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Transparency Report
2015-2016

PricewaterhouseCoopers Accountants N.V.

Contents

This Transparency Report relates to PricewaterhouseCoopers Accountants N.V. In this report, 'PwC' refers to PricewaterhouseCoopers Accountants N.V.

'PwC' is also the brand name under which member firms of PricewaterhouseCoopers International Limited (PwCIL) operate and provide services. Together these firms make up the global PwC network, within which some 208,000 people in 157 countries share their ideas, experience and solutions in developing new perspectives and meaningful advice.

Foreword

A journey with new horizons

This is our Transparency Report for the financial year 2015-2016, covering the period 1 July 2015 to 30 June 2016, in which the Board of PricewaterhouseCoopers Accountants N.V. reports back to society in general, sector colleagues, interest groups, shareholders, regulators, supervisory bodies and other stakeholders in the Assurance practice of PwC. The primary objective of this report is to demonstrate how we go about safeguarding the public interest in our core business, the audit.

2015-2016 was a turbulent year. We rolled out a wide-ranging change programme focussed on culture, behaviour, learning, quality, innovation and improvement. This programme, which we call the Assurance Journey, is designed to facilitate our transformation into a purpose-led and values-driven Assurance practice. It has three priorities.

Our purpose as the natural compass for our journey

The first priority of our change programme is to maintain the progress and momentum of the journey. When our profession saw its first light more than 150 years ago it was our task to add one simple but driving force: trust. We were there to provide assurance that what one did or said, was true and fair. As time has gone by, the parameters of our work have evolved and our present purpose, 'to build trust in society and solve important problems', is a natural compass for the next stage of our journey.

This journey is not without its obstacles. We cannot avoid making mistakes entirely, and you and I both know how frustrating it is to make them. Making mistakes is an important element of the learning process, but we need to learn from them more quickly and be more transparent as to how we deal with them – transparent both internally and to the outside world. We are better positioned to achieve this when our values are rooted in the interests of society and when we allow our purpose, our raison d'être, to be our guide when we have difficult decisions and choices to make.

More space for quality, learning and renewal – but still some way to go

The second priority is to drive forward with our ongoing quality improvement programme. We are investing heavily to avoid mistakes and to deliver the levels of quality that our ambitions demand. The results of the internal engagement reviews were disappointingly below expectation. The status of the measures for improvement we have put in place and the enhanced quality standards we have set are such that we still need some time to bring the non-compliant percentages down in all areas.

We have made good progress this past year. We are very close to full implementation of all of the measures for improvement set out in the sector report 'In the Public Interest'. The Supervisory Board has been in place for the full financial year. Remuneration and promotion policies are now more closely linked to quality. We are carrying out significantly more real-time reviews (while audits are in progress), enabling us to pick up on quality risks at an earlier stage. We have increased our workforce and our more experienced auditors are spending more time on their audits than in the past - hours that are allocated to professional judgement, diligent file documentation, coaching on the job and innovation in audit methodology. We have also made more resources available for quality on a practical basis by more frequently rejecting potential new audit clients and by centralising regularly recurring audit steps into delivery centres.

Providing new individual development and career opportunities

The third priority is to encourage innovation within our profession and to generate growth in our Capital Markets and Accounting Advisory Services (CMAAS) and Risk Assurance business units. Both units seamlessly connect with our purpose and they provide new individual development and career opportunities, helping us to keep talented people engaged and retain them for longer and to develop the competencies among our staff that are needed in our annual audits. We are upgrading and renewing our technologies through the use of data analysis, and we are experimenting in areas like artificial intelligence and blockchain technology, which is resulting in higher levels of quality, more rewarding work experience and greater relevance.

A turbulent year

2015-2016 was a turbulent year also for other reasons. The improvement processes we put in place are taking some time to settle in and the bar is constantly being set higher. The situation is further complicated by the ongoing accumulation of the measures that our sector is dealing with. The significant number of large first year audits in the financial sector, resulting from audit firm rotation, has placed serious pressure on our organisation. We have also been involved in the aftermath of a number of bankruptcies, and we have appealed against the rationale behind the external supervisory body's decision to levy a fine relating to certain 2011-2012 audit engagements, which meant that a past event is being re-discussed.

Appreciation for our people

In this ever-rapidly changing world, our people are more important to us than ever. We know we ask a lot of them – and this in an increasingly strict regulatory environment. Nevertheless, the results of our staff satisfaction survey were again (for the second time) the best ever. I would like to express my thanks and appreciation for the contributions made by all of our people. They have brought out the best in themselves, often in difficult circumstances. Their resilience and agility underscore my conviction that, with the people and Supervisory Board that we have, we are on the right track. A word of thanks also goes to the members of the Supervisory Board, and its Public Interest Committee in particular. Their sound and professional approach has been instrumental in keeping our policy decisions well in line with our responsibilities to society, and the Assurance Board is very appreciative of what they contribute.

A new horizon coming into view

We have made significant progress along our Assurance Journey this past year, a journey that requires us to be constantly on the ball and focussed on the expectations of our stakeholders as these continue to evolve. As the adverse effects of the short, but sharp, shock of mandatory audit firm rotation are now gradually subsiding and allowing us to focus more clearly on the future, we are seeing a new horizon coming into view.

Our journey does not have any pre-determined final destination, other than to transform ourselves into a learning organisation that is better placed to contribute to building trust in society and resolving important problems. You can read about how we go about this in this Transparency Report.

Amsterdam, 26 September 2016
On behalf of the Assurance Board,
Michael de Ridder (Chair)

Overview 2015-2016

Overview 2015-2016: Report of the Assurance Board

The transformation we have embarked upon, towards a purpose-led and values-driven organisation, the ongoing reinforcement of our focus on quality and the encouragement of innovation in the delivery of our current and future services have been at the top of our agenda for 2015-2016, with the primary focus being on culture and behaviour, improvement in professional technical know-how and building on our learning and adaptive capacities. Our change programme, the Assurance Journey, is the engine of this transformation process. Its objective is to bring us closer to the heart of our raison d'être, our purpose, which is to build trust in society and solve important problems.

During 2015-2016, we have invested much energy and focus on improving how we perform and document our audits. We have increased the involvement of experienced auditors and specialists in audit engagements. We have reinforced the learning environment and invested more time in training and education. With only one of them still in progress, we are very close to full implementation all of the measures for improvement set out in the sector report 'In the Public Interest' (see page 13). We have introduced new and innovative audit methodologies and services. We have spent more time on our audit engagements. We have created more opportunities for our people to propose and develop smart solutions. We have taken steps to match the volume of work more closely to the availability of our people by bringing standardisation into our work processes and, where necessary, negotiating deferral of audit deadlines, rejecting potential new audit engagements more often and resigning from existing clients at an earlier stage – all within the framework and guidance of our purpose.

Challenges have been plentiful this past year. The implementation of our change programme and the measures for improvement came at exactly the same time as the effects of audit firm rotation. This meant additional investments of time both in generic quality improvements on existing audit engagements and in a significant number of first year audits (which generally involve far more audit time than recurring audits). A particular challenge was the shift in our client portfolio towards the financial services sector, as bank and insurance company audits require specific expertise. We have also had to deal with the legal aftermath of a number of bankruptcies, and we decided to appeal against the rationale behind our ecternal supervisory body's decision to fine us on the grounds that it is crucial to get greater clarity as to how delivery of duty of care is to be assessed.

Through our participation in the consultation process regarding legislation and regulation for the accountancy profession and the Dutch Corporate Governance Code and through our participation in sector initiatives like the set-up of a new scientific research institute, we have been proactive in our participation in the societal debate around the future of the accountancy profession. We have also published opinion articles and participated in round table discussions on a wide range of issues relevant to the accountancy profession, financial reporting and long-term value creation.

Bringing our journey to life

The first priority of our change programme is to maintain the progress and momentum of the journey, with our antennas firmly attuned to societal needs and with our purpose as the driver of all our decision-making – decisions regarding the engagements and commitments we take on, how we perform our work and how we define our success. In doing this, we are focussing more specifically on getting the outside world reflected within our organisation, and we are developing new society-focussed values.

Our journey is not taking us to any specific, pre-determined destination. Its aim is to move us towards becoming more of a learning organisation, an organisation with a constant agility to adapt quickly to developments and expectations in and from society. The four drivers supporting this transformation and to help bring it to life are: our purpose, our values, our behaviour and our competencies. These form the foundation of our quality-focussed learning culture.

Our purpose as our compass

Our past tells us much about ourselves and what we stand for. Goals change and strategies are refreshed, but the purpose driving us has been there since the very beginning. To help us apply it more meaningfully in practice, we are now articulating our purpose more explicitly. It is the compass for our journey. And we do need this compass. Increased globalisation and technological progress are changing our roles and responsibilities, how we do our work and what people expect of us – and change is following change more rapidly than ever before. Also, the global economy in general, and the accountancy sector in particular, have been through an intense period of scrutiny. Trust between the general public and society needs to be restored.

The Assurance Board has translated our purpose into a vision for trust. We have communicated this internally through videos, digital magazines and dialogue sessions within the business units and in our Summer School training programme. All our Assurance people have also received a publication setting out how the various elements of our journey link together.

Setting values based on the needs of society

Our values form the foundation of our decision-making processes and our priority setting. They represent what is important to us. We have for many years worked successfully to our core values of teamwork, leadership and excellence, but we are now at a tipping point. To live up to our purpose, we need to refresh these values. They need to be tailored more closely to the needs of society, they need to be a better reflection of our quality-focussed and learning culture, they need to embrace diversity and they need to make clear the kind of organisation we strive to be.

So our values will be refreshed in 2016-2017. The global PwC network has carried out a survey among all its people worldwide as to the values they recognise in PwC and the values that each of them would like to see reflected. In the Netherlands, members of the Assurance Board were actively engaged in dialogue sessions focussed on the creation of value awareness. Nationwide, more than 300 Assurance staff (with between two and five years' service) have taken part. In addition, Board members have led a number of so-called value sessions among partners and directors. These initiatives are helping to create an appropriate setting within the Assurance practice through which we can communicate these new values and give them meaning and substance.

Being more conscious of behaviour

Through the cultural movement, Moments that Matter, we have as an organisation made more time available for more conscious self-reflection as to how we behave and conduct ourselves.

During this past financial year, we have held eleven theatre dialogue sessions, involving 1,153 of our Assurance colleagues, focussing on two key Moments that Matter: one on robust interaction amongst ourselves and with our clients and the other on demonstrating genuine interest in, and openness to, clients and colleagues. In these sessions, actors role-play regularly occurring situations with members of the audience to encourage robust dialogue at times of vulnerability and to demonstrate how to stand firm and how to give and receive honest feedback.

In addition to this, in close consultation with the Board of Management, the Assurance Board has developed a Culture and Behaviour Monitor in line with improvement measure 1.4 of the sector report. This monitor provides better insight into where we are on matters that we believe are important to a quality-focussed and learning culture. It also underscores the need to be mindful of the personal development and general well-being of our people and allow room for learning and dialogue. We anticipated this by, amongst other things, reinforcing our real-time reviews (focussed on coaching on the job) and giving culture and behaviour greater prominence in our updated management development programmes.

Refreshing our competency framework

In our leadership model, the PwC Professional, we have set out the competencies and skill sets that our people need to live up to our purpose, successfully implement our strategy, meet the demands of the changing world and develop themselves personally and professionally (see page 37). These are not just professional technical competencies and skill sets but also matters like professional scepticism, maintaining focus on quality, innovative capacity, authenticity, self-awareness and the ability to work together with others irrespective of cultural differences and physical impairments. During 2016, the Assurance Board extended these competencies and skill sets to include certain mind set aspects that are essential in a quality-focussed learning organisation and also the criteria set by the NBA's Committee for Learning Attainment in Accountancy Education (CEA) for trainee accountants.

