



# Transparency Report 2016

Ernst & Young  
Accountants LLP



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





## Welcome

Welcome to Ernst & Young Accountants LLP's Transparency Report 2016. This Report consists of two volumes. This is English-language Volume 2. Dutch-language Volume 1 contains the Report of the Chair of the Board of Directors of Ernst & Young Accountants LLP, the Report of the Policymakers and the Report of the Supervisory Board in the Netherlands. This English-language Volume 2 contains more detailed information regarding, among other subjects, governance, quality, independence, education and training, and performance and remuneration.

### **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

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

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

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

Our activities in the Netherlands are part of the EMEIA Area, which comprises EYG member firms in 99 countries in Europe, the Middle East, India and Africa. Within the EMEIA Area, there are 12 Regions. Together with Belgium, the Netherlands forms the Belgium/Netherlands Region (“BeNe”). This Region does not include the financial sectors in both countries, as these industry sectors are part of the EMEIA Financial Services Region. Although Financial Services constitutes a separate Region, in this Transparency Report we report all activities of Ernst & Young Accountants LLP, including Financial Services in the Netherlands.

Ernst & Young (EMEIA) Limited (EMEIA Limited), 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, has no financial

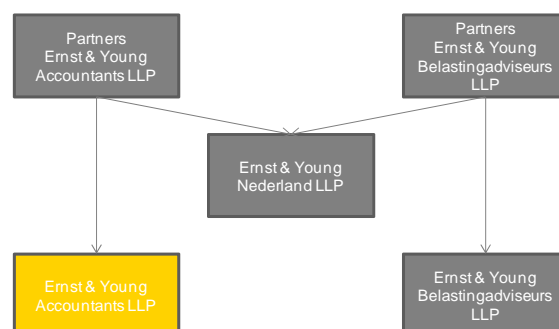
operations and does not provide any professional services.

In Europe, a holding entity, Ernst & Young Europe LLP (EY Europe), was formed in conjunction with EMEIA Limited. EY Europe is 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. To the extent permitted under local laws and regulation, EY Europe has acquired or will acquire voting control of the EYG member firms operating in Europe. EY Europe is a member firm of both EYG and EMEIA Limited.

#### Ownership

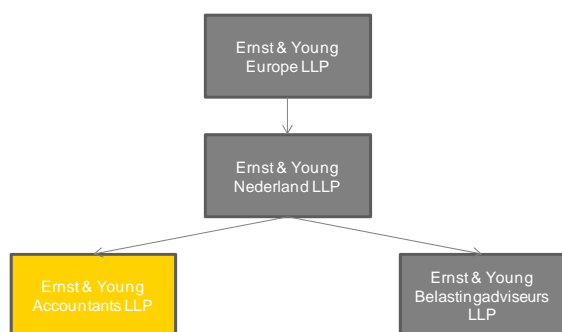
Our firm is owned by the private practice companies of our partners in the Netherlands (“members”). Apart from holding a stake in Ernst & Young Accountants LLP, our members also co-own Ernst & Young Nederland LLP, together with the members of Ernst & Young Belastingadviseurs LLP. The members of our firm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

Our simplified ownership structure is illustrated below. No changes to this structure were made in fiscal year 2015/2016.



#### Control

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



## Organization

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

- ▶ Ernst & Young Nederland LLP
- ▶ Ernst & Young Belastingadviseurs LLP - tax services
- ▶ Ernst & Young 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
- ▶ 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
- ▶ EY Intelligence In Information B.V. - advice regarding data warehousing, business intelligence, data analytics through to predictive analytics
- ▶ EY Montesquieu Finance B.V. - advice regarding finance
- ▶ EY Montesquieu Institutional Risk Management B.V. - advice regarding risk management
- ▶ Parthenon-EY B.V. - global strategy consulting

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 EY Europe. In fiscal year 2015/2016 the Board members were Marcel van Loo (Chair, Country Managing Partner in the Netherlands), Michèle Hagers (Chair of Ernst & Young Accountants LLP) and Jeroen Davidson (Chair of Ernst & Young Belastingadviseurs LLP). Marcel van Loo resigned as Country Managing Partner and was replaced by Coen Boogaart as of 1 July 2016 (both as Country Managing Partner and as Chair of Ernst & Young Nederland 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 our 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 (Chair), Joep Heijster (Talent), Jeroen Kamphuis (Belgium/Netherlands Professional Practice Director) and Jules Verhagen (Markets Netherlands).

## Policymakers and Co-Policymakers

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

Policymakers (Assurance Leadership Team):

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

- ▶ Wouter Smit, the Netherlands Financial Services leader
- ▶ Patrick Rottiers, partner of the Belgian audit firm in EY's global network and responsible for Markets Belgium
- ▶ Yves tiberghien, Markets leader for Accounting Compliance Reporting (ACR) in the Belgium/Netherlands Region

Co-policymakers:

- ▶ 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, Chair of the Board of Directors of Ernst & Young Nederland LLP
- ▶ Mark Otty, Managing Partner Europe
- ▶ Isabelle Santenac, Assurance Leader Europe Financial Services

Marcel van Loo resigned as Chair of the Board of Directors of Ernst & Young Nederland LLP and was replaced as of 1 July 2016 by Coen Boogaart.

Mark Otty resigned as Managing Partner Europe and was replaced as of 1 July 2016 by Andy Baldwin.

### **EY's Supervisory Board in the Netherlands**

The Supervisory Board (*Raad van Commissarissen, RvC*) of Ernst & Young Nederland LLP started its activities in July 2015. The tasks of the former Public Interest Committee (*Commissie Publiek Belang, CPB*) of Ernst & Young Accountants LLP (amongst others to safeguard the public interest) were absorbed by the RvC and the Chair of the CPB, Steven van Eijck, joined the RvC. Other tasks of the RvC are: safeguarding audit quality, supervising the internal risk management and (quality) control systems and monitoring the social responsibility issues of our professional practices.

The RvC consists of three external, independent members and one non-independent member. The three independent members are Pauline van der Meer Mohr (Chair), Steven van Eijck and Monique Maarsen. The non-independent member is Jean-Yves Jégourel, Assurance Leader Europe.

In Part One of this Transparency Report, the RvC reports on its activities during fiscal year 2015/2016.

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 Governance Sub-Committee**

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

## **Network arrangements**

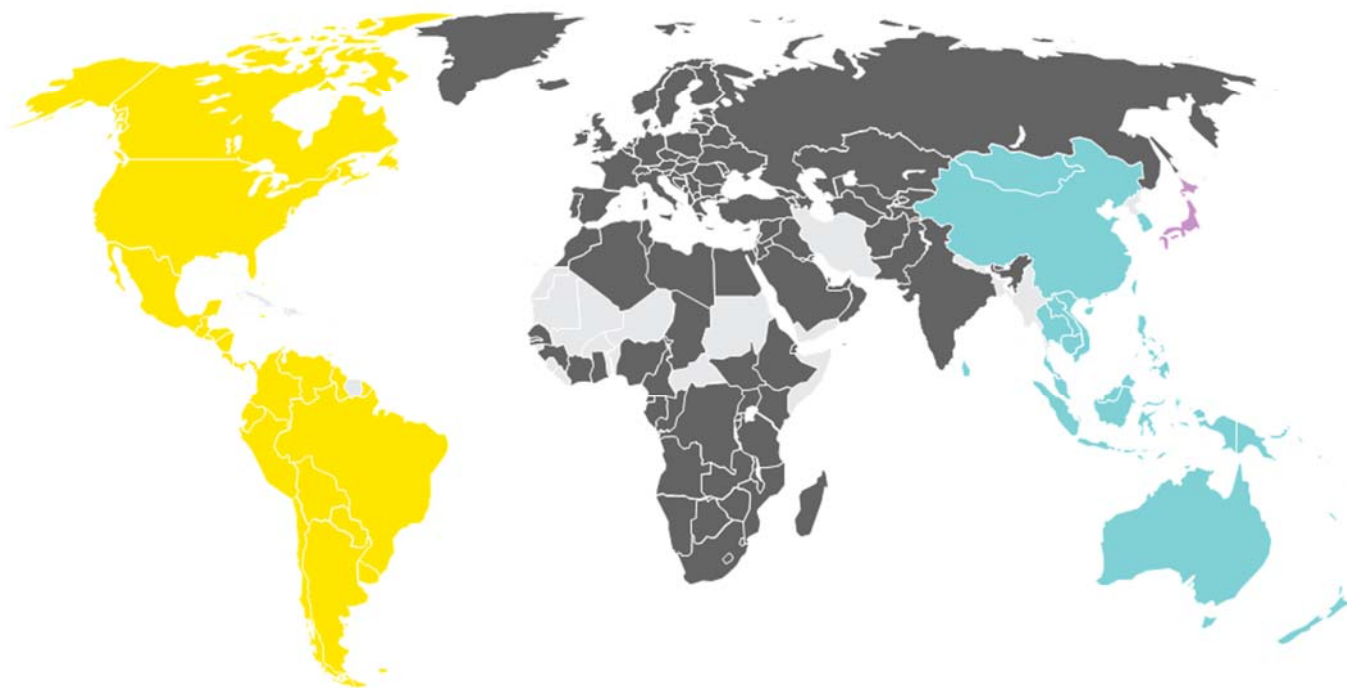
EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, 231,000 people in member firms in more than 150 countries share a commitment to building a better working world, united by shared values and an unwavering commitment to quality, integrity and professional skepticism. In today's global market, 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 the promotion 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 2016 are described below. They reflect the principle that EY, as a global organization, has one shared strategy.

Americas		EMEIA		Asia-Pacific		Japan	
Regions	10	Regions	12	Regions	5	Region	1
Countries	30	Countries	99	Countries	22	Country	1



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 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 oversight body of EYG. It comprises one or more representatives from each Region, other member firm partners as at-large representatives and six independent non-executives (INEs). The Regional representatives, who otherwise do not hold senior management roles, are elected by their RPFs for a three-year term, with provisions for one successive reappointment. 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. Independent non-executives

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. The INEs also form a majority of 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 and Finance; the leaders of the global service lines – Assurance, Advisory, Tax and Transaction Advisory Services; the Global Leader for Public Policy; and one EYG member firm partner on rotation.

The GE also includes the Chair of the Global Accounts Committee and the Chair of the Emerging

Markets Committee, as well as a representative from the emerging markets practices.

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

Established by 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, and there is the Global Audit Committee.

### **Global Practice Group**

This group brings together the members of the GE, GE committees and Regional leaders. The Global Practice Group seeks to promote a common understanding 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 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 13).

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 of Assurance coordinates member firms' compliance with and implementation of EY policies and procedures for assurance services.

#### Professional Practice

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

The Global PPD 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 the 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 often 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

Responsibility for the delivery of high quality service and ownership of the risks associated with quality is placed in the service lines. The Global Risk Management Leader oversees the management of these risks by the service lines, as he does in respect of other risks across the organization as part of the broader Enterprise Risk Management framework, and continues to work with the service lines on significant risks.

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.

## **Dutch quality and risk infrastructure**

### **General**

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.

In all, the Quality and Risk organization consists of about 84 professionals, compared to 60 professionals in fiscal year 2014/2015. The Quality and Risk organization comprises of our Professional Practice Group (PPG), the Quality Analysis and Regulatory Affairs department (QARA), Assurance Risk Management (RM) and the Compliance Office (CO). See appendix 4 for more information about these departments. These professionals dedicate all or a substantial part of their time to risk management, regulations, accounting support, assurance support, learning, enabling our practice, quality analysis and regulatory affairs, amounting to more than 94,000 hours in total during fiscal year 2015/2016 (80,000 hours in fiscal year 2014/2015). This significant increase of our investment in our Quality and Risk organization reflects our determination to further improve the quality of our work.

