialists as part of audit engagements (split between OOBs and non OOBs)
- 22 Number of hours spent on activities to improve the accounting profession (NBA, university, publishing etc.)

## Results

- 23 Number of issued audit opinions as part of legally mandatory audits (split between OOBs and Other)
- 24 Number of internal reported or identified independence violations - total and as a percentage of total headcount
- 25 Number of internal warnings for independence violations - total and as a percentage of total headcount
- 26 Number of audit files that have been subject to a quality review (other than OKB) including summary of review results (classification of findings). Also the measures taken based on the outcome of reviews (improvement plans, penalties) need to be disclosed as part of the transparency report
- 27 Number of audit files that have been subject to a quality review performed by an external oversight institutions (classification of findings).
- 28 Conclusions accounting firm based on additional review / remediation procedures performed based on the reported findings from external oversight institutions
- 29 Number of penalties (including amounts) received from external oversight institutions
- 30 Number of partners that have been taken out of the auditor register - total and percentage compared to total number of partners
- 31 Number of annual report adjustments made relating to fundamental errors (Dutch GAAP) and / or material errors (IFRS) relating to companies for which EY was also the auditor in the prior financial year - total and as a percentage compared to the total number of audit opinions issued
- 32 Number of adjustments made relating to material errors at audit clients based on the outcome of reviews performed by external oversight institutions - total and as a percentage of total issued audit opinions
- 33 Number of early terminated audit engagements including reason of early termination
- 34 Number of claims received including status and expected outcome assessment
- 35 Number of incidents reported to external oversight institutions
- 36 Number of proceedings with the Accountancy chamber including outcome
- 37 Number of complaints including outcome of complaint resolution process

## Status of implementation of NBA KPIs per 1 September 2015

### Teaming general

1. Number and ratio partners / Executive Directors, (senior) managers and other team members (based on average headcount)

	FY 15		FY14	
Partners/executive directors	147	9.0%	136	8.9%
(Senior) managers	366	22.5%	340	22.3%
Other	1,115	68.5%	1,050	68.8%
Total	1,627	100%	1,526	100%

2. Average number of years of experience split between partners / Executive Directors, (senior) managers and other team members

Currently only the years of experience at EY are registered and included in the overview below.

	FY 15	FY14
Partners/executive directors	19.9	20.7
(Senior) managers	12.0	12.2
Other	5.0	5.3
Average number of years for total	8.0	8.3



3. Employee turnover of partner / Executive Directors, (senior) managers and other team members (based on FTE) split between key talents / high potentials and others

Turnover FY15	Turnover	% Headcount	# High potentials key talent	% Headcount
Partners/executive directors	8	0.5%	0	0.0%
(Senior) managers	45	2.9%	25	1.6%
Other	180	11.8%	40	2.6%
Total	233	15.2%	65	4.2%

Turnover FY14	Turnover	% Headcount	# High potentials key talent	% Headcount
Partners/executive directors	4	0.3%	2	0.1%
(Senior) managers	42	2.8%	18	1.2%
Other	137	9.2%	27	1.8%
Total	183	12.2%	47	3.1%

4. Number of hours and percentage ratio of partner / Executive Directors, (senior) managers and other team members spent on audit engagements (split between OOBs and not OOBs), other engagements and internal projects (excluding specialist hours)

FY15	Partners/ directors	(senior) managers	Other	Total
Financial audit (OOB)	26,555	70,912	163,606	261,073
Percentage of total	9.6%	10.4%	5.9%	7.0%
Financial audit (Non-OOB)	88,472	303,035	1,316,832	1,708,340
Percentage of total	31.9%	44.4%	47.4%	45.7%
Other engagements	23,650	104,434	320,990	449,074
Percentage of total	8.5%	15.3%	11.6%	12.0%
Indirect hours	138,912	204,464	975,504	1,318,880
Percentage of total	50.0%	29.9%	35.1%	35.3%
Total	277,589	682,845	2,776,932	3,737,367

5. Number of overtime hours and ratio compared to total available contract hours

FY15	% of total available contract hours
Percentage of overtime	8.0%

## Training and coaching

### 6. Average number of training hours per employee (internal and external trainings)

FY 15	Total hours	Hours per employee
1. Partner	6,917	67
2. Exec. Director	4,649	98
3. Sr. Manager	12,436	70
4. Manager	18,315	102
5. Senior	53,038	121
6. Staff	149,869	235
Total	245,224	155

### 7. Average investment (EUR cash out) in training and education per employee

We do not have this information available, since an unambiguous definition is missing.