Outcome of the stakeholder dialogue

The messages we have received from this year's stakeholder dialogue are the following: ensure that the quality of your work is up to scratch and that it has a long-term focus; be aware of your societal impact and lead by example; be transparent and open about what you do; and take a clear position in the societal debate (see also PwC Netherlands's Annual Report 2015-2016). These messages help guide us as we deal with the questions and dilemmas that we come up against in our daily practice.

Moving forward with ongoing quality improvement

That quality is at the very core of our raison d'être is indisputable. Moving towards being a quality-focussed and learning organisation is our top priority. Our quality management system aims to ensure that we deliver quality at all times. The seven core elements of this system, including our key quality indicators, are set out on page 23 and further.

The Assurance Board has built an ambitious agenda for quality into our change programme. The outcome of the AFM's 'dashboard review' in October 2015 into the design of our measures for change and improvement underscore our conviction that we are moving forward substantively with the transformation of our organisation. At the same time, we also see that the improvement processes have not been without their setbacks. It's a long-term process and it involves much time and effort on the part of partners and staff.

Internal and external reviews
An important internal review process is the Engagement Compliance Review (ECR). These reviews are carried out by partners, directors and managers independent of the engagement being reviewed, partly coming from the global network. The objective of the ECR is to review individual engagement quality and identify areas for improvement. During this past year, 37 of our engagements were subject to an ECR. Of these, 32 were compliant, albeit two of these 32 engagements attracted comment ('compliant with review matters'). So there were five audit files that did not meet our standards, and this was below expectation. These five engagements were all audit engagements in the non-PIE segment. Our implementation of the measures for improvement and the enhanced quality standards is such that we still need some time before we can bring the non-compliant percentages down in all areas. We performed follow up work on these engagements, and remediation where necessary, and concluded that the audit opinions issued are still appropriate (see page 57).

The annual internal global network review of our quality management system (including the Dutch delivery centre) did not result in any findings (see page 59).

In late 2015, the US supervisory body, the PCAOB, carried out a regular periodic review of three of our 2014 audits of entities listed on a US exchange, two of which were done in collaboration with the AFM. The PCAOB also reviewed certain aspects of our quality management system, including 'tone from the top', independence, partner nomination and remuneration and consultation procedures. This review did not result in any findings (see page 58).

The results of the AFM file reviews are provisional and some are still under discussion. The AFM is now halfway through its review of eight files and we will make the results known as and when the process is complete and the results are final.

At various times during the past year, we have updated the AFM on the progress of the changes and future-focussed measures for improvement that we are implementing, and the AFM is currently reviewing how these measures are working. It is expected that the AFM will publish its findings on the eight audit engagements reviewed and on the progress of change and the measures for improvement during the first quarter of 2017 (see page 58).

All files reviewed by other external supervisory bodies, such as the ADR (the Central Government Audit Service), the Inspectorate of Education and the NZa (the Dutch Healthcare Authority), were found to be compliant.

Learning more quickly from mistakes
Mistakes are made in every organisation. The art is in avoiding being ground down by such mistakes, but instead using them as a driver for getting structural improvements in place. Under the banner of the Assurance Journey, we have done much to reinforce our learning agility and we have moved a good way down this road. We continue to foster a learning culture, we have intensified our real-time review process and we have drilled down deeper in our root causes analyses. As a result, we are better able to get to the root of any problem.

Intensifying our real-time reviews

The Real Time Review Team carries out in-depth reviews on selected audit files before the audit opinion is issued. This enables us to identify potential quality risks at an earlier stage and it helps us learn more quickly from mistakes. During 2015-2016, we carried out 110 of these real-time reviews, three times more than in the previous year. The review team invested a total of 10,000 hours on these reviews, and we have reached our target of a real-time review on at least one engagement for every external auditor since the start of the programme. While the Real Time Review process was, at first, a very intensive one for our audit teams and it took some time to get used to it, we are now seeing it being embraced across the practice, and it is delivering results. Not only does it help us to learn more quickly from mistakes, it also facilitates the exchange of best practices and encourages a culture of coaching on the job.

Lessons learnt from the root cause analysis process

The 2015 root cause analysis process (see page 55) tells us that we need to strengthen project and process management on our audit engagements, get more often into robust dialogue with audit teams and clients regarding deadlines, improve the effectiveness of our communication processes, strengthen the collaboration between audit teams and IT specialists, get more flexibility into our planning and increase our knowledge of auditing and accounting standards. We have put action plans together for all of these and have incorporated them into our change programme, evaluation and remuneration systems, Human Capital policies and training programmes.

Improving professional technical quality is an important element of our Assurance Journey. We are investing more focus and energy on the audit of revenue recognition, the role of IT in the audit, increased awareness in the areas of fraud and corruption risks, reliance on other auditors and the documentation and evidencing of audit work done. The initial evaluation of the 2016 results of internal and external reviews are consistent with the outcome of the above mentioned root cause analysis, so we will be keeping focus on these matters for attention during the coming year (see page 57).

Legal proceedings

We are involved in the legal aftermath of a number of bankruptcies. The more important of these relate to Econcern, a number of Fairfield funds (that have incurred losses because of the Madoff fraud), LCI Technology and Stichting Zonnehuizen. More information on ongoing legal proceedings is provided on page 53.

Appeal against the AFM fine

PwC has now filed with the AFM the grounds for its appeal against the decision to levy a fine following the AFM's 2013-2014 review of a number of 2011-2012 audit files. The appeal is directed at the rationale behind the decision. PwC believes that the test criteria, as they stand, are unclear and that clarity needs to be provided as to what is expected of PwC in terms of duty of care and what sanctions may be applied and in what circumstances. In PwC's view, the supervisory authority has not provided any adequate evidence to support the claim by the AFM that PwC, as an organisation, failed to meet its duty of care. The standards for duty of care that apply to PwC as an organisation are not the same as the standards that apply to audit files. The external supervisory body is effectively interpreting the duty of care as an obligation to deliver when it is in fact an obligation to apply best efforts. Clarity on this is particularly important for future reference. Our appeal is specifically not directed at the monetary amount of the fine; if PwC's position is upheld on appeal, an amount equal to the fine will be contributed to the Foundation for Auditing Research (FAR), the foundation set up last year to carry out academic research into the drivers of audit quality. If the AFM does not provide the clarity needed, PwC does still have the option of going to court with further appeals (see page 59).

Making more time available for transformation

Our agenda for quality means that we need to be selective in the choices we make, and one of these has been to make more resources available for quality. We are resigning more often from clients, for instance from clients that do not meet the criteria for our purpose, but also from clients that we believe do not place sufficient value on the levels of quality that we strive to provide or those whose conduct does not fit with PwC. Following the action taken in the past year, we expect to lose an aggregate of some 150,000 hours of client work, representing about 7% of our total audit hours. We are also rejecting new engagements more often, for instance where we have insufficient resources for a particular tender. More so than in the past, we are also deferring audit reporting deadlines where needed.

In addition to this, we are standardising and automating some audit work. This reduces the risk of error and allows us to transfer work to specialist quality-enhancing delivery centres. In 2015-2016, we transferred 20% more such hours to delivery centres than in prior year.

Investing more time in audits

Continuing the trends in FY14 and FY15, we have invested in FY16 an aggregate of 9% more hours in our audit engagements. First year audits, in particular, require a significant investment in audit hours, but we have also spent more time on recurring audits. Partner and director hours on audit engagements were up 5% in FY16, with the goal of improving quality by reinforcing the focus on involvement and coaching by the more experienced auditors.

Investing more in people

Our permanent workforce grew 7% to 1,676 FTEs as at 30 June 2016, the main drivers being a temporary mis-match between incoming and outgoing audit engagements, the increase in the number of audit hours per audit and the growth in our Capital Markets and Accounting Advisory Services (CMAAS) and Risk Assurance business units. When we saw in late 2015 that we were going to need more hours than expected, we brought in more people to avoid undue pressure on existing capacity.

The Assurance practice has been strengthened as of 1 July 2016 by the appointment of four new partners and ten new directors, the manpower in our professional technical office and our Independence Office has been increased and we were able to retain people for longer with turnover falling among both men and women (see page 42).

We have invested significantly in skill sets and competencies, both in formal training and in on-the-job training, with our Assurance people having enjoyed 7% more training and education hours this past financial year.

It is critical that we optimally motivate our people and harness their qualities in a healthy learning environment. We do this, amongst other things, through updated management development programmes, which include working on culture and behaviour. One of the criteria for appointment to director is the Cycles of Experience requirement to generate at least 1,600 ‘quality hours’. These are hours spent on matters like real-time reviews, delivery of training and professional technical office activities.

Using the right incentives to encourage

Quality takes the front seat in our evaluation and remuneration processes for partners, directors and other staff, and we have increased the weighting allocated to quality in these processes, not only negatively but also positively. Any engagement reviews assessed as non-compliant result in sanctions, including financial sanctions, on the partner or director responsible, and in the start of an improvement trajectory. Partners, directors and their core team members rated as best in class in terms of engagement quality are rewarded for this in their evaluation and remuneration, as are those who stand their ground where appropriate, who resign from clients that do not meet our quality standards and/or who arrange for deadlines to be deferred where necessary (see page 60).

High level of staff satisfaction

The overall score in the staff satisfaction survey, as quantified in the People Engagement Index, again recorded an increase this year, from 79% in 2015 to 83% in 2016 (see page 43). This is a satisfactory result, particularly given the challenges we all faced in 2015-2016. In these circumstances, our people's resilience and their strong motivation to help achieve our ambitions are a source of pride to us.

Our people believe that talent management and mobility could be better handled, that coaching and feedback on the job merits greater attention, that we should focus more on multicultural diversity, that the induction processes for new joiners could be improved and that more attention needs to be given to new technology and innovation. These matters will therefore be given extra focus in the coming year.

Progress in implementing the sector measures for improvement

The AFM's reporting in October 2015 on the progress we have made in implementing the measures for change and improvement confirmed that we have made good progress in implementing these sector measures but that there is still work to be done. During 2015-2016, we incorporated these areas of focus into our implementation and change programmes. As of the end of June 2016, we had implemented all but one (measure 5.3) of the measures set out in the sector report. Measure 5.3 relates to engagement-specific quality evaluations, and more time will be needed to implement this. With a view to enhancing the quality and effectiveness of the QRP role, we have started a move to centralise the role of engagement-specific quality reviewer (in our terminology: Quality Review Partner, QRP) into a smaller, more focussed number of partners. Our aim eventually is to have every partner and director subject to two such quality reviews every year. And, finally, PwC is one of the founders of the Foundation for Auditing Research, set up in 2016, one of the 53 measures set out in the sector report.

Joining the debate

Our external auditors have issued 'new style' audit opinions on all of our 2015 audits of PIEs and large educational institutions and, in our listed clients' shareholder meetings in early 2016, we provided the required insight into our audits and audit opinions. We have also participated in the consultation processes regarding, amongst other things, professional standards, the Corporate Governance Code and the management structure of our professional body, the NBA. And, finally, our partners and board members have participated in societal debates through seminars, opinion papers and round table discussions, including participation in a hearing in the Second Chamber of Parliament. As an example, we have argued the case for better corporate disclosure in annual reports regarding long-term value creation, the effects of megatrends on business models, ongoing viability and going concern and fraud prevention – all of these being non-financial yardsticks that would lead to a more meaningful dialogue with shareholders and other interested parties.

Our purpose as the beacon for innovation and growth

Our third priority is to encourage innovation and generate growth in our CMAAS and Risk Assurance business units. Stakeholders want better and more relevant corporate information and they want it more quickly. The debate on this was further fuelled in early 2016 by BlackRock chief Larry Fink and our Minister of Finance, Jeroen Dijsselbloem, amongst others. There is also a need for information to be more tailored to the individual stakeholder. A bank or investor, for instance, will have different information needs than an NGO. We are also seeing a need for broader-based assurance covering non-financial information.

Increased digitalisation and the ever growing volume of data, in combination for instance with artificial intelligence and deep learning, are making it possible to respond to and satisfy these calls to provide better, more relevant and more timely information. We aim to be at the forefront of this movement, with our purpose as our beacon.