During fiscal year 2015/2016, we welcomed three new partners and two new executive directors into the PPG. Currently, the PPG includes 18 partners and executive directors.

### **Changes in the quality, risk and compliance structure**

In FY 2015/2016 PPG and the Compliance Office were restructured. Several functions within the former PPG organization and Compliance Office have now been separated into individual departments reporting directly to the Belgium/Netherlands PPD or to the policymakers. These departments are Risk Management Assurance and Quality Analysis and Regulatory Affairs (QARA) and are described below.

EY has prioritized sustainable audit quality, which is also an absolute priority within the Netherlands. To align all quality initiatives and be able to make real-time decisions the Board of Ernst & Young

Accountants LLP decided to establish the Audit Quality Board (Q board). The Q board exists of the Board of Directors of Ernst & Young Accountants LLP together with all responsible partners / ED's for the quality and risk departments, Legal, Independence and Compliance. Separate Q board meetings facilitate the quality organization through in-depth discussion and quality conscious decision-making on board level.

### **Accounting and audit support**

The Accounting and Audit Support department is headed by the Netherlands PPD. PPG accounting and audit support provide expert knowledge in support of our assurance practice. The main activities within accounting and audit support are the consultation and IFRS expert and capital market expert review responsibility. This is besides the maintenance and deployment of our quality control system, which includes amendments to our local policies resulting from changes in external regulations (when not hosted by EY Global).

### **Learning**

The Learning department develops, organizes and monitors our learning. We have expanded our learning function and implemented more experience based learning. Our learning leader has launched the development of learning teams to improve the coaching culture and has established local learning teams to facilitate experienced-based learning within dedicated groups in the regional offices.

### **Methodology and enablement**

The Enablement department has in-depth knowledge of our methodology and supports the practice by issuance of enablers guidance, etc. Furthermore they run several initiatives on the deployment of data analytics.

### **QARA**

Quality Analysis and Regulatory Affairs (QARA), is a new department within the quality and risk function, which has taken over several tasks from the Compliance Office. QARA is responsible for internal and external inspections, follow-up of signals and incidents and investigation and performing root cause analysis as part of being a learning organization. QARA also has a corporate support role for regulatory affairs. QARA reports to the Belgium/Netherlands PPD.

### **Assurance Risk Management**

Apart from maintaining an overarching risk management function covering all EYG member firms in the Netherlands, we have invested further

in a dedicated Assurance risk management function within EY's risk management framework.

The Dutch Assurance Risk Management department reports directly to Jeroen Kamphuis and is responsible for:

- ▶ establishing a structured risk management process (risk identification, risk mitigation, risk monitoring and risk reporting);
- ▶ providing risk management advice and risk analyses in relation to the organisation's risk profile, portfolio management, clients, material changes, etc.;
- ▶ promoting a culture characterized by risk awareness (training and awareness activities); and
- ▶ executing various risk management projects to implement improvements within the control environment.

### ***The Compliance Office***

Our Dutch firm has a Compliance Officer who heads a Compliance Office (CO). This year the nature of the CO procedures has changed. Formerly they performed the internal file inspections and supported the corresponding external regulatory inspections. These tasks have been transferred to QARA. The CO now supervises the quality control system regarding compliance risks and contributes to the learning organization.

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 Audit Firms Supervision Act (*Wet toezicht accountants-organisaties, Wta*). The Compliance Officer reports to the policymakers and directly to the Chair of our Board and has direct access to the Supervisory Board.

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

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

The CO investigates 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. During regular meetings, upcoming issues and associated risks are discussed with the policymaker responsible for quality (the Belgium/Netherlands PPD), the General Counsel, the QARA leader and the Netherlands PPG and acted upon when necessary.

The CO proactively seeks to either prevent compliance issues from arising or identify and report 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. In FY 2015-2016, the CO has a number of professionals including on rotation from our direct audit practice. Currently, the CO consists of four full-time staff, including the Compliance Officer, and two part-time staff, including the deputy Compliance Officer.

### ***Focus on Learning***

Internal observations from the Quality and Risk departments and CO serve as important lessons to be learned. Through the follow-up on identified issues, a continuous improvement cycle is established throughout our professional practice.

We 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 most recent inspections in 2015 and 2016. This allows us to better understand the AFM's requirements regarding audit firms. External inspections provide us with clarification regarding the interpretation of quality control requirements.

The CO attended meetings with the firm's Supervisory Board, discussed the focus and scope of work and its valuable suggestions.

### ***Global confidentiality policy***

Protecting confidential information is engrained in the everyday activities of EYG member firms. Respect for intellectual capital, and all other sensitive and restricted information, is established within the Global Code of Conduct, which provides a clear set of behaviors expected of all EY people. In order to further enhance this approach to protecting information, and to reflect the ever-increasing use and distribution of restricted data, EYG launched a new Global Confidentiality Policy in 2015. This policy provides added clarity to EY people and forms the fundamental element of a wider approach that includes other key policies on conflicts of interest, personal data privacy and records retention. Other elements of the approach include:

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

### ***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

Audit quality is our primary goal, and this is reflected in the launch of our Sustainable Audit Quality (SAQ) program. SAQ is our globally consistent approach to implementing the highest level of audit quality across the organization. Launched in 2015, it is the highest priority for our Assurance practice.

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

There are six components to SAQ: tone at the top; transforming our people model; simplification; audit transformation; enablement and quality support; and accountability. SAQ is implemented by each member firm and is coordinated and overseen globally as well as by the Q board.

We are constantly reinforcing the importance of the six components. It is something we talk about to every regional Assurance leader and every partner. Audit quality and the key elements of SAQ are something every senior manager, manager and team member must understand and be committed to implementing locally. SAQ is essential to all our goals and ambitions.

### 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 contained in the EY Global Code of Conduct and other policies and 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.

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

### Code of conduct

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

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

Through our procedures to monitor compliance with the 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 performed in July 2013.



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 operated effectively during fiscal year 2015/2016 and reports were followed up appropriately.

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 behavior and that may be in violation of professional standards or otherwise inconsistent with the EY Global Code of Conduct. The hotline is operated by an external organization that provides confidential and, if desired, anonymous hotline reporting services 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 Hotline is also open for external reports re Ernst & Young Accountants LLP. In fiscal year 2015/2016, one external report was filed through our EY/Ethics Hotline (2014/2015: four reports).

That report was filed by a former contractor where civil proceedings are now ongoing. Two internal reports were filed through other channels. These concern two cases where employees expressed concerns regarding the conduct or behavior of other team members. Based on further analysis of these complaints corrective actions were taken, if necessary.

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 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 six new complaints and five new demand letters. If necessary, based on a review of these complaints and demand letters, we will perform a further analysis that could result in improvements for the engagement team or changes to our quality control system.

### Financial Intelligence Unit (FIU)- Netherlands

In accordance with the Dutch Money Laundering and Terrorist Financing Act (*Wet ter voorkoming van witwassen en financieren van terrorisme*, Wwft), specific institutions have a legal duty to report unusual transactions to the Dutch Financial Intelligence Unit (FIU). The Act aims to prevent unacceptable financial practices such as money laundering. During fiscal year 2015/2016, Ernst & Young Accountants LLP reported 38 unusual transactions to the FIU (compared with 56 in fiscal year 2014/2015).

#### 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 statements 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, geo-political developments, changing public opinion within Dutch society and the importance of trust to

protect the financial markets, 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 and maintaining our 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 adverse quality occurrences to enable us to continually improve audit quality, and we believe that an important part of the audit inspections process is to take effective and appropriate actions to improve quality.

### **Effectiveness of the quality control system**

EY has designed and implemented a comprehensive set of global audit quality control policies and practices. These policies and practices meet the requirements of the International Standards on Quality Control issued by the International Auditing and Assurance Standards Board (IAASB). 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 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 continual 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 and internal reports by CO, Risk Management Assurance and QARA, provide us with a basis to conclude that the internal quality control systems are operating effectively. In the course of this evaluation we have identified actions which we believe will further strengthen controls to mitigate material risks. In fiscal year 2015/2016 a more comprehensive insight was gained into internal control effectiveness by means of a phased implementation of a risk management and internal control framework based on the COSO 2013 model.

### **Monitoring effectiveness**

During fiscal year 2015/2016, 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 we 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. We believe each deficiency is one too many, as it can potentially harm trust in our audits or auditors. Deficiencies identified are classified as infringements and/or incidents.

### **Infringements**

An infringement (*schending*) is recorded in the event 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 2015/2016 in the “Independence practices” section of this Transparency Report.

The table below shows the number of infringements related to the quality or quality control of audits of financial statements during fiscal year 2015/2016. The breakdown by type of client is based on their qualifications under Dutch law: they are either Public Interest Entities according to Dutch Law (*Organisaties van Openbaar Belang*, including 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 have performed about 8,400 audits (FY15 7,100), of which about 2,800 (FY15 3,750) are WeCos.

Type of infringement at financial statement audits 2015/2016	WeCo/OOB	WeCo/non-OOB	non-WeCo	Total
1. Engagement Quality Review incorrectly applied, or not applied		1		1
2. EQR concurrence notice sent to CO after release of auditor's opinion			1	1
3. Infringements resulting from Audit Quality Review 2014/2015 test cycle	1	2		3
4. Insufficient audit evidence in specific areas		2		2
5. Infringements of duty to observe secrecy (of which infringements of the Dutch Data Protection Act)	1 (1)	5 (4)	1 (1)	7
6. Mandatory consultation not applied / Concurrence with PPG after release of auditor's opinion		7	1	8
7. Other	2	1		3
<b>Total</b>	<b>4</b>	<b>18</b>	<b>3</b>	<b>25</b>

Type of infringement at financial statement audits 2014/2015	WeCo/OOB	WeCo/non-OOB	non-WeCo	Total
1. Engagement Quality Review incorrectly applied, or not 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 observe secrecy	2			2
6. Mandatory consultation not applied / Concurrence with PPG after release of auditor's opinion		2	2	4
7. Other		1	3	4
<b>Total</b>	<b>4</b>	<b>25</b>	<b>8</b>	<b>37</b>

As we are a learning organization, we take a critical look at the number of infringements and their year-on-year development.

The infringements mentioned in the table above can be classified as follows:		Our follow-up has been:
1	Engagement Quality Review incorrectly applied, or not applied	The EQRs for the years 2012, 2013 and 2014 were not performed since the client was mistakenly not identified as a Public Interest Entities according to Dutch Law ( <i>Organisatie van Openbaar Belang</i> , OOB). After noticing this infringement an EQR took place on the 2015 file. Furthermore PPG will offer additional guidance on the definition of Public Interest Entities according to Dutch Law.
2	EQR concurrence notice sent to the CO after release of auditor's opinion	After questioning the team the concurrence notice was sent to the CO.
3	Infringements resulting from the Audit Quality Review 2015/2016 test cycle	Each of the partners and executive directors involved prepared a mandatory Remedial Action Plan, whose implementation was reviewed during the 2015/2016 test cycle. We refer to the AQR section of this Transparency Report, where improvement procedures are discussed.
4	Insufficient audit evidence in specific areas	One file relates to a review report regarding prospective financial information. Since the auditor no longer works for EY no further actions were taken. The second file

		related to an audit in a specific sector. The planned follow-up for this infringement consists of investigations of files in the related sector (including a number of files of the auditor concerned).
5	Infringements of duty to observe secrecy	The consequences for clients have been mitigated. The employees involved have engaged in extra training on secrecy.
6	Mandatory consultation not applied / Concurrence with PPG after release of auditor's opinion	PPG will consider if additional guidance is needed regarding mandatory consultation.
7	Other	In disciplinary consultation between the auditor and the policymakers, the infringements were discussed and the importance of timely and direct communication with the regulator was emphasized.