### 8. Number of internal hours spent on preparation and providing training courses

FY 15	Hours
Teaching	6,400
Total	6,400

No data available yet regarding the number of internal hours spent on preparation.

### 9. Average hour's ratio between partner / Executive Directors, (senior) managers and other team members (leverage) split between OOBs and non OOBs audit engagements

FY15	Partners/ directors	(senior) managers	Other	Total
Financial audit (OOB)	5.2%	18.8%	76.0%	100%
Financial audit (Non-OOB)	10.0%	27.1%	62.9%	100%

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

A benchmark from NBA is not yet available.

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

	Question	Assurance Netherlands FY15	Assurance - Netherlands FY14
1	The partners or other leaders I work with are committed to providing high quality services to our clients.	86%	N/A
2	I receive the on-the-job coaching I need to improve my performance.	56%	52%
3	My counselor provides the support I need to help me succeed	65%	N/A
4	The actions of my manager(s) are consistent with the messages he/she delivers	68%	65%
5	My manager(s) provide(s) me with timely feedback	49%	45%
6	All service lines at EY team together effectively to serve our internal and external clients and meet our responsibilities to other stakeholders	51%	37%
7	The people in my team(s) consistently deliver on their commitments to our internal and external clients	70%	74%
8	We regularly use appropriate client feedback to improve our processes	49%	42%
9	The people I work with are proactive in offering sound insights to our internal and external clients	72%	61%
10	The people I work with adhere to EY's Code of Conduct, even in situations when there is pressure to not follow it	83%	76%
11	The people on my team(s) anticipate and respond to issues and needs our internal and external clients may not have identified	70%	62%
12	The people I work with invest the time to understand the issues and needs of our internal and external clients and other stakeholders	86%	N/A
13	The partners or other leaders I work with are committed to providing high quality services to our clients	71%	68%
14	I can report unethical practices without fear or reprisal	75%	68%

N/A: question was not included in people survey of previous year

## Quality measures

12. Number and ratio of audit hours spent per stage of the audit before and after financial year-end  
Our current KPI system does not yet include the required information with this level of detail.

13. Number of FTEs split between partners / Executive Directors, (senior) managers and other team members working for PPG (including Independence desk) and / or CO

Rank	FTE PPG FY15
Partner/ Executive Director	9.8
(Senior) managers	24.3
Other	11.2
Total	45.3



Rank	FTE Compliance FY15
Partner/ Executive Director	3
(Senior) managers	1.9
Other	0.2
Total	5.1

Rank	FTE Independence FY15
Partner/ Executive Director	1.1
(Senior) managers	2.5
Other	6.6
Total	10.2

Rank	FTE Compliance and conflicts FY15
(Senior) managers	2.6
Other	5.7
Total	8.3

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

Type of consultation	Number FY15
Accounting	55
Auditing	1,150
Independence	191
Other	1
Total	1,412

15. Number of annual report reviews conducted by experts outside the audit team before issuance of the audit opinion (including annual report reviews as part of the OKB process)  
Our current KPI system does not include this information with this level of detail. The recording of additional data has been started.

16. Number of OKBs performed - total and compared to the number of legally mandatory audits performed  
Please refer to the total number of EQRs at page 26. The recording of additional data has been started.

17. Number of hours spent on OKBs (total and average per OKB performed) split between partner / Executive Directors, (senior) managers and other team members  
For the total number of hours please refer to pages 10/11. Our current KPI system does not include more detailed information about this KPI. The recording of additional data has been started.





18. Average number of hours performed on OKBs compared to total number of hours spent as part of audit engagements on which an OKB is performed

Our current KPI system does not include this information with this level of detail. The recording of additional data has been started.