Investing in the audit firm of the future

Digitalisation facilitates innovation in our audit approach: better linkage to audit clients' systems and processes and smarter audit solutions. Parts of the audit are already being performed using programmed algorithms, allowing us to analyse large volumes of data at lightning speed and reducing the risk of error. Automating audit work frees up more time for complex issues and for professional judgement in the audit.

We have introduced innovative tools that analyse audit clients' transaction flows and monitor real-time the quality and progress of the audit. The increase in the volume of data available means greater opportunity to provide assurance to stakeholders on a wide range of issues, such as food chains, data security and privacy.

New skill sets, new workforce profiles

Fundamental changes are on the way in how the auditor practices his profession and in the competencies that the auditor will need. There is an increasing need for specialists who can unlock data and, with the aid of algorithms, translate them into meaningful information. In the coming five years, we will be hiring at least 300 data specialists across the firm in the Netherlands, of whom about one third will be in the Assurance practice. Of the 1,676 professionals in our Assurance practice, about 350 are in CMAAS (the business unit that advises on valuation, financial instruments, treasury, accounting and capital markets transactions) or Risk Assurance (the business unit that provides assurance in the area of risk).

We also have an increasing need for experienced staff that can sensibly dialogue with stakeholders and link data to information needs. In this new world, they will be the intermediaries between the data specialists and the stakeholders. For this reason, in addition to professional technical competence, we are putting ever greater emphasis in our training programmes on professional scepticism, cross-business unit and cross-border collaboration and innovation. We have also opened up new opportunities for people to come forward with ideas and then work them through in practice, responding with innovation programmes like Mindscape and Grassroots Innovations and partnering arrangements with organisations like Startupbootcamp, a start-up accelerator.

To conclude

The Assurance practice is well on its journey towards becoming a purpose-led and values-driven organisation. It is not that our core business has changed much – trust has been our core business for 150 years – but what is changing our work, and changing it significantly, is the way we approach it and the societal needs and expectations that drive it. We are responding to this by being at the forefront of issues as they develop, by investing in our people and in quality and by remaining true to our strategy in these rapidly evolving times. This enables us to build trust for our clients and for society at large and equips us well to solve important problems. We are convinced that our journey will bring us closer to the heart of our raison d'être.

Amsterdam, 26 September 2016

The Assurance Board,
Michael de Ridder (Chair)
Michel Adriaansens
Agnes Koops-Aukes
Wytse van der Molen

Report of the Public Interest Committee

Constantly learning and improving

PwC's social compass remained well focussed during this financial year 2015-2016. From what we have seen from our position as supervisory body, we believe that the Board has held its course well and is continuing to move forward with its cultural and behavioural change process.

It was clear last year that PwC had set out on the right path in aiming to become a learning organisation, and a learning organisation determined to achieve cultural and behavioural change, though we did caution in the Transparency Report back then that achieving cultural change and enhancing learning capacity is a long-term process for any organisation. 'For PwC, it will continue to be some years of serious challenge to maintain momentum and stay the course. Only then will sustainable cultural and behavioural change be achieved', was our key message.

Learning organisation

The roll out of the PwC Journey has taken the cultural and behavioural change programme to a new level, with the organisation continuing to learn from mistakes and from the feedback it gets from stakeholders. The AFM's October 2015 Status Report on the progress PwC has made in implementing the measures for improvement set out in the 'In the Public Interest' report, was an additional boost this year in terms of clarifying and accelerating a number of the improvements – and this is consistent with PwC's aspiration to be a learning organisation.

Staying the course

We have focussed our supervisory and sounding board roles this reporting year 2015-2016 on PwC's planned cultural and behavioural changes. We have critically assessed the extent to which the organisation remains on course in its process of transformation into a societally-oriented audit firm focussed on building trust. We also assessed whether it has the right incentives in place to safeguard audit quality, independence, integrity and societal focus.

Our supervisory role

This focus is consistent with our primary role, which is to monitor how PricewaterhouseCoopers Accountants N.V. safeguards society's interests in the audit opinions it issues. The Public Interest Committee stems from the Code for Audit Firms, and the Committee is responsible for monitoring how effectively PwC's social antennae are attuned, the adequacy of the dialogue with stakeholders and the extent to which PwC satisfactorily reflects society's interests in what it does. In short, the Public Interest Committee monitors the organisation's moral and societal compass (see also the section 'Our governance').

Keeping an open dialogue

We have had open and frank dialogues in our meetings with the Chair of the audit firm (who is also a member of the Board of Management), the Assurance Board member responsible for the change programme, the Compliance Officer and his deputy and the Business Unit Leader of National Office. We have had discussions during our meetings with the individuals responsible within the organisation on specific issues such as internal quality reviews (ECRs), ongoing legal proceedings and public affairs.

The Committee met five times regarding financial year 2015-2016, four times during the year itself and once in September 2016, with an average attendance rate of 90%. This most recent meeting covered the Transparency Report 2015-2016, the results of reviews and the outcome of the stakeholder dialogue 2016. The Committee's annual self-evaluation was discussed as part of the Supervisory Board plenary self-evaluation. The Report of the Supervisory Board is included in PwC's Annual Report 2015-2016.

In addition to consultation during the regular committee meetings, the Chair of the Public Interest Committee has also had ad hoc contact and sounding board discussions with the Chair of the Board of Management (BoM), the Chair of the audit firm and other members of the Assurance Board on specific matters of interest.

Constantly learning and improving

Progress on the change programme has been on our agenda at all meetings. We have also focussed in on a number of specific topics, such as the approach to and results of the root cause analysis, the changes to the evaluation and remuneration processes for staff (the PwC Professional) and for partners and directors as regards quality, the PwC Values Survey, PwC's policy thinking regarding quality control, the investment policies for partners, the Culture and Behaviour Monitor, the complaints and notifications procedures, the claw-back arrangements, the results of and lessons learnt from the engagement-specific reviews (ECRs), the staff satisfaction survey (the People Survey), lessons learnt from claim situations, the update of the quality management system (QMS), revised profiles for Assurance Board members and the stakeholder dialogue 2016.

Enhancing quality

This Transparency report demonstrates that PwC has embraced the entire change programme, that the organisation is moving forward at pace and that quality improvement is at the top of the agenda. Lasting behavioural change can only be achieved if the Board is to be successful in anchoring change into the genes of its organisation. We also believe it is important that it continues to be selective and resolute in setting priorities and transparent as to what is going well and what needs to improve, and that its communication on these matters be in language that is clear and succinct.

As indicated earlier, this is a long-term process. The results of this year's review by the global network of the design and operational effectiveness of the quality management system were positive. Furthermore, the results of the 2016 internal review of 2015 engagements underscore the importance of constant learning and ongoing improvement.

Focussing on society

In consultation with the Public Interest Committee and the full Supervisory Board, the PwC Board decided not to accept the AFM's decision to levy a fine on the basis of its 2013-2014 review of 2011-2012 audit engagements, and has filed an appeal against the rationale behind this administrative sanction. The appeal centres on the interpretation of 'duty of care', i.e. how and in what circumstances is a failure in duty of care to be defined. This issue is relevant not only for the accountancy profession but also for other sectors, and is therefore of importance to society. So, if the AFM does not provide clarity on this following the appeal, it would be helpful for an independent body to provide this. If PwC's appeal is upheld, an amount equal to the fine will be contributed to the Foundation for Auditing Research (FAR).

Pertinent societal developments, such as existing and upcoming legislation and regulation applicable to the accountancy profession, were also regularly on our agenda during this past year. Furthermore, we reflected back (and continue to reflect back) to the Board on the need to look at (new) issues through the eyes of society, and we discussed a number of such issues with the Board, for instance PwC's relationship with the external supervisory body, PwC in the media, and the quality review results. The perceptions of the outside world can be different from how PwC partners and staff see things.

Stakeholder dialogue

During 2016, members of the Public Interest Committee attended, as observer, some of the stakeholder feedback meetings that PwC had organised. Such meetings enable us, as Public Interest Committee, to get a good understanding of what stakeholder expectations really are and how PwC responds to these. We have also reviewed the Accountancy Monitoring Committee's work programme and how PwC has responded to this new committee's request for information.

Transparency Report

We have discussed this Transparency Report 2015-2016, in draft form, with PwC's policymakers. We believe that the tone of the Report fairly summarises our understanding of the approach PricewaterhouseCoopers Accountants N.V. is taking to ensure that society's interests are safeguarded and of the status of its quality management system.

The Public Interest Committee,

Nout Wellink (Chair)
Naomi Ellemers
Cees van Rijn
Yvonne van Rooy

Our purpose, strategy and pricipal risk factors

Our purpose, strategy and principal risk factors

Our overriding ambition to deliver quality is at the heart of our raison d'être. Trust is a fundamental attribute in today's world, a sound base from which to make the wide range of decisions that we need to make. The public interest must be right at the heart of the audit profession, and everything we do must contribute to this.

Within our global network, we have defined our purpose as follows:

'to build trust in society and solve important problems'.

Our purpose defines what PwC's raison d'être is, why we do what we do and who we do it for. More than 200,000 PwC people in 157 countries, including the Netherlands, reflect this purpose. Both the global and the Dutch leadership teams (the BoM and the Assurance Board) are constantly embodying this purpose in their behaviour and communication, making clear that quality is not an option but a fundamental requirement. We make no concession to quality because, without it and without it being firmly embedded, we believe we would not be able to meet and exceed the expectations of our stakeholders (including society, external supervisors, investors, supervisory directors, clients and staff). So we constantly listen closely to our more important stakeholders, both to hear what their primary expectations are and as a sounding board for our own ideas. We do this, amongst other things, through a structured programme of stakeholder dialogue. The PwC NL Annual Report 2015-2016 sets out the results of this dialogue, including the so-called materiality matrix.

Vision 2020

The world is changing rapidly as it deals with megatrends like technological breakthroughs, demographic and social change, climate change and resource scarcity, shifts in the balance of global economic power and rapid urbanisation. To enable us, as PwC, to stay true to our purpose, our network has set out four strategic choices, which we have reflected in the PwC Vision 2020, as follows:

(1) Leader in building and sustaining trust-based institutions: Be the leader in building trust within organisations, institutions and society generally.
(2) Multi-nodal organisation: Be an organisation based on connectedness and knowledge sharing through teams and groups operating locally, regionally and globally.
(3) Client service from strategy through execution: Add value by supporting our clients from the moment they set their strategies all the way through to implementation and execution.
(4) Technology enabled innovator: Use technology to create a culture that embraces (and achieves) innovation and ongoing quality improvement.

(More information is included in the PwC NL Annual Report 2015-2016.)

Five strategic objectives

To achieve our purpose and the PwC Vision 2020, we are focussing on five strategic objectives:

- Building on the quality of our service offerings and delivery
- Delivering the PwC Experience
- Taking the opportunities the market offers us
- Transforming our organisation
- Investing in strategic competencies

Achieving this strategy begins with us continuing to be able to attract and retain talent. Our people are our most important asset. They are the key to us delivering distinctive and high-quality service. We believe that committed people mean committed clients. By both attracting and retaining the best talent and by providing them with plenty of opportunities to develop, we are laying a solid base for constant improvement in the quality of our service delivery and for contributing to trust in society and solving important problems.

This means that we never compromise on delivering quality in anything we do and that we remain keenly aware of the needs and expectations of society, our clients, our people and other stakeholders. Our focus on quality means that our people, clients and other stakeholders feel more involved, and in doing so they bring the PwC Experience to life and it allows us to make an impact - by providing our people with opportunities for further development and to feel valued and by providing our stakeholders with better insight as a basis for better decision-making. This is what differentiates the PwC brand.

Our reputation is critical in this. The quality of what we do and the integrity of our service delivery are the most important pillars supporting our brand. Being known as the firm that builds strong sustainable relationships, delivers distinctive quality and creates value, enables us to benefit from the growth opportunities the market offers us, and that translates into increased growth and revenue.