The firm as a whole benefit from our annual summary of "lessons learned from infringements". A summary of the infringements and the lessons learned is distributed to all Assurance personnel.

#### **Late archiving**

Not included in the tables on the previous page and above, are infringements regarding the archiving of audit files, as these concern the timeliness of archiving of the audit file after sign-off only. Archiving means that an electronic copy of the audit file is stored in our archive system, after which it is no longer editable. For OOBs and other WeCos, external regulations set the maximum period for archiving audit files (60 days or 2 months; 45 days for PCAOB audit files) after signing the auditor's opinion. For quality and efficiency reasons, we set an internal filing deadline of ten business days after signing the auditor's opinion for all financial statements audits. When justified and subject to approval by the PPG, a longer period (up to 60 days) may apply.

We met the external rule of 60 days for 99.7% of all archived files. We failed to meet the deadline for 22 files (2014/2015: 14 files). Twelve of these were WeCo files; 10 were non-WeCo files.

#### **Data breach notification**

Effective 1 January 2016, the Dutch Data Protection Act (*Wet bescherming persoonsgegevens*) was amended and a mandatory data breach notification obligation came into force. This obligation means that organizations must notify the Dutch Data Protection Authority as soon as they experience a serious data breach. A data

breach must be reported to the Dutch Data Protection Authority if it leads to a considerable likelihood of serious adverse effects on the protection of personal data, or if it has serious adverse effects on the protection of personal data.

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

We keep a register of all security breaches to assess whether a breach needs to be reported to the Dutch Data Protection Authority as a data breach. This register includes incidents like lost or stolen laptops, smart devices, secure ID cards, hard copy files, emails sent to the wrong person etc. Ernst & Young Accountants LLP reported one data breach to the Dutch Data Protection Authority. This breach related to an errant email containing financial data of a client's employees.

Some security breaches also qualify as an infringement of certain formal internal or external rules and regulations (such as the duty to keep audit information confidential). We registered six breaches as infringements (which include the data breach that was reported to the Dutch Data Protection Authority).

#### **Incidents**

Under Dutch law, we are obliged to inform the AFM immediately of any incident that 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 2015/2016 we reported 9 (2014/2015: 14) incidents to the AFM.

Incidents	2015/ 2016	2014/ 2015	2013/ 2014	2012/ 2013	2011/ 2012
(Potential) criminal offence and violations of the law at client	2	2	4	1	1
Reputation risk	4	5	4		
Correction of error(s) in financial statements	1			3	1
Threat to independence			1		
Improper use of opinion issued by EY	1	6		3	
Anonymous signals		1		2	
Bankruptcy	1				1
Total	9	14	9	9	3

- ▶ Two cases concerned potential fraud at a client of us.
- ▶ One case concerned potential wrongdoing by a former employee of Ernst & Young Accountants LLP that impacted the relationship with a client.
- ▶ One case concerned the bankruptcy of a large audit client within one year after we issued its audit opinion
- ▶ Two cases concerned media reporting on our clients that (also) referred to Ernst & Young Accountants LLP or to services we provided.
- ▶ One case concerned the correction of errors in the financial statements of the client in combination with media reporting on those errors, referring to our audit during fiscal year 2015/2016.
- ▶ One case concerned the early termination of an audit engagement as a result of a client not meeting our requirements based on our continuous client due diligence monitoring obligations pursuant to the Dutch Money Laundering and Terrorist Financing Prevention Act (Wwft), introducing possible improper business conduct leading to reputational risk for us.
- ▶ One case concerned the publication of financial statements with our auditors' report where the published financial statements were not identical to those audited by our firm.

Due to a new policy implemented in our organization we reported fewer incidents than in previous years that relate to the improper use of an audit opinion issued by Ernst & Young Accountants LLP. This policy mandates engagement teams to verify whether the financial statements filed with the Chamber of Commerce by our client are the same as those audited by us. This includes a check whether the wording of the audit opinion issued by

us is identical to the audit opinion included in the financial statements filed with the Chamber of Commerce. This procedure has effectively mitigated the integrity risk for Ernst & Young Accountants LLP in situations where clients did not file the correct version of the financial statements/audit opinion. We no longer report each difference between the audited and filed financial statements as an incident. Instead we only report serious cases, for example if the client deliberately filed a different version to mislead its stakeholders or if the different versions of the financial statements triggered publicity.

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.

## 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 or 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.

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

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 2015/2016, we classified 57 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 3%, 72% and 25%, respectively. The policymakers decide on the external auditor and EQR reviewer of all listed entities and close monitoring audit engagements.

In fiscal year 2015/2016, we notified the AFM seven times of the early termination of a statutory audit engagement. Three of these notifications concerned multiple entities within a client's group. All seven notifications concerned non-OOB audit clients. Five engagements were terminated by the client, two engagements were terminated by Ernst & Young Accountants LLP.

Four terminations out of these seven were triggered by the bankruptcy of the client. One engagement was terminated by the client due to its acquisition by another company. The sixth engagement related to the 2012 audit and the client decided to focus on more recent years' audits. The seventh engagement, terminated by Ernst & Young Accountants LLP, concerned a client who did not meet the requirements under our continuous client due diligence monitoring obligations pursuant to the Dutch Money Laundering and Terrorist Financing (Prevention) Act (Wwft).

## 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.

### Audit methodology

The EY Global Audit Methodology (EY GAM) provides a global framework for delivering high-quality audit services through the consistent application of thought processes, judgments and procedures in all audit engagements.

Making risk assessments, reconsidering and modifying them as appropriate, and using these assessments to determine the nature, timing and extent of audit procedures are fundamental to EY GAM. The methodology also emphasizes applying

appropriate professional skepticism in the execution of audit procedures. EY GAM is based on International Standards on Auditing (ISAs) and is supplemented in the Netherlands to comply with the Dutch auditing standards and regulatory or statutory requirements.

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

Using technology, EY GAM can be “profiled” or tailored to present the relevant requirements and guidance, depending on the nature of the entity being audited. For example, there are profiles for listed entities and for those considered non-complex entities.

Enhancements to the audit methodology are made regularly as a result of new standards, emerging auditing issues and matters, implementation experiences, and external and internal inspection results. In 2016, EY GAM was updated to include the new and revised ISAs dealing with auditor reporting, other information included in an annual report and financial statement disclosures. We also enhanced EY GAM by adding guidance to address common questions from audit teams and issues arising from inspections.

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 other key topics of interest to our regulators, including the International Forum of Independent Audit Regulators (IFIAR). These topics 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. Beginning in late fiscal year 2015, EY launched the next generation global audit platform EY Canvas, on a phased basis across EYG member firms globally. The deployment continues and Ernst & Young

Accountants LLP will be completed in fiscal year 2017. EY Canvas is web-based, built using state-of-the-art technology to provide heightened data security and allows us to evolve our software to respond to changes in the accounting profession and regulatory environment.

Through the use of profile questions, audit engagements in EY Canvas are automatically configured with information relevant to the company's listing requirements and industry, helping keep our audit plans customized and up-to-date by 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 audit team can direct execution and monitor performance of the group audit. Over the coming year, we will phase out our predecessor audit support tool, GAMx.

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

EY Helix is our suite of data analytic tools for use in audits. These help our engagement teams analyze a company's data, enhancing our risk assessment processes and enabling the audit of higher-risk transactions.

EY Helix is already assisting our people to ask better questions about audit findings and evaluating the outcomes. Analytics are transforming the audit by analyzing larger populations of audit-relevant data, identifying unseen patterns and trends in that data, and helping to direct our audit efforts. The use of analytics also allows us to obtain better perspectives, richer insights and a deeper understanding of transactions and areas of risk.

### **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 fulfill their engagement responsibilities and are in compliance with applicable auditor rotation regulations.

The assignment of professionals to an audit engagement is also made under the direction of

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

In many situations, internal 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 2015/2016, specialists such as these spent 125,000 hours supporting audit teams of our firm. This amounts to 6.3% 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 essential for high-quality services to 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 2015/2016, 32 Dutch professionals were employed at other EY locations abroad. A hundred non-Dutch professionals were employed in our Assurance Service Line. The rank of these professionals varied 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 2015/2016 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	11%	6%	6%
Senior Managers & Managers	30%	20%	21%
Senior Staff	24%	30%	30%
Staff	35%	44%	43%
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	10%	8%	5%
Senior Manager & Manager	29%	24%	17%
Senior Staff	27%	28%	28%
Staff	34%	40%	50%
Totals	100%	100%	100%

Of course, regular team members must possess the industry knowledge required. Over the past decades, our auditors have increasingly focused on just one or a limited number of industries to be able to perform better audits and thus provide better quality to our stakeholders. Industry groups 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. Senior audit executives and/or 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.

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

For complex and sensitive matters, we have a formal process requiring consultation outside of the audit engagement team with other personnel who have more experience or specialized knowledge, primarily Professional Practice and Independence personnel. In the interests of objectivity and professional skepticism, our policies require members of Professional Practice, Independence and certain others to withdraw from a consultation if they currently serve, or have recently served, the client to which the consultation relates.

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.

The fiscal year 2015/2016 saw a 10% drop in the number of technical consultations with our PPG. The number of consultations on auditing standards, accounting, fraud and capital markets decreased from 1,206 in fiscal year 2014/2015 to 1,081 in fiscal year 2015/2016. Twenty five per cent of these consultations related to "going concern" issues (2014/2015: 26%); 19% dealt with topics related to modified audit opinions (2014/2015: 23%). These numbers do not include consultations with our RM/Independence Desk or informal consultations and inquiries, nor do they include the consultations to the different panels discussed below.

In fiscal year 2015/2016, audit teams reported 151 instances of potential fraud to the Fraud Panel (compared with 78 in 2014/2015). Based on an initial risk assessment, 101 cases were deemed "clearly inconsequential". After this assessment, 50 formal consultations to the panel remained. In five cases (eight in 2014/2015), 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 decreased to 266 in fiscal year 2015/2016 (from 310 in 2014/2015).

The Error Evaluation Panel was consulted in 96 cases (76 in 2014/2015), including 28 errors detected during initial audits (24 in 2014/2015). The panel concluded in eight cases (all non-OOB clients) that a fundamental error had occurred in the audited financial statements of the previous year. In 75 cases (6 OOBs, 69 non-OOBs), the panel concluded that a material error had occurred (58 in 2014/2015). In 13 cases the panel concluded that the error was not material or that no error had occurred.

## 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 evaluations of significant accounting, auditing and reporting matters. In no circumstances may the responsibility of the engagement quality reviewer be delegated to another individual.

The 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.

The Engagement Quality Review (EQR, *onafhankelijke opdrachtgerichte kwaliteitsbeoordeling*) is an important part of our quality control system. We continued to use the "deep dive" approach, going one step further and deeper in our reviews. We gave detailed instructions for executing EQRs 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 that involves 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 is that the EQR not only serves 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 is assessing. The intention is that the team being assessed learns from the reviewer's knowledge and experience gained in other reviews. We believe that learning from each other contributes to the desired 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. Of the EQRs performed in 2015/2016, 46% (2014/2015: 49%) concerned OOBs or PIEs according to EY's global definition of a PIE. Fifty-six per cent (2014/2015: 51%) 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 2015/2016, we performed 423 engagements (2014/2015: 425). 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.