19. Number of hours and ratio spent by IT specialists as part of audit engagements (split between OOBs and non OOBs)

FY15	%	Hours
Financial audit (OOB)		31,653
% of total hours financial (OOB)	3.8%	
Financial audit (non-OOB)		102,757
% of total hours financial (OOB)	1.2 %	

20. Number and ratio of engagements for which the defined benchmark is not met  
The benchmark has not yet been defined

21. Number of hours and ratio spent by other specialists as part of audit engagements (split between OOBs and non OOBs)

FY15	%	Hours
Actuary		21,243
% of total hours financial (OOB)	0.8 %	
Real estate services		10,062
% of total hours financial (OOB)	0.4%	
Tax		50,165
% of total hours financial (OOB)	1.9 %	
Transaction service/corporate finance		25,586
% of total hours financial (OOB)	1.0 %	
Other		27,289
% of total hours financial (OOB)	1.0 %	

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

Type	Number of hours FY15
Teaching at university	4,478
NBA	Not available
Publishing articles	Not available

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

FY15	Number of audit opinions
WeCo (OOB)	236
WeCo (non-OOB)	2,822
WeCo	3,058



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

Type	Independence	Administrative requirements	Total
Total Breaches/Violations	11	81	92
% of total number of employees			2.04%

25. Number of internal warnings for independence violations - total and as a percentage of total headcount  
Reference is made to KPI 24. EY has no difference in the definitions for violation and warnings.

26. Number of audit files that have been subject to a quality review (other than OKB) including summary of review results (classification of findings). Also the measures taken based on the outcome of reviews (improvement plans, penalties) need to be disclosed as part of the transparency report  
Reference is made to page 29, 2014/2015 AQR results.

27. Number of audit files that have been subject to a quality review performed by an external oversight institutions (classification of findings).  
Reference is made to page 30, External quality review  
The next review by AFM will take place in 2016.

28. Conclusions accounting firm based on additional review / remediation procedures performed based on the reported findings from external oversight institutions  
Reference is made to page 30, External quality review  
The next review by AFM will take place in 2016.

29. Number of penalties (including amounts) received from external oversight institutions  
During the last year no penalties were received from external oversight institutions  
Reference is made to page 30, External quality review

30. Number of partners that have been taken out of the auditor register - total and percentage compared to total number of partners  
During the last year no partners were taken out of the auditor register.

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

Type	Number FY15
Annual report adjustments	58
Percentage of total number of audit opinions	0.1 %

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

During FY15 no adjustments have been made relating to material errors at audit clients based on the outcome of reviews performed by external oversight institutions

33. Number of early terminated audit engagements including reason of early termination  
Reference is made to page 21.

34. Number of claims received including status and expected outcome assessment  
Reference is made to page 35, Claims under civil law relating to professional conduct.



35. Number of incidents reported to external oversight institutions

Reference is made to page 21.

In FY15, 14 incident have been reported to external oversight institutions

36. Number of proceedings with the Accountancy chamber including outcome

Reference is made to page 35, Disciplinary cases.

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

Reference is made to page 13.

## Appendix 4: Glossary

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





GTAC	Global Tool for Acceptance and Continuance	Tool structuring the client acceptance and continuance process and resulting in a risk rating score
IFAC	International Federation of Accountants	Global organization for the accountancy profession
IFRS	International Financial Reporting Standards	International set of accounting principles
NBA	Nederlandse Beroepsorganisatie van Accountants	Dutch professional association of accountants, the professional body for Dutch auditors
NV/COS	Nadere Voorschriften Controle- en Overige Standaarden	Dutch set of auditing standards, with ISA as a basis and Dutch add-on's
OOB	Organisatie van Openbaar Belang	Public interest entity according to Dutch Law; non-OOB is an entity that does not qualify as public interest entity according to Dutch Law
PCAOB	Public Company Accounting Oversight Board	USA oversight authority on (amongst others) the audit profession
PIE	Public Interest Entity	Public interest entity according to international regulations
PPD	Professional Practice Director	The partner responsible for the Professional Practice Group
PPG	Professional Practice Group	The department in our firm that provides technical support to our audit and other assurance professionals both upfront as well as during the audit cycle
QUIP	Quality Improvement Plan	Action plan describing steps and planning to improve quality
RM	Risk Management	Department at region level performing risk management
SEC	Securities and Exchange Commission	Agency of the United States federal government
US-GAAP	Generally Accepted Accounting Principles in the USA	USA set of accounting principles



US-GAAS	Generally Accepted Auditing Standards in the USA	USA set of auditing standards
ViO	Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten	Dutch independence rules issued by NBA, our professional body, regarding independence of auditors at both public interest entities and other entities
WeCo	Wettelijke controle	Financial statement audit required by law; a non-WeCo is a financial statement audit not required by law
Wta/Bta	Wet toezicht accountantsorganisaties and Besluit toezicht accountants-organisaties	Dutch law and additional rules applicable to audit firms.



EY | Assurance | Tax | Transactions | Advisory

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