By transforming our business model, we create a sustainable and future-proof organisation. A healthy organisation generates the resources we need to invest in quality and innovation, both in our audits and in other services, and to attract and retain the talent we need to build trust in society and help to solve the important problems our clients face. This, in turn, creates value for society, for our clients and for our people – and it means that we achieve our strategy, which closes the circle of strategy execution.

Becoming a purpose-led and values-driven organisation

To achieve our purpose, the PwC Vision and our five strategic objectives, we also need to change as an organisation. Through the PwC Journey, we are changing our culture into a purpose-led and values-driven organisation – transformation into an organisation that has learning and ongoing improvement in the genes of all its partners and staff. In other words, a learning organisation that continues to better itself by learning from its successes and failures – and an organisation that embraces change and keeps its compass fixed on the needs of society.

Our core values (the PwC Values) lie at the heart of this organisational culture: Teamwork, Leadership and Excellence. Partly as a result of a survey undertaken among all 200,000+ PwC people world-wide, these PwC core values will be updated in the near future to be more focussed on the core values of society and stakeholders. Also important in this is how we build and maintain relationships that make a difference in terms of interaction with society, colleagues and clients. We do this through the PwC Experience. And, finally, the competencies of every one of our partners and staff are central to our culture.

We call this the PwC Professional, a leadership model that sets out the skills, competencies and behaviour that we expect from every staff member at each staff level and describes how he or she can progress both personally and professionally.

In Assurance, we have identified three priorities for the coming years as part of the PwC Journey (see also the section 'Overview 2015-2016'):

- Bring the PwC Journey to life: Becoming a purpose-led and values-driven organisation
- Build quality business, moving forward with continuous quality improvement: Extending our knowledge and skills in the area of auditing and accounting standards (ISA and GAAP) and making time for transformation
- Grow and innovate: Stimulating innovation and growing assurance services in our Risk Assurance and CMAAS practices

Principal risk factors

In determining and implementing our strategy, we naturally take into account the risks that affect us. We regularly assess what they mean for us and, where necessary, we change our approach.

We apply the following basic principles in addressing risks (our risk appetite):

- Delivery of quality is paramount, and we make no compromise on this.
- The societal role we have determines the mind-set of our auditors and how they go about their work.
- We comply with all laws and regulations that apply and with our own internal requirements.
- The worst mistake you can make is the mistake you make on your own; teamwork and collaboration are at the heart of what we do.
- We stand by our views.
- We are eager and willing to innovate, both in our financial statement audits and in new assurance services.

During our regular planning and auditing cycles, we monitor both the developments in our risk profile and how we manage these, and we revise these, as necessary, with action plans and follow up monitoring. The risk profile is discussed with the Assurance Board, the BoM's Risk Council, the BoM itself and the Supervisory Board.

The following table summarises the primary risks, and links these to our five strategic goals, indicating which risks (on a net basis) have remained unchanged and which have been revised (higher + or lower -) compared to prior year. It also indicates how we mitigate these risks.

Strategic goal	Risk	Impact	Trend	Mitigation
Building on the quality of our service offerings and delivery	Inadequate response to the concerns surrounding the audit profession	• Loss of social relevance and raison d'être through lack of trust in society • Further regulation	=	• Implementation of the measures included in the 'In the Public Interest' report • Change programme, the PwC Journey, to strengthen ourselves as a learning organisation and to keep our culture focussed on quality • Involvement of the Public Interest Committee and Supervisory Board • Stakeholder dialogue
	Not delivering quality, including professional technical quality	• Loss of social relevance and our raison d'être • Reputational damage • Financial damage from claims and from fines imposed by external supervisory bodies • Disciplinary procedures • Loss of clients	=	• PwC Journey, PwC Values, PwC Experience and PwC Professional • Focus on continuous improvement and investment in the quality of our audit and other services • Our quality management system, including internal (engagement) reviews • Real Time Review programme • Ongoing root cause analysis programme, including programmes for improvement • Partner/director involvement in engagements • Deployment of specialists in the areas of IT, pensions, taxation, treasury, sustainability and governance • Involvement of the Public Interest Committee and Supervisory Board • Sharper client selectivity • Mandatory training tailored to the professional and personal skills of our people • Quality (including a professional scepticism) at the heart of performance evaluation and remuneration for staff, partners and directors • Mandatory consultation, including with the Fraud Panel, where there is fraud, or suspicion thereof, at clients • Independence requirements and procedures
	Reduced ability to recruit and retain talented people	• Inability to attract, engage and retain quality professional talent	=	• Human-capital policies, including a broad range of training programmes and career paths • Talent management focused on investing in people development • Focus on increasing diversity and mobility
	Exposure to cyber-crime	• Reputational damage and inefficiencies in our service delivery	↑	• IT policies and practices, including business continuity • PwC NL's Cyber Security plan • ICT Code of Conduct

Strategic goal	Risk	Impact	Trend	Mitigation
Delivering the PwC Experience	Not achieving real cultural and behavioural change	• Loss of social relevance • Insufficient innovative capacity • Reduced ability to be distinctive	=	• Roll out of the change programme, the PwC Journey, to strengthen ourselves as a learning organisation and to keep our culture focussed on quality • Cultural change movement, 'Moments that Matter' • Involvement of the Public Interest Committee and Supervisory Board • Behaviour at the centre of our training programmes • Monitoring of culture and behaviour • Values survey
	Undesirable or unethical behaviour by partners, directors or other staff	• Reputational damage • Loss of audit licence	=	• Ethical and professional behaviour at the centre of our staff development programmes, evaluation and remuneration systems and sanctions policy • Regular communication about the importance of holding each other to account for ethical behaviour, both with the client and with each other

Risk assessment compared to prior year: = *Unchanged* ↑ *Higher* ↓ *Lower*

Strategic goal	Risk	Impact	Trend	Mitigation
Taking the opportunities the market offers us	Inability to manage the volume of new clients following mandatory rotation	• Inability to deliver the desired level of quality • Loss of market share in the PIE segment	=	• Increased organisational flexibility and increased workforce • Increased mobility, including cross-border mobility • Account management • Greater selectivity in client and engagement acceptance and stringent acceptance procedures • Strengthened project and process management on individual engagements
Strategic goal	**Risk**	**Impact**	**Trend**	**Mitigation**
Transforming our organisation	Lack of flexibility and agility	• Reduced operating efficiency and effectiveness • Reduced attractiveness as an employer	=	• Deployment of our flexible work force during the 'busy season' • Active participation in PwC network initiatives to optimise and further improve our service delivery infrastructure (including the use of delivery centres) and to increase international mobility • Roll out of the Cycles of Experience approach, focussing on increasing the mobility of our people between offices, industry groups and business units and within the PwC network
	Insufficient innovative capacity	• Insufficient speed and agility to react to technological trends and disruption • Reduced attractiveness as an employer • Weakened competitiveness	=	• Investing, on an international basis, in audit innovation and in audit tools, such as Halo, Connect and Aura • Constant attention to new and ongoing issues and the needs of clients, their stakeholders and society in general • Participation in PwC network initiatives in the areas of product and service innovation, such as sustainability, IT security, integrated reporting and new accounting and auditing standards • Exploring opportunities for partnering and acquisition, also in concert with other PwC network firms
Strategic goal	**Risk**	**Impact**	**Trend**	**Mitigation**
Investing in strategic competencies	Introduction of radical legislative and regulatory change	• Loss of the auditor's societal relevance in areas outside the financial statements, such as processes, systems and sustainability • Reduced attractiveness as an employer (both for the audit profession and for PwC)	=	• Greater organisational agility and flexibility • Use of scenario analyses • Stakeholder dialogue • Monitoring of changes and proposed changes in regulation (evaluating the impact on PwC and providing actions and guidance for our professionals) and proactive participation in professional bodies such as the NBA
	Greater dependence on technology as a result of digital transformation	• Need speed up innovation	↑	• Investing jointly with other PwC network firms in new technologies, tools and services • Recruitment of specialists in the areas of IT and data analysis • Innovation programme within our change programme the PwC Journey

Risk assessment compared to prior year: = *Unchanged* ↑ *Higher* ↓ *Lower*

Our quality management system

Our quality management system

Quality is the foundation for restoring trust in society and solving important problems. To us, distinctive quality means, first and foremost, delivering added value to society, our people, our clients and other stakeholders and in complying with all legislative and regulatory requirements.

This means that, in the services that we deliver to society and our clients, we strive for a consistently high level of quality, a level that matches our ethos and meets both our own standards and the prevailing legislative and regulatory requirements, all with integrity, objectivity, independence and professional scepticism at the forefront.

Compliance underpins our service delivery. Without this we cannot deliver value to society or to our clients. To be fully compliant, we expect our professionals to have in-depth knowledge of all international auditing standards (ISA) and the applicable accounting principles (GAAP). They must be in a position to apply these professionally in their dealings with colleagues and in the services they provide to clients. They must also be fully familiar with, and apply, the standards and policies that have been set by our professional organisations and by the PwC network.

It is important to us that our people are passionate about their profession and that they are prepared to accept coaching and feedback as a way of developing their expertise to achieve this. We also expect our people to be critical and probing and to engage in robust dialogue when needed, both amongst themselves and with clients. Where issues are not clear, they must continue to probe until they are - which also helps them improve their knowledge and apply it appropriately to ensure that every audit meets all legislative and regulatory requirements.

As accountancy professionals, we need to be proactive not only in having a good understanding of our clients and the services they expect but also in being up to date with the developments and moral debates within society. We have an in-depth knowledge of so-called megatrends and we are well positioned to address with our clients how these megatrends affect their strategies and their stakeholders.

Adding value is therefore much more than just compliance with legislation and regulation in the financial statement audit. It is also about adding the value that society, our clients and our people are seeking.

The PwC purpose, together with our core values (the PwC Values), the PwC Professional and the PwC Experience (see the previous section), is at the heart of this quality-focussed culture of ours. As a learning organisation, we are constantly improving our levels of quality. We learn from the mistakes we make and from the results of audit quality reviews and we translate the lessons learnt into measures for improvement. We implement these and then monitor them to determine whether we are achieving the improvements we are aiming for.

Seven core elements

Our quality management system (QMS) safeguards the consistent delivery of quality and improves the level of that quality in our assurance service delivery. The system is built on the international framework ISQC1 (International Standard on Quality Control for firms that perform audits and reviews of historical financial information and other assurance and related services engagements) issued by the International Auditing and Assurance Standards Board (IAASB).

The seven core elements of our quality management system (see the graphic on the next page) are as follows:

1. Leadership
2. Ethics and independence
3. Human capital
4. Client and engagement acceptance
5. Engagement performance
6. Monitoring
7. Evaluation and remuneration

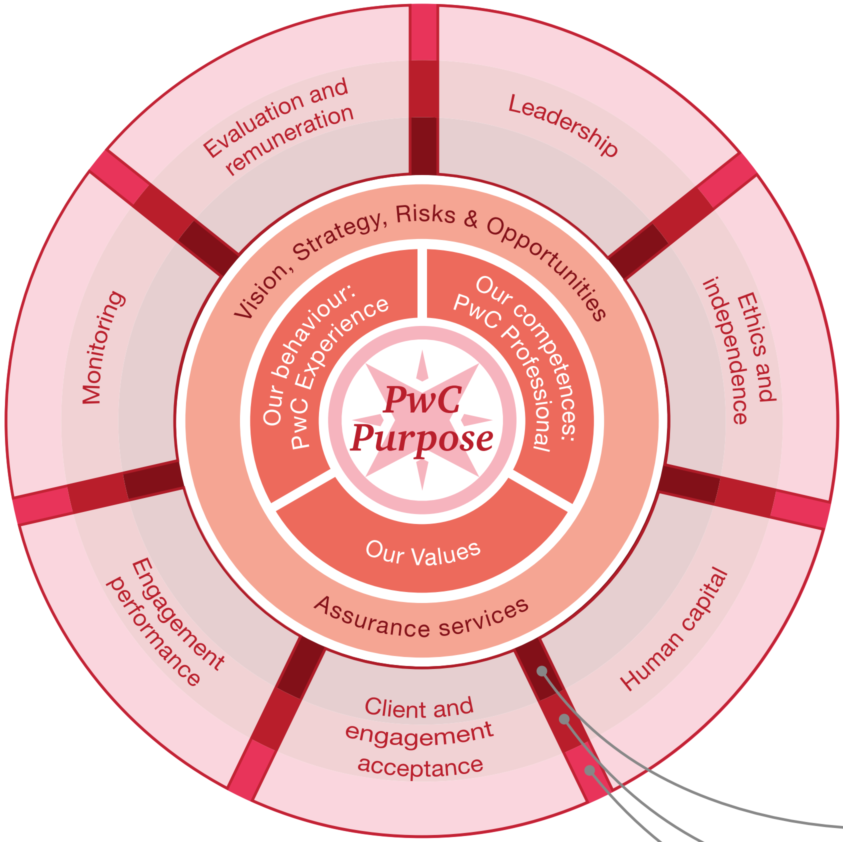
The following sections describe these seven inter-related elements in detail.