### **Inflight Review & Coaching**

In 2015 we launched a new project to improve our audit quality, known as the Inflight Review and Coaching initiative, which enables us to learn more about the status of engagements in progress and possible issues. Those insights help the teams answer complex audit questions and allow us to improve documentation by means of coaching. We also obtained insights into good practice's, which we shared with all audit professionals. Participants in this project included professionals from the Professional Practice Group and managers and senior managers from practice.

Over the past year we have performed a general review in connection with the application of Significant Risks and SCOTS (all external auditors were selected) and topic reviews in connection with ISA 600 (group audits), Initial Audits, Corruption, Estimates and EQR. We have reported the lessons learned to the individual engagements teams (in general terms) and to all Assurance executives. Further, we shared good practices and developed additional guidance and enablers for Initial Audits and Group audits.

The overall feedback from the selected engagements on both review and coaching is that it has helped the teams to further improve the quality of the audit engagements. The Audit practice as a whole also indicates that they appreciate the further guidance received.

### **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 are generally resolved at the audit engagement team level. However, if any person involved in the discussion of an issue is not satisfied with the decision, 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 *Besluit*

*Toeziht 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 tools to track partner rotation that enable effective monitoring of compliance with requirements.

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

### **ViO partner rotation requirements**

The Dutch Regulation regarding the Independence of Auditors in the case of Assurance engagements (*Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten*, ViO) has been in effect since 1 January 2014. The ViO stipulates that a long-term association of senior audit team members with a particular engagement - seven years or more - may pose a threat to independence.

Under this framework, we continuously monitor and assess situations with a potential impact on independence resulting from long-term association with a client at our audit (WeCo and non-WeCo) clients and other assurance engagements.

In response to the introduction of the ViO, we have developed a policy for team rotation and implemented tooling to track and monitor partner and team involvement per client. As from this calendar year 2015, in principle none of our partners will be involved in an audit engagement for a continuous period of more than seven years, unless in the case of specific circumstances such as it being the final year of our involvement. With the implementation of the EU Audit Reform rules, we are currently amending our policies and processes for engagements with financial years starting after 17 June 2016.

### **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. New policies to adapt to the ViO have also been implemented with regard to hospitality and social events. For more information, see the Independence section of this Transparency Report.

The text of the ViO is available on the NBA (Netherlands Institute of Chartered Accountants) website ([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 engagements that are large, complex or of significant public interest. The Global AQR program includes detailed, risk-focused file reviews covering a large sample of listed and non-listed audit engagements to measure compliance with internal policies and procedures, EY GAM requirements, and relevant local professional standards and regulatory requirements. It also includes reviews of a sample of non-audit engagements. These measure compliance with the relevant professional standards and internal policies and procedures that should be applied in executing non-audit services. In addition, practice-level reviews are performed to assess compliance with quality control policies and procedures in the functional areas set out in ISQC No. 1. The Global AQR program complements external practice monitoring and inspection

activities, such as 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 matters 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.

## 2015/2016 AQR results

The 2015/2016 results are as follows in summary:

	2015/2016		2014/2015		2013/2014	
Rating 1	34	89%	38	91%	58	83%
Rating 2	4	11%	3	7%	11	11%
Rating 3	0	0%	1	2%	1	1%
Totals	38	100%	42	100%	70	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 2015/2016, our Rating 1 score slightly decreased to 89%. However, within this category ("no or only minor findings"), the 2015/2016 AQR also saw a relative decrease of the number of minor findings in the engagements reviewed. Although the number of files rated "2" or "3" is stable, there is room - and a need - for

further improvement, especially in the areas of scoping of group audits, execution of control testing and supervision and review. We will continue our efforts to ensure compliance with statutory rules and with our high quality standards in all aspects of the audit. The message our leadership is continually sending to our partners and staff regarding the importance of quality in everything we do is part of this effort.

The global AQR checklist highlights various subjects including fraud risks. In the 2016 AQR process we have expanded this question for the Dutch practice and included the identification and follow-up on potential corruption risks (next to fraud risks). The purpose of this question was to give an impression if and how corruption risks at our clients are identified by engagement teams in our Assurance practice.

Compared to the previous fiscal year, during the 2015/2016 AQR the number of reviews slightly decreased from 42 to 38 engagements. However, the coverage of audit hours subject to AQR review was similar to last year. This is due to the fact that the selected engagements were larger.

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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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Compared to fiscal year 2014/2015, we further improved IT-related audit work, audit conclusions and supervision and review, as well as the quality of documentation in our audit.

When partners are given a "3" rating on a file, it will negatively impact their quality rating with a downward impact on their overall performance rating. A "2" rating may also have such an impact, since the goal and expectation for any engagement reviewed is a "1" rating.

Twenty-one engagements selected for AQR had also been subject to an EQR. Out of these reviews, 18 (86%) were rated "1" in their AQR; three were rated "2" (14%). In fiscal year 2014/2015, this percentage was 6%.

QARA 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. A RAP is required for all "2" and "3" ratings and submitted to our firm's Professional Practice Director for approval. The 2015/2016



AQR resulted in four RAPs (the same number as in fiscal year 2014/2015).

Each partner is subject to a regular AQR at least once every three years. In addition to the audits inspected in the regular AQR, partners are also selected for an 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 2015/2016 AQRs 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 must be implemented in all engagements and their implementation must be documented.

The root cause analysis of the overall outcome of the AQRs from 2015/2016 will be finalized in due course 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. 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 inspection 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 elsewhere, access US capital markets by complying with certain US legal requirements, including the requirement to periodically file audited financial statements with the US Securities and Exchange Commission (SEC). Under the Sarbanes-Oxley Act, the auditor of those financial statements - whether a US or a non-US auditor - must be registered with the PCAOB, and the PCAOB must regularly inspect the firm to assess its compliance with US law and professional standards in connection with those audits. Our firm is registered with the PCAOB.

The PCAOB and the AFM performed their second joint inspection at our firm in the first half of 2016. The PCAOB inspected three files of which two 2014 audit files jointly with the AFM.

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 ensure the highest quality for our audits and related control processes, in the interest of investors and other stakeholders.

Information on the PCAOB and the AFM can be found on their respective websites [www.pcaobus.org](http://www.pcaobus.org) and [www.afm.nl](http://www.afm.nl).

## Inspections

### PCAOB - Report on the joint inspection

When this Transparency Report was written, the PCAOB had not yet sent us its final report on the inspections of the first half of 2016. They did provide us with their initial findings through their comment forms relating to the files inspected and the system of quality control. We have provided our responses to these findings, including the (remedial) actions we have taken, and will take going forward, to learn from the findings and to enhance the quality of our work.

### AFM - Regular quality assurance inspection

In November 2015 the AFM started their inspection of our quality control system, which is part of their total 2014/2015 audit file inspection cycle. In the first half of 2016 the AFM inspected four 2014 audit files, two of which jointly with the PCAOB. The AFM has recently provided us with their initial findings on two of the four inspected files, which we will comment on in due course. We have not yet received the written initial findings on the other two inspected files. The AFM planned inspections on four 2015 audit files in the second half of 2016.

### AFM - Enforcement process 2013/2014 inspection

In March 2016, the AFM imposed a substantial fine, of € 2,230,000 on us for three 2012 audit files that were found to be substandard. The AFM concluded that we as a firm had violated its duty of care. In our view, we as a firm (and the profession in general) are in need of more guidance as to how exactly to interpret the laws and regulations governing this duty of care. Therefore, we felt obliged to pursue this further and to file an objection against the AFM's decision. In July we

submitted a written objection to the AFM. We are now awaiting their decision.

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

##### ***Follow-up of corruption theme investigation***

During 2015/2016 the AFM continued their theme-specific investigation into the audit risks at clients who face a relatively high risk of corruption and into the audit approach taken at such clients.

More specifically, the AFM started a focused review of the consultation process and in that regard inspected two consultations related to corruption. We received feedback from the AFM following this inspection which we followed-up in our quality system. We did not yet receive a written feedback from the AFM.

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

In April 2015, the AFM started another theme-specific investigation at the Dutch PIE audit firms, including ours. The AFM's main goal with this investigation is to monitor the design of the implementation of measures we have taken in response to the findings and conclusions of the latest regular AFM inspection in 2013/2014, and to monitor the implementation of 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 were pleased with the outcome of the first final report, dated 7 October 2015. We received an overall result of 4.1 (on a scale from 1 to 5), which made us realize that we were on track, but had not fully finalized the first "design" phase. This did not come as a surprise, as we have chosen a fundamental approach for improvement, focused on delivering the right conditions in the organization to enable a quality driven culture for the auditor of the future.

According to the AFM, the way in which we flesh out the learning organization through activity-based learning, as well as our issue and target group oriented approach to cultural research and behavioral change, are "good practice" in the sector.

In 2015/2016 we focused on the topics that needed follow-up: a structured root cause analysis approach, in control, our sanctioning policy and the translation of the quality-oriented vision into the business processes and procedures and actual desired behavior by employees.

We adjusted our sanctioning policy towards stimulating and valuing our people in a balanced way. When quality findings occur we perform a root

cause analysis to focus on the "why" of the error instead of "what" or "who". We also recognize, and aim to learn from, positive events.

In October 2016 the AFM will visit Ernst & Young Accountants LLP to perform the second phase of their monitoring inspection. They will have interviews with executive and Supervisory Board members and have two focus sessions with our employees. In this way the AFM reviews our quality driven culture and in control aspects.

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

Following a case specific inspection in 2012 a disciplinary meeting with the AFM was held. Currently no case-specific inspections by the AFM are open. In those cases where we file an incident report with the AFM we investigate the relevant facts and circumstances and the root causes of such cases. We regularly inform the AFM on the progress and outcome of such internal investigations. The AFM will continue to share with us their observations on the internal investigations which we incorporate as part of our ongoing improvement initiatives.

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

Based on the report entitled "In the Public Interest" (*In het Publiek Belang*) published in September 2014 by an NBA working group, the NBA adopted its "53 measures". These measures, which are intended to ensure the pre-eminence 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 by audit firms, especially those with a PIE-license (*OOB-vergunning*), which includes 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 brief summary, per subject area, of the current status of implementation. We refer to our website and NBA monitor for more detailed information.

##### **Culture**

The NBA exhorts audit firms to foster the right culture in their organizations and to measure this culture periodically (measure 1.4). At our firm, we periodically measure our culture at different levels and elements. Our method for measuring elements of our culture aligned with the status of our change journey was rated "good practice" by the AFM in October 2015. In September 2016 we performed a specific survey aligned with our strategic focus points for the coming two years. The outcome will be embedded in the implementation of this strategy.

## Governance

Audit firms are required to have a Supervisory Board at the holding level of their organization in the Netherlands, which board should have various specifically mentioned attributes and competencies. Our Supervisory Board started its work on 1 July 2015. In 2015/2016 the Supervisory Board invested significant time in onboarding. We comply with the measures in this area and will focus in FY17 on further embedding the Supervisory Board in our processes. We embrace the Supervisory Board as an important stakeholder to monitor the quality of our organization.

### Performance review and remuneration

These measures deal with the right conditions and incentives in policy areas such as performance reviews, promotions and remunerations of our partners and employees. We have re-evaluated our sanction policy together with the upgrading of our root cause-analysis and learning organization. A clawback regulation was adopted and came into effect from the financial year 2015/2016. Of the profit share to be distributed to individual members who are subject to the clawback regulation, an average of one-sixth will be withheld unless the member concerned has opted to allot alternative financial means to the clawback fund, all in accordance with the terms of the clawback regulation.

### 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 in response to Audit Quality Reviews (AQRs). We have re-evaluated our current remediation process and fine-tuned it from the learning organization's perspective.

### Implementation

The Supervisory Board is required to monitor the progress of 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 2015/2016, we discussed the progress of implementation of the NBA measures with our Supervisory Board.