The members of the board of directors of PricewaterhouseCoopers Accountants N.V. (also known as the Assurance Board) and of the Board of Management of Holding PricewaterhouseCoopers Nederland B.V. are the policy makers of the audit firm PricewaterhouseCoopers Accountants N.V. The Assurance Board is responsible for the design and operating effectiveness of our quality and risk management systems (hereafter: the quality management system). The Assurance Board assesses the adequacy of the design and operating effectiveness of the quality management system on an annual basis. Where shortcomings are noted, a remediation process is set in motion to correct and update the practices and/or systems affected. The annual statement by the policymakers regarding the operating effectiveness of the quality management system is included in this Transparency Report.

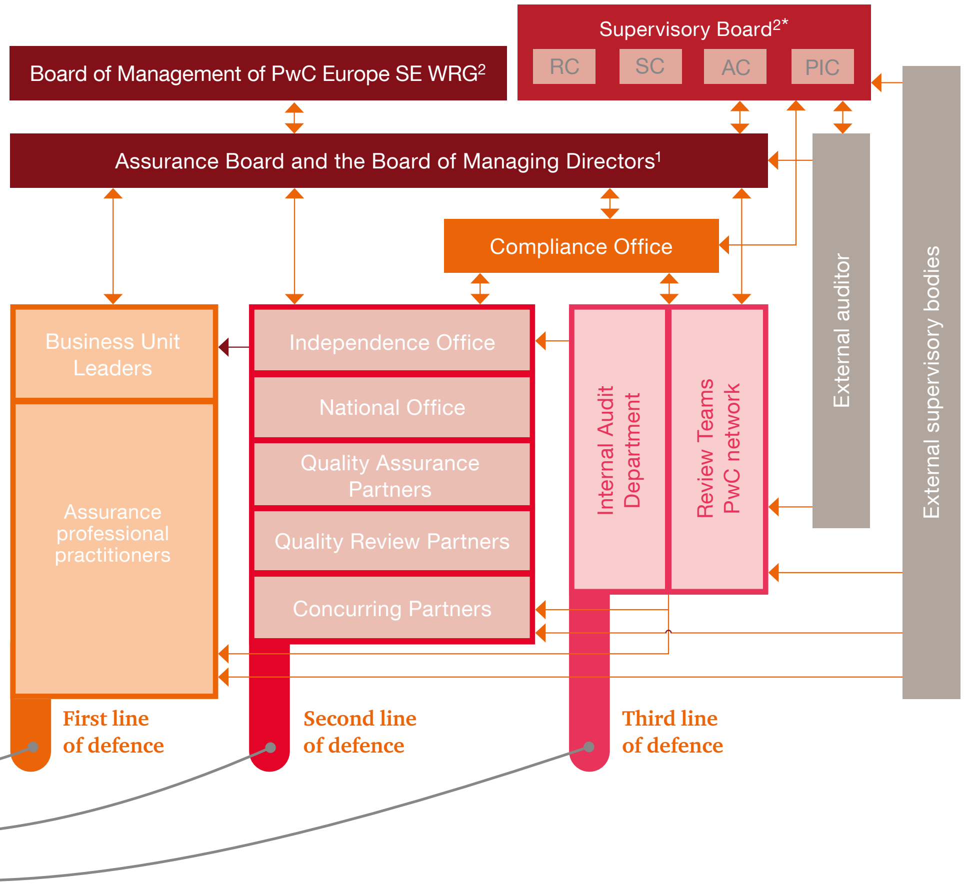
Lines of defence

Our quality management system is anchored at various levels within our organisation in three lines of defence.

Our quality management system



Our organisation



1 Policymakers
2 Co-policymakers

* SB committees: :
RC = Remuneration Committee SC = Selection and Appointments Committee
AC = Audit Committee PIC = Public Interest Committee

First line of defence
Our partners and directors are responsible for quality within each of the engagement teams they are involved in. While there is clearly sufficient scope for professional judgement, there are also clear frameworks and boundaries within which they must operate. These are, amongst others, set out in our audit methodology (the PwC Audit) and in the audit software (Aura and other specific tools such as Halo) that we use, and in the consultation policies and procedures, independence requirements and acceptance and continuance processes that we apply. Together with the Business Unit Leaders and our partners and directors form the first line of defence in our quality management system. The Business Unit Leaders and their management teams are responsible for the execution of the policies for quality within their respective units. They acknowledge this by annually confirming their commitment to and implementation of all of PwC's quality requirements.

The second line of defence
The quality and risk management infrastructure out in the field is also provided with support from a central infrastructure that also monitors compliance with the requirements that apply. The Independence Office and National Office, along with the Quality Assurance Partners in the business units and the Quality Review Partners and, where applicable, the Concurring Partners in individual engagements, all collectively comprise the second line of defence.

National Office also provides support to the practice and to external auditors and staff in their professional development. It plays an important role in the development and implementation of guidelines and requirements in the areas of financial reporting, audit methodology and risk management, and it is responsible for the implementation of legislation and regulation within the organisation. It is also tasked with a number of specific quality measures, such as financial statement reviews and professional consultations with audit teams (both mandatory and voluntary). The Fraud Panel comes into play where fraud or suspicion of fraud arises at clients. Our risk management policies also require that audit teams are provided with forensic support where this is needed. National Office also provides support to the practice through the Real Time Review programme.

The third line of defence
The third line of defence comprises the periodic PwC global Quality & Risk review process and the audit work performed by our Internal Audit Department (IAD). The Compliance Office also has a monitoring role in this third line of defence, in addition to its practice support role. Acting on behalf of the policymakers and supported by the Compliance Office, the Compliance Officer monitors internal compliance with PwC's policies for quality. The Compliance Office also monitors PwC's internal compliance with the Wta (Audit Firms Supervision Act) and related legislation and regulation and with other legislation such as the Wwft (Money Laundering and Prevention of Terrorism Financing Act). Furthermore, the Compliance Office is responsible for conflict checking for independence and general monitoring purposes. The Office reports its findings to the policymakers and co-policymakers three times a year. It also shares and discusses these findings with the Supervisory Board, and it reports matters arising in the internal quality management system, submits recommendations and monitors follow-up. The Compliance Office operates firm-wide, i.e. it also covers Tax and Advisory. It is also responsible for the mandatory notifications to the AFM regarding registration and deregistration of external auditors and/or of members of Coöperatie PricewaterhouseCoopers Nederland U.A., the notification of early termination of statutory audit assignments and the notification of incidents and disciplinary proceedings.

We have requested an independent external auditor to test the quality indicators included in this Transparency Report and to provide assurance thereon.

Governance and monitoring
In the context of our implementation of the Code for Audit Firms with a PIE licence, PwC has had a Public Interest Committee, at the level of the audit firm, since 1 July 2013. This committee monitors the safeguarding of the public interest in the auditor's reports issued by PricewaterhouseCoopers Accountants N.V., the audit firm that holds the licence from the AFM permitting it to perform statutory audits of public interest entities (PIEs). In their supervisory role, the committee members oversee the organisation's decision-making processes, its quality management system, risk management, the notification procedures, internal and external reviews, external reporting, stakeholder dialogue and the avoidance of actual and potential reputational risks. The roles and responsibilities of the Public Interest Committee are set out in an appendix to the Supervisory Board Charter published on our website.

A Supervisory Board of external members was installed at the level of Holding PricewaterhouseCoopers Nederland B.V. on 1 May 2015. The jurisdiction of the Supervisory Board is in line with the 'In the Public Interest' report, as further detailed in the Supervisory Board's Charter on our website. Since 1 May 2015, the Public Interest Committee has become a core committee of the Supervisory Board.

The SB fills a key role in our organisation. It is responsible for the supervision of the BoM (at the level of the Dutch top holding company) and, more importantly, together with the Public Interest Committee, it provides clear feedback as to how society perceives us and what it expects from us, and it monitors that we reflect this feedback properly throughout the organisation. More information is provided in the section 'Governance'.

Leadership

- Tone from the top
- Collaboration and robust dialogue
- Stakeholder dialogue
- Management setting the right example
- Professional and personal development of partners and directors
- Core values
- The PwC Experience
- Vision for change, with focus on culture and behaviour
- The public debate
- Global network organisation
- Enterprise risk management

1

Our tone from the top must reflect precisely what we have set as our mission (purpose), strategy and core values, and it must provide leadership to our staff by demonstrating behaviour that is consistent with a quality-driven culture and a learning organisation whose primary focus is the public interest.

Tone from the top

The Assurance Board (the Board) consistently reiterates, in its regular communications to partners, directors and staff, the importance that we place on the PwC purpose and on the strategy of our Assurance practice (see the section 'Our purpose, strategy and principal risks'). The Assurance Board's communication takes several forms, including digital newsletters, dedicated intranet pages, video messages, Assurance-wide conference calls with updates from the Board, specific Assurance-wide events, and the regular monthly Lessons Learnt email of current findings from the Real Time Reviews. We also communicate through public appearances and opinion papers, office dialogue and dilemma sessions with Board Members and staff, and through this Transparency Report. Our change programme, the PwC Journey (which incorporates our 'Alert!' quality improvement programme), also allows us to keep elements of audit quality firmly at the forefront of our people's minds. In addition, National Office communicates on professional technical matters through its weekly newsletter, and the Assurance Board is very closely involved in the design of the Summer School, an annual multi-day programme of training, and in the audit transformation programme.

Collaboration and structured and robust dialogue

To help ensure that our conclusions are well-balanced, we encourage interaction among colleagues and consultation with National Office and others. We achieve a healthy level of collaboration and candid dialogue by:

- Encouraging proactive involvement of senior team members on engagements (see below)
- Encouraging the involvement of financial reporting, valuation, pension and taxation experts
- Facilitating consultation procedures with low-barrier and informal formats (enquiries) as well as the more formal forms of concurrence (Consultations take place with National Office specialists and, for entities listed in the United States, with the US GAAS Desk and/or the PwC US National Office. and every year National Office reviews a number of financial statements in advance of the audit report being issued.)
- Mandating consultation before any issue of an auditor's report new style, which involves National Office addressing with the team the more important risk areas in the financial statements (the key audit matters) and the readability and clarity of the content of the audit opinion and other areas of the report (for instance the description of materiality and scope)
- Appointing an engagement-focused Quality Review Partner on PIE engagements and other engagements assessed as higher risk
- Performance of Real Time Reviews (RTRs) on selected engagements by dedicated teams involved during the entire audit process through to the issue of the auditor's report and who coach the team on audit approach and file documentation.

In addition, the Public Interest Committee keeps us focused on how well we are attuned to the perceptions of society (see the section 'Report of the Public Interest Committee').

Stakeholder dialogue

We are in constant contact with our more important stakeholders to hear from them what their key expectations are and to sound out our own ideas. We do this through a structured programme of stakeholder dialogue (see PwC NL Annual Report 2015-2016).

Management setting the right example

In addition to the Assurance Board, partners, directors, senior managers and managers play an important role in living our norms and values, including demonstrating professional scepticism and appropriate behaviour. They set the tone for their team members, and for quite some time we have been encouraging intensive involvement by partners, directors, senior managers and managers on their audit engagements and setting them specific goals as regards the time to be allocated to this. We do this to improve not only the involvement of, and coaching by, partners and directors but also to help them stay focussed on their team members and on their engagements. It is in these areas that we can achieve our goals for distinctive quality.

Professional and personal development of partners and directors

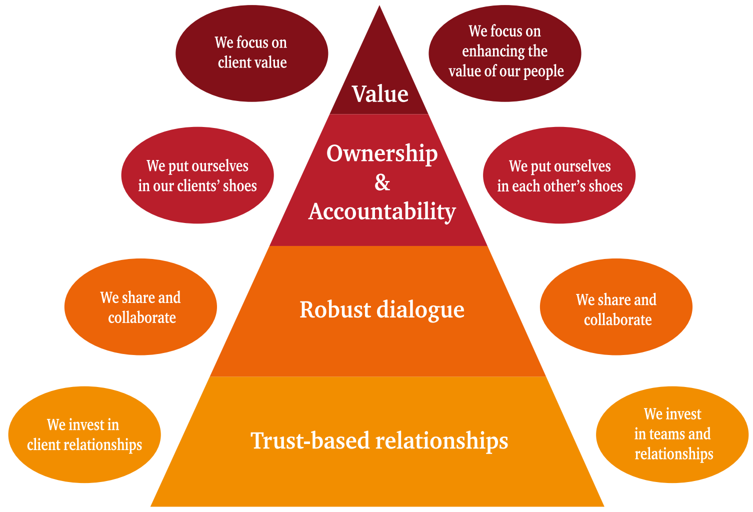
In our evaluation and remuneration methodologies for partners and directors, we look very specifically at how their behaviour has influenced the achievement of our strategic goals, with quality as the key driver. At the front end of the process, each partner/director sets his/her objectives for the coming year and at the end of the year, we determine the extent to which the partner/director has achieved these objectives. Reviewing performance for the past year and setting objectives for the coming year takes place during the BMG&D (Evaluation, Mapping, Goal setting & Development) meeting on the basis of a self-evaluation prepared in advance by the partner/director (the partner/director report) that includes the results of the so-called 360 degree feedback programme, a programme in which staff can provide feedback (either on request or voluntarily) on colleagues and superiors. In these BMG&D meetings, the Assurance Board and/or Business Unit Leaders assess with the partners/directors their contributions to quality, personal development and people development. This is explained in greater detail in the section 'Evaluation and remuneration'.

We have a Country Admissions Committee (CAD) in place that coordinates the appointment of new partners and directors. The CAD acts as an advisory body for both the BoM and the three LoS Boards of PwC Netherlands. The CAD has a sub-committee for each LoS and an independent chair. The Chair of the CAD is appointed by the BoM and the members are appointed by the LoS Boards, both for a maximum of two four-year terms. The Chair and members may hold no other management functions. The CAD focuses mainly on the extent to which the personal qualities of the professionals concerned fit the profile we have set for PwC partners and directors. The LoS Board appoints new directors based on advice from the CAD and these appointments are ratified by the BoM. Subject to approval by the General Meeting (GM), the BoM makes new partner appointments based on proposals from the Assurance Board and on advice from the CAD. The BoM needs to obtain the approval of the SB for those professional practitioners being appointed as external auditors within the audit practice. The BoM's submission to the GM for approval of its appointments is accompanied by advice provided by the Partner Council and, for those being appointed as external auditor in the Assurance practice, also the approval of the SB. Any decision by the BoM to terminate the association agreement with any partner who acts as external auditor in the audit practice also requires the approval of the SB.

Core values

Our Global Code of Conduct sets out guidelines and guidance as to how our staff and partners are expected to behave and conduct themselves in a wide variety of differing circumstances and situations. In practice, we expect every PwC person to behave with respect, dignity, honesty and courtesy. The Code is based on our core values of teamwork, leadership and excellence. These core values are being refreshed in 2016-2017. More information is provided in the section 'Ethics and independence', or look for further information on our website at [www.pwc.nl/nl/onze-organisatie/gedragscode.html.](www.pwc.nl/nl/onze-organisatie/gedragscode.html)

PwC Experience



The PwC Experience

The PwC Experience provides guidance as to how we should interact with clients, colleagues and other stakeholders by developing relationships based on trust and genuine interest. It represents a culture that is outward looking and in which people can be themselves while still valuing the diversity that others bring and a culture in which societal involvement is second nature.

The PwC Experience is a key pillar supporting our purpose and strategy. It is promoted by the BoM and the Assurance Board through media such as video messages and training modules, and, the 'Moments that Matter' cultural change movement also keeps the momentum of the PwC Experience going by, amongst other things, sharing 'stories that matter', stories about when we did well, but also about when we could have done better.

A vision for change, with focus on culture and behaviour

It is essential in the rapidly changing world of today that we get our organisation fit and ready for the future, and the Assurance Journey is preparing us for this transition to the auditor of the future. We have defined the following three priorities within this programme for the coming period:

- Bringing the PwC Journey to life: Becoming a purpose-led and values-driven organisation
- Driving forward continuously with quality improvement: Expanding our skills and

competencies in the area of auditing (ISA) and accounting (GAAP) standards and allocating sufficient time for transformation
- Innovating and growing: Encouraging innovation and achieving growth for assurance services in our Risk Assurance and CMAAS practices

Our change programme, the Assurance Journey, is being led by a team comprising an Assurance Board member, three partners, a programme manager and communication and change specialists. The team is responsible for the entire management of the programme, for overseeing the synergies between the various initiatives and for leading the implementation and anchoring of the new techniques and behaviour on a structured basis. The team works closely with the transformation team that manages the change programme across PwC as a whole.

We see this change trajectory as a strategic investment in the future of the Assurance practice. A key objective of the programme is to define the framework and culture that will best enable us to achieve higher levels of quality, change and learning capacity – and thereby enable us, with the right technological support, to continue to meet stakeholder expectations and serve the public interest. The journey is not leading us to some inert concept of where the organisation needs to be in a few years' time; it is designed to provide us with the learning and change capacity we need to adapt constantly and quickly to developments and expectations in society - in other words, to become an agile organisation. We believe that learning capacity, technological innovation and an outward looking attitude will be critical elements of the audit firm of the future.

The People Survey is our annual survey into staff satisfaction. Amongst other things, it provides input as to how staff view aspects such as culture, behaviour and leadership within the organisation. The survey results are broken down per business unit and are followed up at that level. Each business unit organises sessions with different groupings of staff to share the results and discuss actions that need to be taken. The results are also discussed in the BMG&D meetings we have with partners and directors. The feedback we request from clients also provides valuable input here.

'Moments that Matter' makes us stop and think both more regularly and more consciously about our behaviour. The Assurance Board believes that moments that matter – the moments that really count – can make a difference to our behaviour. In fact, it is our behaviour at these crucial moments that largely defines our culture. We periodically select specific moments when we can make a difference, and those moments are given high profile for a period of time.
As from this past financial year, we have been monitoring change in our culture and behaviour by means of the so-called Culture and Behaviour Monitor. This is a tool, which will be further developed in the coming years, pulls together images from a wide number of sources into an overall image of aspects that we believe are important in our culture and behaviour. Aspects currently under focus are the following:

- An effective coaching-on-the-job culture
- A diverse and inclusive culture based on encouragement and collaboration
- Sensitivity to the needs of our people, their personal development and their general wellbeing
- A learning organisation in which working methods are constantly being improved and in which an outward-looking culture of societal involvement is the norm
- A culture in which robust dialogue is an integral part of relationships

The public debate
Members of the Assurance Board, partners and staff all participate proactively in the public debate on the role of the auditor. Some examples of this are the various opinion pieces that PwC people have published in media such as het Financieele Dagblad (the Dutch financial daily), on Accountant.nl and in the professional media, and the participation of PwC partners and Board Members in seminars and congresses. We not only participate in the debate, but we also place value on the proactive contributions that PwC partners and staff make to the sector-wide evolution of the profession through various forums such as NBA bodies, the Dutch Accounting Standards Board, the Dutch Financial Reporting Committee of the NBA (our Dutch professional body) and at various universities. We also provide substantive comment on draft legislation as it is published.

Global network organisation
The global PwC network is one of the key drivers of our quality. The network is critical to us being able to perform adequate audits at internationally operating entities. Our purpose and strategy are supported collectively by all PwC network firms. The investments needed to ensure quality in our audits are to a large extent borne by the network as a whole. Initiatives such as ongoing development of electronic file systems, audit tools and data analysis technology are very expensive, as is development of the related methodology and training. The investment runs into hundreds of millions of Euros, and investments of this magnitude can only be effectively achieved by making them collectively as a network.

Our global network also enables us to build expertise to a very high level of quality. We have access to highly specialised experts, for instance in the IFRS arena, and this enables us to come to the right financial reporting conclusions on complex problems and in complex regulatory environments.

In addition to this, the network supports us with a uniform audit approach (the global PwC Audit Guide), consistent guidelines and requirements and knowledge management and sharing. For guidelines and requirements, we apply the Network Risk Management Policies (Matrisk), the Global Independence Policy and our single, uniform methodology for maintaining independence from our audit clients. Knowledge sharing is promoted and facilitated through regular communications on developments and key issues regarding audit quality. We regularly organise professional technical meetings and conference calls to share best practices.

To be able to continue our association with the network, we are required to meet strict quality criteria and to comply with all network standards, and this is regularly monitored by the network through reviews of how we comply with network standards, reviews of our quality management system and the annual audit engagement reviews (Engagement Compliance Reviews).

Of course, the PwC standards, policies and procedures also comply with the applicable international audit standards (ISA). In the Netherlands, we implement supplementary requirements where Dutch circumstances or legislation and regulation warrant it. An example of this are the supplementary procedures needed to ensure compliance with the ViO (the Regulation concerning the Independence of Auditors in Assurance Engagements), the Wwft (the Money Laundering and Prevention of Terrorism Financing Act), mandatory audit firm rotation and the separation of audit and advisory services at PIEs.

Enterprise risk management

As part of our regular planning and audit cycles, we regularly take stock of the principal risks and opportunities we face in strategic, operational, financial and compliance areas and how these are mitigated within the context of the risk appetite we have set. We take further action where necessary, and our management model keeps these actions under review. This methodology, Enterprise, Opportunities and Risk Management (ENORM), is part of our PwC network standard for risk and quality, and this includes how we deal with enterprise risk management.

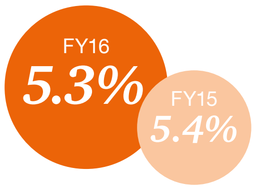
We apply tailored, in-depth risk assessments for risks in the area of audit quality. The results of these assessments are addressed within the Assurance Board, the Board of Management's Risk Council, the Board of Management itself and the Supervisory Board and we share the results within our global network. The principal risks relating to our strategic priorities are set out in the section 'Our purpose, strategy and principal risk factors'.

Quality indicators for 'Leadership'

Stable level of specialist involvement

Involving, in our audits, specialists from across the entire PwC organisation (including accounting, valuation, taxation and pensions specialists) increases the quality of those audits. The extent and nature of this involvement depends partly on the mix of our client portfolio and on the extent to which the client is involved in unusual situations such as mergers and acquisitions, investments, divestments and reorganisations. In line with plan, the involvement of specialists in FY16 remained at levels similar to those for FY15, and we are aiming to achieve a similar level for the coming year.