## SISA inspection

Dutch municipalities and provinces are subject to so-called SISA (Single Information, Single Audit) reporting requirements to the Dutch Ministry of the Interior and Kingdom Relations 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 2015, the internal audit department of the Dutch Ministry of Finance inspected the 2014 Financial Statements SISA annexes of a number of municipalities and provinces, 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 financial statements and the funding information.

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

The financial information of Dutch publicly-funded educational institutions - both financial and funding information - is subject to audits. The audit work required is described in detail in the "Education Audit Protocol". The Dutch Educational Inspectorate performs annual reviews of some of our audit files in order to determine if we performed our audits adequately and in compliance with the Education Audit Protocol. In November 2015, the Educational Inspectorate finalized 15 reviews of eight educational institutions from the year 2014 and concluded that the informational reviews were sufficient.

The Dutch Educational Inspectorate also performed a re-performance inspection on compliance with the Dutch Executives Pay (Standards) Act (*Wet Normering Topinkomens, WNT*). The inspection yielded several findings, which were discussed with the Inspectorate. Due to the complexity of the regulations concerned we implemented a WNT expert panel and several other improvement measures.

The Educational Inspectorate also performed a specific inspection of an institution additional to their inspection of the institution itself. This inspection resulted in comments that have been remediated by the institution.

### Quality reviews by Dutch Healthcare Authority (NZa)

The NZa performs yearly reviews of the implementation of the Healthcare Insurance Act (*Zorgverzekeringswet, ZVW*) and the Exceptional Medical Expenses (Compensation) Act (*Algemene*

*Wet Bijzondere Ziektekosten, AWBZ*). In 2015/2016 they reviewed four audit files of health insurance companies on the ZVW and four audit files of Health Offices (*zorgkantoren*) on the AWBZ. No findings were noted.

### **Quality reviews by National Government Audit Service (ADR)**

The ADR is part of the Dutch Ministry of Finance and can perform quality reviews at Ministry's request. In 2015/2016 the ADR reviewed a DBBC audit report and noted no issues.

In 2015/2016 the Dutch Ministry of the Interior and Kingdom Relations announced a WNT review, to be performed by the ADR. The review will be performed on a selection of audit firms and institutions. The ADR will perform a limited file review in autumn 2016.

## **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.

### **Anti Money Laundering**

Our risk policy in the context of the Dutch Money Laundering and Terrorist Financing Prevention Act (Wwft) sets out the principles to be applied by our staff to counteract money laundering and terrorist financing. The two major subjects with regard to the Wwft are client examination and the reporting of unusual transactions; both subjects are addressed in this policy.

### **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.

### **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.

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

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

In the world of auditing, the public interest is served by a high quality of audits and audit opinions, also in terms of reliability and relevance. That is why we focus on quality issues in our communications with the outside world. This quality-focused transparency also includes being

open about what we learn from internal and external reviews, and from instances in which the quality of the work of our firm or one of its auditors is questioned. For us, transparency in these cases is about communicating what lessons we have learned and what we are doing to further improve the quality of our audits.

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

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

In our litigious society, there will always be tension between the duty (and indeed the desire) to be transparent, in the public interest, about lessons learned, on the one hand, and the need to be prudent from a legal point of view and not to undermine one's position in existing litigation or induce new litigation, on the other. Indeed, in many cases there will be legal and contractual restrictions to our transparency, as 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 2015/2016, four new disciplinary proceedings were initiated against auditors of our firm. All three proceedings initiated before and pending on 1 July 2015 were finalized in fiscal year 2015/2016. Of the four new disciplinary proceedings, two were still pending on June 30, 2016.

#### ***Proceedings finalized in fiscal year 2015/2016***

The first case concerned 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 (*College van Beroep voor het bedrijfsleven*) heard the case in June 2014 and issued its judgment in November 2015. The auditor was temporary deregistered for six months.

Another case involved a complaint against two auditors of our firm and concerned the depreciation of replacement investments in the

financial statements of a municipality. The Disciplinary Council of Accountants and Auditors (*Accountantskamer*) decided the complaint was partly inadmissible and partly unfounded. An appeal was filed with the Trade and Industry Appeals Tribunal, which issued its judgment in March 2016 and upheld the decision of the Disciplinary Council.

The third complaint was filed by former shareholders in a private limited liability company against its auditor. In the past, the auditor also audited the financial statements of these shareholders. The complainants claimed that the auditor had not audited those financial statements properly. Furthermore, they claimed that an assurance report issued by the auditor was not in compliance with applicable regulations. In July 2014, the Disciplinary Council decided that part of the claim was inadmissible. The other part was declared unfounded. The complainants then filed an appeal with the Trade and Industry Appeals Tribunal, which handed down its judgment in June 2016 and confirmed the decision of the Disciplinary Council.

The fourth case - initiated after 1 July 2015 - concerned complaints regarding a report on the valuation of shares. This valuation had been requested with respect to the former CEO's obligation to offer his shares to the other shareholders. The complaint was submitted by the former CEO and withdrawn before the auditors submitted their defense.

The fifth case - also initiated after 1 July 2015 - concerned a forensic investigation performed between 2007 and 2009. The presiding judge of the Disciplinary Council decided that the complaint was inadmissible due to lapse of time.

#### ***Proceedings still pending***

As of 1 July 2016, there are two disciplinary proceedings pending.

The first one relates to the 2013 financial statements of a private limited liability company, for which the auditor issued an unqualified opinion. Two minority shareholders of the company who are required to offer their shares to the majority shareholder claim that the financial statements contain material misstatements. In May 2016, the Disciplinary Council decided that part of the complaint was well-founded and the auditor received a reprimand. The complainants and the auditor filed an appeal with the Trade and Industry Appeals Tribunal.

The second case involves two shareholders of a bankrupt public limited company who, in May



2016, filed a complaint against the auditor of that company. They claim that the 2012 end 2013 audits were not performed properly. The auditor is preparing his defense.

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

Four claims under civil law were pending on 1 July 2015, and all of these were still pending on 30 June, 2016. One of these cases is, although pending, inactive. In the other three cases, the courts have not yet rendered their (final) decisions. These decisions may take several years. We refer to our Transparency Reports of recent fiscal years for further information.

#### **The Landis case**

Over the years, the Landis case - which concerns work we performed between 1999 and 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 sent us a letter 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 as does Stichting Landis leed II. In compliance with NBA guidance in these matters, and as we are still engaged in discussions, we will not cover 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.

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, including separation from Ernst & Young Accountants LLP.

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 2015/2016, our Independence Team again performed a large 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 that had issued 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 too. The tool includes family-tree data relating to affiliates of listed audit clients and is updated by client-serving engagement teams. The entity data includes notations that indicate the independence rules that apply to each entity, helping our people determine the type of services that can be provided or other interests or relationships that can be entered into.

In the recent past, and in response to the mandatory rotation requirements in effect in the Netherlands since 1 January 2016, a large majority of OOB (PIE) entities issued a "request for proposal" for the audit engagement. We 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 Ernst & Young Accountants LLP is appointed as the auditor, we keep tracking non-audit services continuously, both in the Netherlands and abroad, to ensure timely termination of prohibited non-audit services. At the start of the actual audit engagements we ascertain that all remaining non-audit services are closed.

### Global Monitoring System

The Global Monitoring System (GMS) is another important global tool that assists in identifying as

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 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.

Ernst & Young Accountants LLP confirms that the Global Internal Audit last occurred during June 2014.

### **Personal independence compliance testing**

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 2016 testing cycle, Ernst & Young Accountants LLP tested more than 100 partners and other personnel.

#### **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 18 and Service Offering Reference Tool (SORT) – see below), training and required procedures completed during the performance of audits and internal inspection processes. With effect from the 2014 calendar year, and in response to the new Dutch independence rules, we have increased our monitoring of other services to Dutch PIEs (OOB) under the new Dutch independence rules. Various improved prevention controls embedded in GTAC processes, combined with robust detection controls using queries and exceptions reports, allow us to comply with the new Dutch regulations. As a result of our monitoring processes, three situations were noted in 2015 where (not allowed) audit services were provided to audit clients. Each of the cases was limited in size; two of the three cases were conducted by foreign EY offices. These cases were reported to the AFM which led to a disciplinary discussion (*normoverdringend gesprek*) with the AFM about one of the three cases reported. We have performed necessary remediation and corrective actions in all three cases. Also, measures have been implemented to enhance our engagement approval processes.

#### **Global independence learning**

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

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

The annual independence learning program covers independence requirements focusing on recent changes to policy, as well as recurring themes and topics of importance. Timely completion of annual

independence learning is required and is monitored closely.

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 oversight of independence**

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

#### **Independence monitoring**

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

This group comprises approximately 10 FTEs that serve all professionals and service lines. In addition to its various key control functions, the Desk handles all independence-related consultations. On average we receive some 1,500 independence-related email inquiries and about 1,000 independence confirmation requests annually in the Netherlands alone. The nature of the questions focuses on the independence rules applicable in the Netherlands, and is now also shifting towards the implications of the new EU Audit Reform. 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 are addressed by a consultation group made up of Independence staff and the PPG.

The 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 Independence policies, assessment of non-audit services, business relationships and gifts and hospitality and data. Our GMS systems, for example, currently monitors in excess of 6,000 securities held by our Dutch professionals. Our independence monitoring activities enabled all of our partners and other professionals to complete mandatory training on the new independence regulations and confirm their independence through our annual (for partners, quarterly) confirmation process.

Compliance with the GMS requirements 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 selected more frequently. Approximately 30 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 of 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 70 persons were tested. All instances of securities that had not been recorded in time concerned securities

held by professionals who were not involved in audits for clients of which they held securities.

This year our engagement acceptance processes have been further augmented to ensure no non-audit services are provided to PIE WeCo clients. In addition, our Independence Desk conducted a detailed review of all clients for any prohibited services. Such monitoring will be continued going forward.

The Independence Desk also reviews business relationships entered into by Ernst & Young Accountants LLP. 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 public records are searched to assess whether any partner or Assurance executive director holds a position that was potentially not disclosed.

Gifts and hospitality arrangements are reviewed by our Independence team. Following the rules under the ViO, we actively communicated the €100 limit for activities with Assurance clients. In accordance with the ViO, our policy in the Netherlands stipulates that Assurance clients' representatives cannot be invited to social events and entertainment representing a value over €100. Neither will our professionals accept such invitations from Assurance clients.

### Implementation of EU Audit Reform

The new EU rules governing the audit profession entered into force on 17 June 2016. Those rules are the product of the ambition of the European Commission to reform the audit market ("the EU Audit Reform"). The rules are transformed into Dutch law by EU Regulation No 537/2014 and amended Directive 2006/43/EC and affect the Dutch Audit Firm Supervision Act (*Wet toezicht accountantsorganisaties, Wta*), the Dutch Audit Firm Supervision Decree (*Besluit toezicht accountantsorganisaties, Bta*) and the Regulation the Independence of Accountants in the case of Assurance Engagements on the Independence of Accountants (*Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten, ViO*).

In addition to the earlier amendments to Dutch law regarding the audit profession, the EU rules regulate audit services, client independence and our professional practice. This primarily pertains to

the services we provide to Public Interest Entities (PIEs). However, non-PIEs are also being impacted. In most cases, the amendments apply with effect from the audit of the 2017 financial statements.

To prepare for the introduction of the new rules, we started a project last year where Assurance PPG, Independence, Enablement, Markets and Services Lines' Quality functions work closely together. This project group assists with the implementation of the rules, as well as providing information to the professional practice through newsletters, bespoke training sessions, webcasts and FAQs. The group closely coordinates with the respective EY European networks on regulatory, independence and assurance matters.