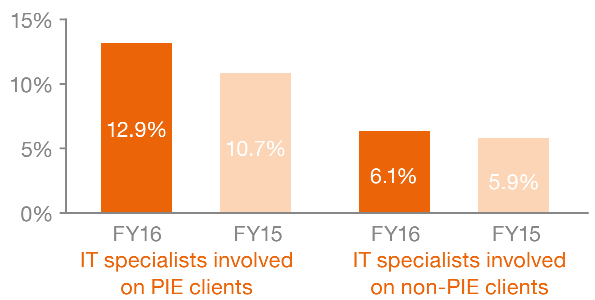
Involvement of accounting, valuation, pension and taxation specialists in audit engagements



1.1

Increased level of IT specialist involvement

The involvement of IT specialists at PIE clients has increased over prior year, amongst other things as a result of the different mix of clients following the mandatory audit firm rotation process and as a result of the quality improvement measures we have implemented. Given the importance of IT and digitalisation, we expect this involvement to increase further in the coming year. The comparative numbers have been adjusted following the implementation in FY16 of a more accurate methodology for measuring IT-specialist involvement.



1.2

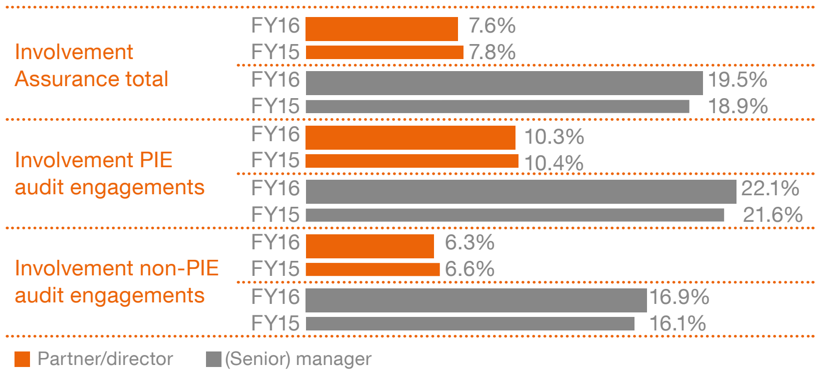
More time spent overall by partners and directors on audit engagements

The total time spent by partners and directors on PIE and non-PIE audit engagements has increased 5% on prior year to 151,123 hours (FY15: 143,268 hours). The total time spent on PIE and non-PIE audit engagements (2,046,468 hours) is 9% more than prior year, while the time on other engagements increased 6% to 233,125 hours. The total direct time spent on client engagements was 8% higher than prior year, while revenue increased a modest 4% and the workforce by 7%.

FY16	PIE audit clients		Non-PIE audit clients		Other engagements		Other services		Total	
Partner/director	55,972	15%	95,151	26%	24,983	7%	194,758	52%	370,864	100%
(Senior) manager	121,231	18%	254,351	38%	69,532	10%	227,350	34%	672,464	100%
Other staff	371,148	17%	1,148,615	53%	138,610	7%	496,665	23%	2,155,038	100%
Total	**548,351**	**17%**	**1,498,117**	**47%**	**233,125**	**7%**	**918,773**	**29%**	**3,198,366**	**100%**
FY15										
Partner/director	46,754	16%	96,514	28%	24,239	7%	180,868	52%	348,375	100%
(Senior) manager	98,270	16%	233,933	39%	69,098	11%	204,624	34%	605,925	100%
Other staff	309,796	16%	1,100,830	56%	126,030	6%	434,297	22%	1,970,953	100%
Total	**454,820**	**13%**	**1,431,277**	**49%**	**219,367**	**7%**	**819,789**	**28%**	**2,925,253**	**100%**

1.3

The involvement of partners and directors on audit engagements (7.6% of total audit engagement hours) has remained at the same level as prior year and is in line with the objective we had set, both for PIE and non-PIE audit engagements. The senior manager and manager time spent on audit engagements has increased 13% over prior year to 375,582 hours (FY15: 332,203 hours).



1.4

Partner, director, senior manager and manager involvement, as a percentage of total audit hours, has increased slightly to 27.1% (FY15: 26.7%). For the coming year, we expect a further modest increase in the level of partner/director involvement.

For the reporting criteria of the quality indicators 1.1 - 1.4, see Appendix C.

Ethics and independence

- Code of Conduct
- Professional oath for accountants
- Complaints and notification procedures
- Independence requirements and procedures
- Personal independence testing
- Rotation of senior team members and audit firms
- Investment policy

2

We expect ethical behaviour and attitude from our partners and staff, and our reputation stands or falls on the basis of this. Our partners and directors are responsible for the quality of each and every one of their engagements, and they acknowledge this in their annual confirmation of compliance with all applicable legislation and regulation, both internal and external, including the Wta (the Audit Firms Supervision Act), independence requirements and the PwC Code of Conduct.

At PwC, we adhere to the fundamental principles of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants, which are:

- **Integrity** – to be straightforward and honest in all professional and business relationships.
- **Objectivity** – to not allow bias, conflict of interest or undue influence of others to override professional or business judgements.
- **Professional Competence and Due Care** – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practise, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
- **Confidentiality** – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.
- **Professional Behaviour** – to comply with relevant laws and regulations and avoid any action that discredits the profession.

In addition, our Network Standards applicable to all Network firms cover a variety of areas including ethics and business conduct, independence, anti-money laundering, anti-trust/anti-competition, anti-corruption, information protection, firm's and partner's taxes, sanctions laws, internal audit and insider trading. We take compliance with these ethical requirements seriously and strive to embrace the spirit and not just the letter of those requirements. All partners and staff undertake regular mandatory training and assessments, as well as submitting annual compliance confirmations, as part of the system to support appropriate understanding of the ethical requirements under which we operate. Partners and staff uphold and comply with the standards developed by the PwC network and the Board of Management monitors compliance with these obligations.

Code of Conduct

Our purpose, PwC's core values (as set out in the Code of Conduct), the PwC Experience and the PwC Professional collectively provide guidance to our partners and staff in their behaviour and attitudes. The Code (see *www.pwc.nl/nl/onze-organisatie/gedragscode.html*) is an integral part of the contracts of employment and association signed by all staff and partners, respectively. The key basic elements of the Code are professional conduct, respect for others, reputational assurance and contribution to society. Clients also agree to ethical conduct in accepting our terms and conditions as part of the letter of engagement. An updated Code of Conduct is to be implemented across the entire PwC network in financial year 2016-2017.

The Code of Conduct is a mandatory element of our training and development programmes, and all partners and staff are given e-learning which specifically addresses the handling of dilemmas.

Proper use of information and of the equipment and facilities that PwC provides, and their security, are critical in our organisation. Improper use can result in reputational damage, so we have formulated procedures and set these out in our ICT Code of Conduct. This code is an integral part of the terms of employment, and partners and staff are required to confirm annually that they have acted in accordance with the Code for the entire period covered by the confirmation.

The professional oath for accountants

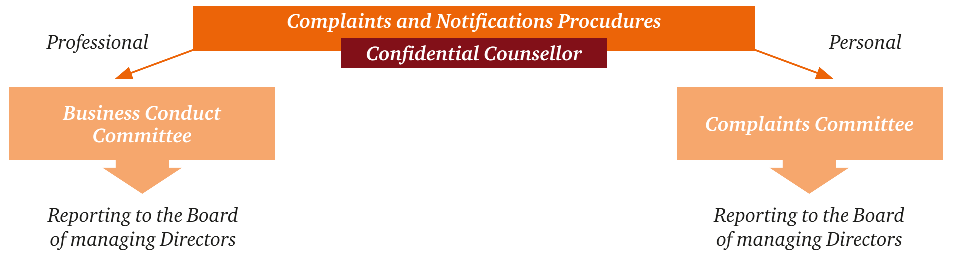
The Professional Oath for Accountants Regulation requires all Dutch chartered accountants within the Assurance practice to swear the professional oath. During the summer of 2016, dedicated sessions were organised for this as part of our Summer School programme. Newly qualified chartered accountants swear the oath when they complete their study.

Complaints and notification procedures

The Complaints and Notifications Procedures are governed by our Code of Conduct. These procedures are both for complaints in the personal arena and for suspicions of professional misconduct or other incidents. Notifications in the personal arena may, for instance, include intimidation, aggressive behaviour or discrimination. Those who file a complaint are put in touch with the Complaints Committee. The Business Conduct Committee (BCC) deals with any notifications of suspected professional misconduct (for instance, improper acceptance of gifts or deliberate mis-invoicing) and with any suspected other incidents.

Staff who have complaints in the personal arena or who suspect professional misconduct have access to any of the Confidential Counsellors we have within our organisation. An outside party with a suspicion of professional misconduct or an incident may report this to the BoM or to the Assurance Board, both of which will report on to the BCC. After due investigation, the BCC submits its advice on the matter to the BoM. Both the BCC and the Complaints Committee report on an annual and anonymous basis to the Code of Conduct Partner. Neither the Complaints Committee nor the BCC may issue sanctions. They submit advice to the BoM, which is ultimately responsible for the final decision on the matter. The advice submitted can take the form of a proposal for disciplinary or other action, and this can ultimately lead to termination of the employment contract/ association agreement.

Following a review of the situation, to clarify the distinction between them and to make the procedure more user-friendly, complaints and notifications have been split into two separate procedures as from 1 July 2016: the Complaints procedure and the Notification and Whistle-blower procedure. The Complaints Committee and Business Conduct Committee remain in place.



Independence requirements and procedures

Our client acceptance and engagement continuance framework includes mandatory procedures covering personal independence and the independence of PwC as a whole. These procedures are based on our PwC network independence policies and on the specific Dutch requirements. The Independence Office provides staff with support and advice as to whether we can serve a particular client and whether the service proposed is permitted within the client relationship.

The auditor ultimately responsible for the engagement must pre-approve all services proposed for delivery to the client, irrespective of who is proposing to deliver the service. No work may start on an engagement and no time may be charged to an engagement until this approval is in place. This is coordinated through the so-called Authorization for Services process (AFS), mandated across the entire PwC network for services to listed audit clients and to audit clients with foreign operations.

In addition, we have a process for assessing and dealing with potential conflicts of interest. A potential conflict of interest can arise, for instance, where two or more PwC teams or firms are acting for different potential buyers and/or sellers in the same business acquisition/disposal. Where needed, we put so-called Chinese (or ethical) walls in place to prevent confidential information held by one team inadvertently becoming available to the other. In such situations, the teams are kept physically separate and we put increased confidentiality requirements in place. In such situations, it is also possible that either we, or the client, terminate the engagement.

Personal independence testing

Individual partner and director compliance with independence policies is monitored by the Independence Office, with about one quarter of all partners and directors being covered each year. Newly appointed partners and directors are subject to the test prior to appointment, and any partner or director who receives a written warning or reprimand is automatically re-tested the year thereafter. Furthermore, board member candidates are tested by the Independence Office as part of their board appointment process. Infringements are reported to the Independence Sanctions Committee, and this body is responsible for determining the sanction to be levied within the context of the sanctions policy. The testing follows the policies adopted within the global PwC network.

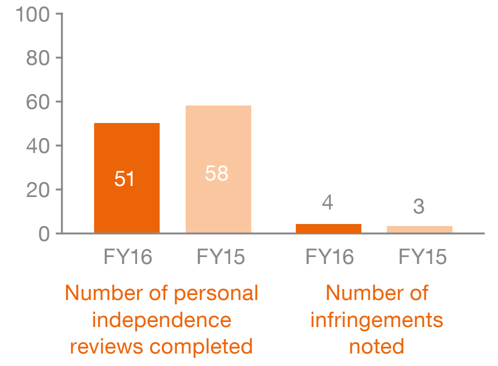
Rotation of senior team members and audit firms
The Regulation regarding the Independence of Auditors in Assurance Engagements ('Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten', ViO) has been in force since 1 January 2014. The regulation includes a requirement that, unless there is no question of unacceptable risk of undue familiarity or self-interest, action needs to be taken as and when the more senior partners or directors in an audit team have been involved on a client for seven years. Our internal rotation policy requires that, for all assurance clients, partners, directors and senior team members who have had a senior engagement role on a client must rotate after a maximum of seven years' involvement on that client. For PIEs, the requirement is that the partner responsible for the engagement (the key audit partner) must rotate after five years.