The impact of the EU Audit Reform is important for us on topics as:

- ▶ Specific cooling in restrictions for certain services before accepting a new audit client;
- ▶ Extraterritorial ramifications of parent company PIE's located elsewhere in the EU;
- ▶ Increased role and responsibilities for Audit Committees and enhanced communication protocols on services and audit findings;
- ▶ Mandatory firm rotation after a maximum audit period of ten years with a cooling-off period of four years;
- ▶ Additional steps on engagement acceptance and continuance procedures.

During 2016/2017 we will further implement the required changes in systems, tools and procedures in close interaction with all current and future (audit) clients.





## Continuing education of audit professionals

### Staff turnover

In 2015/2016 our Assurance Service Line welcomed 589 new employees; 229 women and 360 men.

As of 30 June 2016, our firm had 2,524 employees on a full-time basis (2,243 on 30 June 2015). Of these employees 1,903 FTE worked for our Assurance Service Line (1,630 FTE on 30 June 2015). We had 146 FTE partners (138 on 30 June 2015). Of these partners, 103 worked for our Assurance Service Line (100 on 30 June 2015). Fifty-five executive directors worked for our Assurance Service Line (59 on 30 June 2015). The absenteeism rate was 3.0%. In addition, parental leave amounted to 3.4%. Staff turnover at our firm was 20% (previous fiscal year 19%); in the Assurance Service Line it was 19% (previous fiscal year 19%).

Employees who left our Assurance Service Line in 2015/2016	Women	%	Men	%
0-3 year's experience	52	21.7%	90	19.6%
4-6 year's experience	25	22.5%	43	19.5%
≥6 year's experience	26	14.4%	75	16.4%
Overall turnover	103	19.4%	208	18.3%

Employees who left our Assurance Service Line in 2015/2016	Women	%	Men	%
Above average last rating	19	11.4%	52	12.1%
Average last rating	54	17.1%	91	16.4%
Below average last rating	30	58.8%	65	41.9%
Overall turnover	103	19.4%	208	18.3%

### 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 are redesigning our core audit training into "The Audit Academy" – a curriculum for learning. This high-impact learning combines interactive classroom-based simulations, "on-demand" e-learning modules and relevant reinforcement and application support.

Where EY audits and reviews International Financial Reporting Standards (IFRS) financial statements, relevant team members undertake learning to become IFRS accredited.

We require our audit professionals to obtain at least 20 hours of continuing professional education each year and at least 120 hours over a three-year period. Of these hours, 40% [(at least 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, new hires will work in four to six-member Development & Learning Teams (DLTs) under a coach's guidance. Coaches attend a special training program which includes 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 2015/2016, our firm's professionals spent 301,000 learning hours as compared to 245,000 in fiscal year 2014/2015.

Those hours include staff and senior staff external training hours (144,000) to become auditor, on average one day a week per year. All 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 at the highest quality standard, our professionals are not only continuously trained in their application of professional skepticism but also in skills that help them maintain high-quality relationships with stakeholders whilst meeting public interest expectations in communication regarding the audit. This requires multiple competencies that are part of our learning programs.

We established EY University as part of our Personal Career Design campaign. This learning program is based on our World Class Learning principles. Our financial experts participate in the core curriculum which includes auditing, accounting, IT, sustainability and fraud investigations. Next year we will have two cohorts at EY University.

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

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 have trained partners serving listed entities in their communication at the Annual Shareholders' Meetings of those entities.

We continue to train our graduates in the mandatory NBA topic of "professional skepticism" and are convinced that our professionals will benefit from this training, and, most importantly, that it will promote the application of professional skepticism during our audits.

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

Hours by rank (000)	2015/ 2016	%	2014/ 2015	%
Partners and executive directors	10	3%	11	4%
Senior managers and managers	34	11%	31	13%
Senior staff	56	19%	53	22%
Staff	201	67%	150	61%
Totals	301	100%	245	100%

Quality and relevance of our work, i.e. meeting internal and external quality standards when serving the public interest, are the cornerstones of mandatory learning, which is partly based on the ranks and roles of professionals. Below is a high-level overview of mandatory training programs (for details see 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 covering recent developments and new standards and policies; public interest learning; executive academies and same-time updates;
- ▶ All executives (managers, senior managers, directors and partners) had to take the annual ISA test (*Kennistoets*) with numerous questions testing participants' knowledge of our audit methodology and audit standards;
- ▶ IFRS and PCAOB (role based).

The main goal of 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 the profession at large. The trainings are based on World Class Learning, include simulations and focus on the 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 December, we rolled 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 of our methodology (topic-based GAM) and update each executive on the relevant changes in GAM and our electronic audit file.

## Accreditation

EY has a system of accreditation for specific procedures and clients. Executives who work for US SEC clients 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 executives' compliance with their mandatory training requirements. During fiscal year 2015/2016, all professionals have complied with their Continuing Education (*permanente educatie, PE*) obligations. If partners and executive directors exceed this PE requirement, by attending additional training, this is taken into account when their quality ratings are established.

Core technical education - number of participants 2015/2016	Induction	Summer courses, Executive Events	Canvas Launch Events	Engagement Economics & Pricing	Independence	Wwft	NBA knowledge test	IFRS	PCAOB
Partners and executive directors	-	151	119	74	153	159	139	75	42
Senior managers and managers	-	279	294	226	402	394	229	163	92
Senior staff	-	234	380	-	444	421	7	34	68
Staff	245	419	556	-	388	744	-	1	25
Hours per program	80	16-32	9	4	1.5	2	2	8-16	0.5-7
Total hours	19,904	24,456	10,792	1,200	2,081	3,434	748	2,536	3,119

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	File-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 program	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 and 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 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 ranks. These expectations are derived 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 Pulse Survey is a shorter version of the Global People Survey which is held every two years. The People Pulse covers only around 25% of the questions and is held in the years between the Global People Survey. The Global People Pulse Survey was held during the first half of 2016. In total 1,900 people of the Assurance Service Line in the Netherlands were invited to participate and more than 1,500 responded. This 80% response rate was the highest in years (2014: 68%, 2015: 78%).

## Employee Engagement

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

Engagement tells us how our people feel about their experience at EY: the more positive their experience, the more engaged they are. When our people are more engaged, they put in more discretionary effort and can significantly impact some of our key business outcomes. Our "best in class"-groups outperform our groups with average or below average levels of engagement.

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

We received a high engagement score (79%) in the Netherlands. Although slightly lower than in 2015 (-1%), this score is still on the Best in Class benchmark. For the second year in a row, 88% of our people said that they are very proud to work for Ernst & Young Accountants LLP. Seventy-eight per cent prefer to stay with us even if a comparable

job were available at another company and 79% would recommend Ernst & Young Accountants LLP as a great place to work. Needless to add we are very proud of these results.

### **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, which is 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 2015/2016, we conducted more than 200 interviews with clients as part of our ASQ program. In 45% of cases we were able to improve our relationship compared to the previous year, in 49% of cases relationships remained the same and in 6% the relationship lost some of its quality. Our strengths, according to our clients, are: understanding their business drivers, good relationships with our senior teams and a collaborative working style.





# Revenue and remuneration

## Financial information

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

Revenue is presented in 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 2016 Ernst & Young Accountants LLP consisted of 146 partners (on 30 June 2015: 138). In the financial year ending 30 June 2016, the average revenue per partner was € 2.9 million.

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, which is published on our website.

### Revenue segments

2015/2016 (€000)	2015/2016	%	2014/2015	%
Statutory audits	197.424	29%	207.261	31%
Other assurance	67.746	10%	48.849	8%
<b>Audit/other assurance</b>	<b>265.170</b>	<b>39%</b>	<b>256.110</b>	<b>39%</b>
Compilation	22.975	3%	20.509	3%
FAAS	11.609	2%	11.731	2%
Fraud investigation and dispute services	4.522	1%	3.307	0%
Other assurance-related	23.296	3%	26.239	4%
<b>Total assurance related</b>	<b>62.402</b>	<b>9%</b>	<b>61.786</b>	<b>9%</b>
<b>Assurance</b>	<b>327.572</b>	<b>48%</b>	<b>317.896</b>	<b>48%</b>
Other service lines	92.565	14%	94.714	14%
<b>Ernst &amp; Young Accountants LLP</b>	<b>420.137</b>	<b>62%</b>	<b>412.610</b>	<b>62%</b>
Ernst & Young Belastingadviseurs LLP	208.137	30%	207.480	31%
Ernst & Young Nederland LLP and subsidiaries	20.684	3%	18.240	3%
<b>Rendering services</b>	<b>648.958</b>	<b>95%</b>	<b>638.330</b>	<b>96%</b>
Other income	32.204	5%	24.171	4%
<b>Ernst &amp; Young Nederland LLP - consolidated</b>	<b>681.162</b>	<b>100%</b>	<b>662.501</b>	<b>100%</b>

Subsidiaries are: 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., Integrc Netherlands B.V., EY Intelligence in Information B.V., EY Montesquieu Finance B.V., EY Montesquieu Institutional Risk Management B.V.

2015/2016 (€000)	Statutory audit services	Other assurance services	Assurance- related services	Sub Total	Other Services	Total
Audit clients - statutory audit - WeCo/OOB	35.606 87%	1.771 4%	3.821 9%	41.198 100%	- 0%	41.198 100%
Audit clients - WeCo/non-OOB	162.191 50%	21.846 7%	26.979 8%	211.016 65%	114.701 35%	325.717 100%
Assurance clients - non- WeCo	- 0%	44.147 77%	3.072 6%	47.219 83%	9.909 17%	57.128 100%
Assurance clients - assurance-related	- 0%	- 0%	28.570 46%	28.570 46%	33.960 54%	62.530 100%
Other clients	- 0%	- 0%	- 0%	- 0%	162.385 100%	162.385 100%
Rendering services	197.797	67.764	62.442	328.003	320.955	648.958
Other Income						32.204
Total						681.162

2014/2015 (€000)	Statutory audit services	Other assurance services	Assurance- related services	Sub Total	Other Services	Total
Audit clients - statutory audit - WeCo/OOB	42.949 83%	274 1%	5.713 11%	48.936 95%	2.404 *) 5%	51.340 100%
Audit clients - WeCo/non-OOB	164.312 54%	3.055 1%	24.070 8%	191.437 63%	110.767 37%	302.204 100%
Assurance clients - non- WeCo	- 0%	45.521 61%	4.064 7%	49.585 87%	24.445 33%	74.030 120%
Assurance clients - assurance-related	- 0%	- 0%	27.938 48%	27.938 48%	29.754 52%	57.692 100%
Other clients	- 0%	- 0%	- 0%	- 0%	153.064 100%	153.064 100%
Rendering services	207.261	48.850	61.785	317.896	320.434	638.330
Other Income						24.171
Total						662.501

\*) these services were rendered before 31 December 2014

## Partner remuneration

Quality is at the center of EY's 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.

Global performance management processes cover partners in EYG member firms around the world. They reinforce the global business agenda by linking performance to wider goals and values. These ongoing, cyclical processes include goal setting, personal development planning and performance review, and are tied to partners' 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 Global Partner Performance Management (GPPM) process, which is a globally consistent evaluation process for all partners in EYG member firms around the world. Partners are assessed annually on their performance in delivering quality, exceptional client service and people engagement alongside our financial and market metrics.

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

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:

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

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

The overall rating scale runs from 1 (lowest) to 5 (highest). 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".

This means that a partner cannot receive an overall rating higher than 3 if the quality assessment is "did not meet expectations" (and may be considered for a 2 rating depending on the circumstances that gave rise to the particular assessment).

Quality rating data is recorded in the EMEIA Quality Measurement Tool leading to a 3-point rating scale ("did not meet expectations", "met expectations" and "exceeded expectations").

The overall rating determines the partner reward. The partner reward includes a base reward and the possibility of a performance award. The system was changed the fiscal year. The total base reward increased to 98% or more of the distributable income, while the total performance award pool was reduced to 2% or less of the distributable income. Also, the number of partners eligible for a performance award was reduced to 10% or less of the partner population and the award itself cannot generally exceed 20% of the total reward of the partner concerned. To qualify for a performance award the quality rating should at least meet our quality standards.

During fiscal year 2015/2016 two partners were granted a performance award for their exceptional 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.

The table below shows the outcome of the annual performance review process during fiscal year 2015/2016.

Quality rating of external auditors (partners and executive directors)	2015/2016	%	2014/2015	%
Quality did not meet our expectations	19	13%	12	8%
Quality met our expectations	90	60%	105	69%
Quality exceeded our expectations	40	27%	35	23%
Totals	149	100%	153	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;
- ▶ Being a facilitator at our technical trainings;
- ▶ Attitude towards and functioning in review of other persons' work, including training on the job;
- ▶ Permanent Education requirements;
- ▶ Attendance at mandatory training events;
- ▶ Timeliness and well prepared compliance with requirements relating to consultation, accounting review and EQR processes;
- ▶ AQR ratings;
- ▶ Involvement in, and responses to, the AQR process;
- ▶ Results from regulatory inspections;
- ▶ Archiving violations;
- ▶ Brand & reputation risk;
- ▶ Issues arising from client disputes, claims, ethics hotline and other sources;
- ▶ Timely compliance with independence and other mandatory confirmations;
- ▶ Quality of GTAC file submissions;

- ▶ Actions taken to address quality issues identified, including timely reporting of progress;
- ▶ Complexity of the client and engagement portfolio.

If in a certain year a partner or executive director receives an underperformance rating, improvement steps are agreed upon and monitored during the year. Reoccurrence of underperformance is not accepted and typically results in the 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: a disciplinary discussion (*normoverdragen gesprek*); setting up a remedial action plan to prevent sub-standard work in the future; the request to present the quality shortcomings and the 'lesson's learned' during learning meetings; a financial penalty; deregistration with the AFM, which implies that the partner can no longer sign audit opinions; and in very severe circumstances, separation from the firm.

In order to move quality forward and motivate our professionals, we consider it also very important to apply positive incentives, such as awards for excellent work. Provided they are communicated broadly, positive incentives 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 a covenant with the NBA in June 2012. By doing so, we confirmed our commitment to put the public interest first. During fiscal year 2015/2016, our firm adhered to the Code.

## The Stakeholder Dialogue

The Code stresses the importance of an audit firm's dialogue with its stakeholders. At EY, we acknowledge 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 current or prospective clients, government, regulators and others.

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 purpose to build a better working world and 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 2015/2016, we continued to organize many meetings with our external stakeholders. The Steering Committee continued with the central theme: "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. As in other years, during fiscal year 2015/2016, we organized four Round Tables with non-executive directors of PIEs and other large Dutch companies and institutions, discussing "the internal audit function", "executive pay" and "the role of supervisory directors in mergers and acquisitions". Although the stakeholder dialogue is primarily an initiative of our Assurance Service Line, 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.

As in prior years, in January 2016 we organized a round table with investors and analysts discussing a vision on reporting and auditing in 2025. Our clients' business and their environments are changing rapidly, and this will also affect the accounting and audit profession in the future, from integrated reporting through to assurance on non-financial information.

Where appropriate, we introduced the "public interest" subject from our stakeholder dialogue in some of our other external events. 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. In our "A Vision on Supervision" (*Zicht op Toezicht*) we discussed cybersecurity and in "Inform" we discussed the theme of culture and behavior. This provided all participants with relevant information and sparked discussions about the auditors' role from this perspective.

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 executives 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 internal quality control system. This system as described in this Transparency Report aims to provide reasonable assurance that the legally mandatory audits are performed in accordance with applicable law and regulations. As set out in this Report, EY has evaluated and further improved the internal quality control system over the last year. In the course of this evaluation we have identified actions which we believe will further strengthen controls to mitigate material risks.

The Transparency Report was discussed and adopted in the meeting of the policymakers on 16 September 2016. That date is considered the date of the evaluation of the system of quality control.

Based on the above, the policymakers confirm the following:

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

Rotterdam, 30 September 2016

Michèle Hagers (Chair)

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 (OOBs)

In the financial year ended on 30 June 2016, 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.

Anthos Bank B.V.

Arena 2011-II B.V.

Arena 2012-I B.V.

Ares Euro CLO I B.V.

Ares European CLO II B.V.

AXENT NabestaandenZorg N.V.

Bank Mendes Gans N.V.

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

BCRE-Brack Capital Real Estate Investments N.V.

Best 2010 B.V.

BNP Paribas OBAM N.V.

CELF Loan Partners B.V.

Citycon Treasury B.V.

CNH Industrial N.V.

Coöperatieve Rabobank U.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.

Demeter Investments B.V.

Demir-Halk Bank (Nederland) N.V.

DUNIA Capital B.V.

ELM B.V.

ENEL Finance International N.V.

Enel Insurance N.V.

ENEL Investment Holding B.V.

Esperite N.V.

Eurocommercial Properties N.V.

F. van Lanschot Bankiers N.V.

Ferrari 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.

Global Credit Return Fund N.V.

Green Lion I B.V.

GTB Finance B.V.

Heijmans N.V.

Highlander Euro CDO B.V.	NN Paraplufonds 1 N.V.
Highlander Euro CDO II B.V.	NN Paraplufonds 2 N.V.
Highlander Euro CDO III B.V.	NN Paraplufonds 3 N.V.
HIGHWAY 2015-I B.V.	NN Paraplufonds 4 N.V.
Hypenn RMBS I B.V.	NN Re (Netherlands) N.V.
Hypenn RMBS II B.V.	North Westerly CLO IV 2013 B.V.
Hypenn RMBS III B.V.	Northern Lights B.V.
Iberdrola International B.V.	NS Insurance N.V.
ING Bank N.V.	OHRA Ziektekostenverzekeringen N.V.
ING Groep N.V.	OHRA Zorgverzekeringen N.V.
International Endesa B.V.	Onderlinge Verzekeringsmaatschappij Univé Groningen U.A.
Kempen European High Dividend Fund N.V.	Onderlinge Waarborgmaatschappij Centrale Zorgverzekeraars groep, Aanvullende verzekering Zorgverzekeraar u.a.
Kempen European Property Fund N.V.	Onderlinge Waarborgmaatschappij Centrale Zorgverzekeraars groep, Zorgverzekeraar U.A.
Kempen Global High Dividend Fund N.V.	Onderlinge Waarborgmaatschappij Zorgverzekeraar Zorg en Zekerheid U.A.
Kempen Global Sustainable Equity Fund N.V.	ONVZ Aanvullende Verzekering N.V.
Kempen Orange Fund N.V.	ONVZ Ziektekostenverzekeraar N.V.
Kempen Oranje Participaties N.V.	OOM Global Care N.V.
Kempen Profielfondsen N.V.	OOM Schadeverzekering N.V.
Koninklijke Boskalis Westminster N.V.	Optimix Investment Funds N.V.
Koninklijke KPN N.V.	Orange Lion 2011-6 RMBS B.V.
Legal & General Nederland Levensverzekering Maatschappij N.V.	Orange Lion 2013-10 RMBS B.V.
Lucas Bols N.V.	Orange Lion 2013-8 RMBS B.V.
Lunet RMBS 2013-I B.V.	Orange Lion 2013-9 RMBS B.V.
Monuta Verzekeringen N.V.	Orange Lion 2015-11 RMBS B.V.
Movir N.V.	Orange Lion VII RMBS B.V.
Mutual Insurance Association 'Munis' (Onderlinge Verzekeringsmaatschappij 'Munis') U.A.	Ordina N.V.
N.V. Bank Nederlandse Gemeenten	Palmboomen Cultuur Maatschappij Mopoli (Palmeraies De Mopoli) N.V.
N.V. Schadeverzekering Metaal en Technische Bedrijfstakken	Propertize B.V.
N.V. Schadeverzekering-Maatschappij Bovemij	Rabo Herverzekeringsmaatschappij N.V.
N.V. Univé Her	Refresco Group N.V.
N.V. Univé Schade	RNTS Media N.V.
Nationale-Nederlanden Bank N.V.	Ronson Europe N.V.
Nationale-Nederlanden Levensverzekering Maatschappij N.V.	Royal Reesink N.V.
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.	Siemens Financieringsmaatschappij N.V.
NN Group N.V.	
NN Non-Life Insurance N.V.	

SME Lion II B.V.  
 Stern Groep N.V.  
 STORM 2011-I 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.  
 STORM 2014-III B.V.  
 STORM 2015-I B.V.  
 STORM 2015-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.  
 TKH Group N.V.  
 TomTom N.V.  
 UBS Bank (Netherlands) B.V.  
 Univé Rivierenland Brandverzekeraar N.V.  
 Univé Zuid-Holland Brandverzekeraar N.V.  
 Van Lanschot N.V.  
 Veherex Schade N.V.  
 Vesteda Finance B.V.  
 Vimetco N.V.  
 Würth Finance International B.V.  
 Yapi Kredi Bank Nederland N.V.

In fiscal year 2015/2016 the external auditors of these clients were:

André Wijnsma  
 Anke Snaak  
 Arno van der Sanden  
 Bernard Roeders  
 Coen Boogaart  
 Daniël Groot Zwaaftink  
 Frans de Bruijn  
 Giljam Aarnink  
 Guus van Eimeren  
 Jaap de Jong  
 Jan Niewold  
 Jasper Kolsters  
 Jeroen Preijde  
 Jeroen Vernooij  
 Joep Heijster  
 Jules Verhagen  
 Kees de Lange  
 Maarten Koning  
 Madelon Bangma  
 Marcel de Kimpe  
 Marcel van Loo  
 Marco Rooks  
 Mauk Spierings  
 Maurice Knijnenburg  
 Nico Pul  
 Nicole Silverentand  
 Oscar Jonker  
 Patrick Gabriëls  
 Paul Dirks  
 Paul Nijssen  
 Pieter Laan  
 René Frentz  
 René Koekkoek  
 Richard Eveleens  
 Ron de Prie  
 Ruud Bulkman

Steven Spiessens

Steven van den Ham

Tom de Kuijper

Warmolt Prins

Wouter Smit

Zaina Ahmed-Karim



## Appendix 2, CVs of policymakers and members of the Supervisory Board

### Policymakers as at 30 September 2016



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, 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. Since July 2016 Patrick has become the BeNe Risk Management Leader.



Wouter Smit (1970) is our Assurance Leader for FSO Netherlands since January 2015 and in that role he 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) 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 Supervisory Board



Pauline van der Meer Mohr (1960, Chair) was appointed as chair of the supervisory board on 1 July 2015. She has extensive legal and human resources experience across a number of different sectors, together with valuable experience of contributing to the Dutch Banking Code Monitoring Commission.

Ms van der Meer Mohr is a member of the supervisory boards of ASML, DSM and independent non-executive Director at HSBC. She serves on several other supervisory and advisory boards, including being chair of the supervisory board of Nederlands Dans Theater.

Her former appointments include: member of the Dutch Banking Code Monitoring Commission, President of the Executive Board of Erasmus University Rotterdam, Senior Executive Vice President and Head of Group Human Resources at ABN AMRO, Group Human Resources Director at TNT and several director positions at Shell.

Ms van der Meer Mohr holds a master's degree in law from Erasmus University Rotterdam as well as a master's degree in Dispute Resolution from the University of Amsterdam.



Dr. Steven van Eijck (1959, vice-chair) was appointed as vice-chair of the supervisory board on 1 July 2015, after having been Chair of EY's Public Interest Committee from 2013 till 2015. Mr. Van Eijck has extensive experience in academics, politics, business and philanthropy.

Among other posts, he is currently Chair of the Major Alliance Netherlands and President of RAI Association which is responsible for the Dutch mobility industry. He was junior minister ('staatssecretaris') at the Ministry of Finance 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's degree in Fiscal Economics and a PhD at Erasmus University Rotterdam.



Jean-Yves Jégourel (1961) has been appointed to the supervisory board at 1 July 2015. He has extensive experience on financial, M & A and cross-border transactions serving large multinationals across Europe and the United States.

As a member of the board of Directors of EY EMEIA (Europe, Middle East, India, Africa) mr. Jégourel is responsible for the Assurance practice.

He joined EY France in 1984 as an auditor and was appointed as audit partner in 1995 He has been member of the board of EY France and Luxembourg and Professional Practice Group Leader of EY in EMEIA. Before joining the board of EY EMEIA he was vice-chair Quality and Risk Management for EY in the United States. Mr. Jégourel has graduated from the Brest Business School and holds a DEC (chartered accountant) degree.



Monique Maarsen (1968) was appointed to the supervisory board on 1 July 2015. Ms Maarsen is Managing Director and owner of Maarsen Groep, bearing general ultimate responsibility for the group's operational and investment activities with a specialization in initiating developmental activities. She is chair of the supervisory board of Stichting KiKa as well as fulfilling various advisory roles. She started her career as an International Consultant at Nestlé in Switzerland and has been Investment Broker at DTZ Zadelhoff in London and Commercial Director at Maarsen Groep. Ms Maarsen holds a master's degree in Business Administration and Management at Groningen University.



## 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 in our Transparency Report. On 4 March 2016 the NBA published a guidance document on a standard set of key performance indicators which are encouraged to be published in the 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/or the standard set of NBA KPIs 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, Independence desk and others (Risk Assurance, CO and QARA)
- 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 2016

##### Teaming general

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

	FY 2015-2016		FY 2014-2015	
Partners/executive directors	162	8.7%	147	9.0%
(Senior) managers	402	21.6%	366	22.5%
Other	1,295	69.6%	1,115	68.5%
Total	1,860	100%	1,627	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 on the next page.

	FY 2015-2016	FR 2014-2015
Partners/executive directors	18.8	19.9
(Senior) managers	10.7	12.0
Other	4.0	5.0
Average number of years for total	6.6	8.0

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

Turnover FY 2015-2016	Turnover	% Headcount	# High potentials key talent	% Headcount
Partners/executive directors	12	0.7%	2	0.1%
(Senior) managers	51	3.1%	46	2.8%
Other	177	10.6%	23	1.4%
Total	240	14.4%	71	4.3%

Turnover FY 2014-2015	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%

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)

FY 2015-2016	Partners/ directors	(senior) managers	Other	Total
Financial audit (OOB)	25,227	70,668	167,604	263,499
Percentage of total	6.9%	7.8%	5.3%	6.0%
Financial audit (Non-OOB)	90,624	292,385	1,337,861	1,720,870
Percentage of total	24.9%	32.4%	42.4%	38.9%
Other engagements	90,094	290,010	1,211,879	1,591,983
Percentage of total	24.8%	32.2%	38.4%	36.0%
Indirect hours	157,822	248,208	437,984	844,014
Percentage of total	43.4%	27.5%	13.9%	19%
Total	363,767	901,270	3,155,328	4,420,366

FY 2014-2015	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

	% of total available contract hours	
	FY 2015-2016	FY 2014-2015
Percentage of overtime	9.2%	8.0%

### Training and coaching

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

	Total hours		Hours per employee	
	FY 2015-2016	FY 2014-2015	FY 2015-2016	FY 2014-2015
1. Partner	6,427	6,917	60	67
2. Exec. Director	3,598	4,649	67	98
3. Sr. Manager	13,160	12,436	68	70
4. Manager	20,725	18,315	99	102
5. Senior	55,558	53,038	114	121
6. Staff	201,362	149,869	250	235
Total	300,830	245,224	162	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

	Hours FY 2015- 2016	Hours FY 2014- 2015
Teaching	10,336	6,400
Total	10,336	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

	Partners/ directors		(senior) managers		Other		Total	
	FY 2015-2016	FY 2014-2015	FY 2015-2016	FY 2014-2015	FY 2015-2016	FY 2014-2015	FY 2015-2016	FY 2014-2015
Financial audit (OOB)	10.5%	10.0%	28.4%	18.8%	61.1%	76.0%	100%	100%
Financial audit (Non-OOB)	5.2%	5.2%	20.3%	27.1%	74.5%	62.9%	100%	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  
In 2015-2016 the People Survey has not been held. A People Pulse was held.

	Question	Assurance Netherlands FY 2015-2016	Assurance - Netherlands FY 2014-2015
1	The partners or other leaders I work with are committed to providing high quality services to our clients.	87%	86%
2	I receive the on-the-job coaching I need to improve my performance.	n/a	56%
3	My counselor provides the support I need to help me succeed	n/a	65%
4	The actions of my manager(s) are consistent with the messages he/she delivers	n/a	68%
5	My manager(s) provide(s) me with timely feedback	56%	49%
6	All service lines at EY team together effectively to serve our internal and external clients and meet our responsibilities to other stakeholders	n/a	51%
7	The people in my team(s) consistently deliver on their commitments to our internal and external clients	n/a	70%
8	We regularly use appropriate client feedback to improve our processes	n/a	49%
9	The people I work with are proactive in offering sound insights to our internal and external clients	n/a	72%
10	The people I work with adhere to EY's Code of Conduct, even in situations when there is pressure to not follow it	n/a	83%
11	The people on my team(s) anticipate and respond to issues and needs our internal and external clients may not have identified	n/a	70%
12	The people I work with invest the time to understand the issues and needs of our internal and external clients and other stakeholders	76%	86%
14	I can report unethical practices without fear or reprisal	n/a	75%

N/A: question was not included in People Pulse

## 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, Independence desk and other

	FTE PPG	
Rank	FY 2015-2016	FY 2014-2015
Partner/ Executive Director	15.7	9.8
(Senior) managers	28.3	24.3
Other	10.1	11.2
Total	54.4	45.3

	FTE other (Risk Assurance, CO and QARA)	
Rank	FY 2015-2016	FY 2014-2015
Partner/ Executive Director	6.1	3
(Senior) managers	8.4	1.9
Other	2.4	0.2
Total	16.8	5.1

	FTE Independence	
Rank	FY 2015-2016	FY 2014-2015
Partner/ Executive Director	1.5	1.1
(Senior) managers	4.0	2.5
Other	7.2	6.6
Total	12.7	10.2

14. Number of consultations relating to audit and accounting topics

Type of consultation	Number	Number
	FY 2015-2016	FY 2014-2015
Accounting	66	55
Auditing	1,014	1,150
Independence	221	191
Other	1	1
Total	1,302	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)

	FY 2015-2016
Number of annual report reviews conducted by experts outside the audit team before issuance of the audit opinion	160

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 21.

	FY 2015-2016	% of total WeCos
Number of OKBs performed total and compared to the number of legally mandatory audits performed	423	15%

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

FY 2015-2016	Partners/ Executive Directors	(senior) managers	Other	Total
Number of hours spent on OKBs	44,522	4,651	482,618	531,791
Average hours per OKB performed	105.3	11.0	1,140.9	1,257.2

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

	FY 2015-2016
Average number of hours performed on OKBs	1,257.2
Total number of hours spent as part of audit engagements on which an OKB is performed	462,194

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

	% FY 2015- 2016	Hours FY 2015- 2016
Financial audit (OOB)		35,028
% of total hours financial (OOB)	2.8%	
Financial audit (non-OOB)		20,972
% of total hours financial (OOB)	1.7%	

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)

	% FY 2015- 2016	Hours FY 2015- 2016
Actuary		27,298
% of total hours financial (OOB)	2.2%	
Real estate services		5,213
% of total hours financial (OOB)	0.4%	
Tax		20,680
% of total hours financial (OOB)	1.7%	
Transaction service/corporate finance		9,815
% of total hours financial (OOB)	0.8%	
Other		5,891
% of total hours financial (OOB)	0.5%	

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

Type	Number of hours FY 2015-2016	Number of hours FY 2014-2015
Teaching at university	4,000	4,478
NBA	Not available	Not available
Publishing articles	Not available	Not available

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

	Number of audit opinions FY 2015- 2016	Number of audit opinions FY 2014- 2015
WeCo (OOB)	229	236
Weco (non-OOB)	2,676	2,822
WeCo	2,905	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	
	FY 2015-2016	FY2014-2015	FY 2015-2016	FY2014-2015	FY 2015-2016	FY2014-2015
Total Breaches/Violations	15	11	63	81	78	92
% of total number of employees	0.77%	0.49%	2.5%	3.61%	3.09%	4.10%

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 24, 2015/2016 AQR results.

	FY 2015-2016
Number of audit files that have been subject to a quality review (other than OKB)	38

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 pages 25 - 27, External quality review

	FY 2015-2016
Number of audit files that have been subject to a quality review performed by an external oversight institution	37

28. Conclusions accounting firm based on additional review / remediation procedures performed based on the reported findings from external oversight institutions

Reference is made to pages 25 - 27, External quality review

29. Number of penalties (including amounts) received from external oversight institutions

During the last year one (FY 2014/2015 no) penalty of € 2,230,000 was received from external oversight institutions (the AFM).

Reference is made to page 25, 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

	FY 2015-2016
Number of partners that have been taken out of the audit register	11
As a percentage compared to the total number of partners	11%

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 FY2015/2016	Number FY2014/2015
Annual report adjustments	58	58
Percentage of total number of audit opinions	0.5%	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 FY2015/2016 no (FY2014/2015 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**

	FY 2015-2016
Number of early terminated audit engagements	7

34. Number of claims received including status and expected outcome assessment  
Reference is made to page 30, Claims under civil law relating to professional conduct.

35. Number of incidents reported to external oversight institutions  
Reference is made to page 17.  
In FY2015/2016, 9 (FY2014/2015: 14) incidents have been reported to external oversight institutions.

36. Number of proceedings with the Accountancy chamber including outcome  
Reference is made to page 29, Disciplinary cases.

37. Number of EY/Ethics complaints including outcome of complaint resolution process  
Reference is made to page 13.

	FY 2015-2016
Number of internal reports	0
Number of external reports	1





## 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 and corresponding internal policies and procedures
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
QARA	Quality analysis and regulatory affairs	The department that is responsible for internal and external inspections, signals and incident management and investigation and performing root cause analysis as part of being a learning organization
QUIP	Quality Improvement Plan	Action plan describing steps and planning to improve quality

RM	Risk Management	Department at region level performing risk management
SAQ	Sustainable Audit Quality	Globally consistent approach to implementing the highest level of audit quality across the organization
SEC	Securities and Exchange Commission	Agency of the United States federal government
US-GAAP	Generally Accepted Accounting Principles in the USA	USA set of accounting principles
US-GAAS	Generally Accepted Auditing Standards in the USA	USA set of auditing standards
ViO	Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten	Dutch independence rules issued by NBA, our professional body, regarding independence of auditors at both public interest entities and other entities
WeCo	Wettelijke controle	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.

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