With effect from 17 June 2016, the law requires that all PIEs must rotate audit firm after ten years and all transitional arrangements cease as of that date. As a result, we have had to resign from some clients and we have welcomed some new clients (see also Appendix B). We have internal procedures in place to ensure that we comply with independence requirements for the new clients and that we maintain independence from the clients from which we resign until the final auditor's report has been issued.

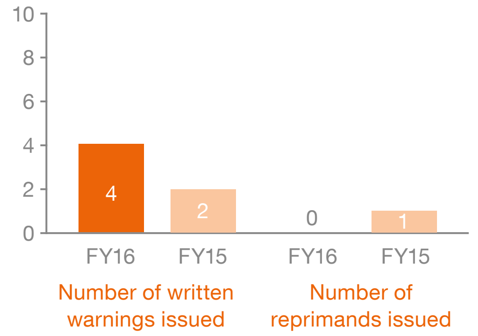
Investment policy
Our Code of Conduct policy for personal investments by partners has been approved by the Supervisory Board and published on our external website.

Quality indicators for 'Ethics and independence'

Small number of personal independence infringements
Of the 51 personal independence reviews carried out regarding partners, directors and director candidates, four resulted in sanctions being levied, all four of them being written warnings relating to non-timely registration and deregistration of purchases and sales of securities and none of them constituted infringements of external independence requirements. No reprimands were issued (FY15: 1).



2.1



2.2

Confidential Counsellors being consulted, but no formal notifications filed under the complaint and incident arrangements
The Code of Conduct has been given prominence in e-learning for all our partners and staff. In the context of the Code of Conduct, we have a network of Confidential Counsellors to whom staff can turn to discuss confidential matters, such as personal issues and suspicions of professional misconduct. These discussions do not need to lead to a formal complaint being filed with the Complaints or Business Conduct Committees. In most instances, complaints are resolved in the workplace with the Confidential Counsellor acting as sounding board or mediator. Confidential Counsellors were approached nine times in the Assurance practice during FY16.

No complaints were handled by the Complaints Committee during the past financial year, and the Business Conduct Committee (BCC) received no notifications relating to the Assurance practice. In FY16, two conduct cases (FY15: one) were dealt with outside the BCC by the Assurance Board and the Supervisory Board. Given the importance of these notification processes, we do continue to bring them to the attention of our clients and people.

	FY16	FY15
Number of complaints handled by the Complaints Committee	0	0
Number of internal and external notifications to the Business Conduct Committee	0	0

2.3

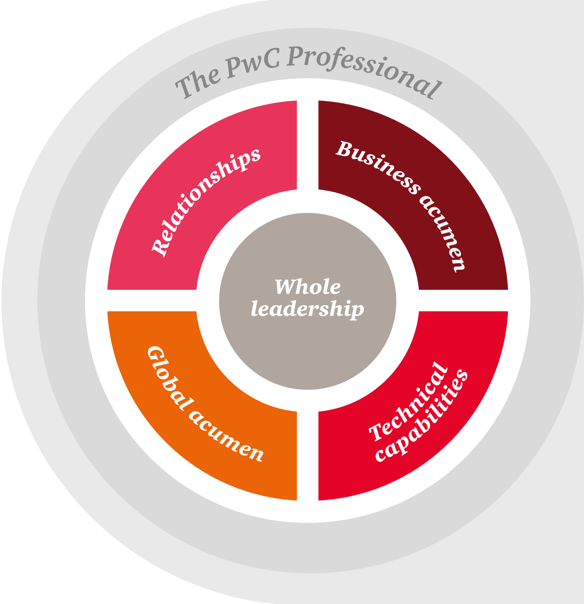
For the reporting criteria of the quality indicators 2.1 - 2.3, see Appendix C.

Human capital

- The PwC Professional
- Recruitment
- Staff development and promotion
- Evaluation and remuneration
- Building knowledge
- Mobility
- People Survey
- Diversity
- Wellbeing

3

The talent of our people and the passion they put into their work are critical cornerstones of our quality. We see ourselves as a learning organisation that offers its people good coaching and training and development programmes that prepare them for the flexibility in service delivery that they need in our ever-changing environment and that ultimately enable us to create added value for society, our clients and our people.



Whole leadership
I lead myself and others to make a difference and deliver results in a responsible, authentic, resiliant, inclusive and passionate manner.

Business acumen
I bring business knowledge, innovation, and insight to create distinctive value for clients and PwC.

Technical capabilities
I apply a range of technical capabilities to deliver quality and value for clients and PwC.

Global acumen
I operate and collaborate effectively with a mindset that trancends geographic and cultural boundaries.

Relationships
I build relationships of high value which are genuine and rooted in trust.

The PwC Professional
Our comprehensive leadership model, the PwC Professional, sets out the competencies and skills that our people need if they are to achieve our purpose, to successfully implement our strategy, to respond to the changing world and, as professionals of the future, to develop more effectively, both personally and professionally.

These are not just technical competencies and skills, but also skills such as professional scepticism, focus on quality, innovative capacity, authenticity, self-awareness and the ability to work with others irrespective of cultural differences and physical limitations. It is not for nothing that Whole Leadership is an important cornerstone of the PwC Professional.

In the Netherlands this year, we have added some additional guidance concerning the mindset that is essential in a quality-focussed and learning organisation, and we have also included the criteria set for trainee accountants by the Committee for Learning Attainment in Accountancy Education (Commissie Eindtermen Accountantsopleiding (CEA).

The PwC Professional model is anchored in our recruitment, training and evaluation programmes and systems. As an example, our people can self-assess within the framework of the model to identify where their strengths and challenges lie. The PwC Professional is promoted throughout the organisation, for instance in staff meetings, staff newsletters (including special editions) and on our intranet.

Recruitment
We aim to recruit and retain the best people, and we set the bar high for new staff. The process for starters is a multi-stage one with selectivity testing after each stage. All stages include an assessment and two interviews, one broad-based and the other more specific and focused. Ethics and Code of Conduct are some of the issues that come up during the in-depth interview.

New professionals all follow an extensive induction programme giving them detailed insight into our Code of Conduct and addressing issues such as ethical behaviour and independence. Getting professional scepticism well embedded into our day-to-day audit work is a key element of this.

Staff development and promotion

In our people development, we focus extensively not only on professional skills but also on management and soft skills, with the PwC Professional and behaviour in line with the PwC Experience as the starting points.

New recruits in Assurance start their development programme in The Associate Academy. This is where our direct intake from universities and institutes of higher education get started. The Associate Academy provides our associates with intensive and broad-based training (both theoretical and practical) and coaching and guidance from accredited internal coaches. We monitor the breadth and depth of our associates' progress through the use of a PwC Professional-based competency passport, fine-tuning development plans accordingly. The Academy allows us to optimise the long-term mobility and flexibility of our staff. After two years, we then assess the readiness of the associate for promotion to senior associate in one of our business units.

Staff are considered for promotion only when they meet the professional standards required of the next level. In addition to consistent demonstration of the necessary professional skills, a critical factor is also the manner in which the staff member deploys these skills, in other words: his/her behaviour in the day-to-day audit work. Study progress towards professional qualification and personal development as an individual both also play key roles. For promotion to manager in the audit practice, staff must have successfully completed the training for the chartered accountancy qualification (both the theoretical and the practical elements).

Promotion from senior manager to director follows a fixed two year process, for which candidates are proposed by their Business Unit Leader. During this nomination process, we look closely at aspects such as historical performance (including professional quality), the extent to which the senior manager fits the job profile of a director, potential for further development within the firm, experience and contribution in terms of quality, and which experience gained in other business units or elsewhere within the network (i.e. mobility). As and when the Assurance Board approves the Business Unit Leaders' nominations, the candidates start on what we call development days.

Over a two-day period, they are given a number of team-based assignments and they undergo a number of individual interviews, to assess progress the candidates have made (both personally and professionally), the extent of their strategic intellectual capacity and their approach to quality. With the feedback provided, the candidates then put together their personal development plans, including elements such as internal global leadership programmes (for instance My Way and Genesis Park) or internal and/or external coaching.

Quality and professional expertise are determining factors in the nomination process for directors and partners, including:

- A written and oral test, by National Office, in the areas of auditing, risk management and financial reporting, to be successfully completed before the candidate may be nominated.
- What we call the director dialogues, in which the director candidate, as part of the nomination process, sets out his/her vision for his/her contribution to the PwC purpose, the PwC relationship with society, quality, human capital and staff development.
- The self-assessment that the candidate puts together on a number of quality related criteria, such as consultation activity and attitude, compliance with training goals and knowledge of auditing and accounting standards.
- Positive results in at least three engagement-specific quality reviews in the five years preceding partner nomination.
- At least 1,600 hours of demonstrable experience (through a so-called quality experience) in a quality role or a clear plan as to how this is to be achieved within five years.

Evaluation and remuneration

From senior associate level upwards, in addition to assessing competency development we also look closely at individual performance. This is done through the annual evaluation cycle, what we call the Performance, Coaching & Development (PC&D) system. There are two key aspects of this process:

- In evaluating competency development, we look to quality and not quantity.
- For the overall performance rating, we look broadly at competencies, upward feedback, client feedback, progress in professional qualification, contribution to quality, internal groups and projects and involvement in recruitment, training, development and National Office roles.

We hold annual sounding and benchmark sessions in the business units, in which the partners and managers discuss all staff individually on the basis of the incoming performance feedback and draw an overall objective and consensus view on each individual staff member's performance and competence ratings for the past year and areas they may have for further development. The results of these sessions are reflected in the individual annual evaluation meetings. We also assess the mix of performance and competence ratings in the context of the national coverage and mix we are aiming to achieve.

Staff remuneration is based primarily on role and responsibility, as set out in the PwC Professional. Salaries are determined on the basis of ranges per staff level, and remuneration is based on the extent to which the expected competencies have been developed and how these have been deployed in the day-to-day work. The annual salary increases are dependent on the budget that is available after negotiation with the Works Council and on promotions achieved.

There is also a variable element to the remuneration, which varies from a maximum of one month's salary for associates to a maximum of six months' salary for senior managers (five months as from financial year 2016-2017). Performance in the area of quality is decisive in determining the amount of this variable remuneration. There is a separate evaluation and remuneration system for partners and directors (see 'Evaluation and remuneration').

Building knowledge

We aim to perform thorough statutory audits. To maximise consistency across the PwC network, a formal curriculum has been developed at network level. This includes courses on our audit approach and updates on auditing standards and their consequences. This further education supports us in our focus on the quality of the statutory audit and offers staff the chance to sharpen up their professional decision making, scepticism and technical and professional skills.

All of our people, including partners, maintain and develop their knowledge and skills through a combination of coaching, on-the-job review and a programme of training following the so-called 70/20/10 principle (70% of your time learning on the job, 20% learning from interaction with others and 10% learning through tailored training programmes).

Coaching and on-the-job review are key elements in our team approach to auditing, and our people are given training in providing this coaching and feedback. Also, the Real Time Review team and the engagement-specific quality reviewers (QRPs) play a key role in the professional skills coaching of our people.

PwC has an extensive training programme (Learning & Development) that covers on a wide variety of competencies and skills. For their professional development, associates and senior associates follow a four-year training programme that familiarises them with all the various aspects of the PwC Audit and our audit software. In parallel to this, they also follow the post-graduate professional accountancy education for qualification to chartered accountant or IT auditor. They must also complete an IFRS curriculum within a set number of years.

Staff levels from senior associate 3 (generally with 5 years' experience) up to and including partner follow a well-defined annual programme comprising a mix of e-learning and Summer School. This programme provides them with training in audit methodology, audit software, risk management and external financial reporting. The content is driven by current developments and the lessons learnt from our root cause analyses and other sources (such as National Office consultations). The curriculum is mandatory and sanctions can follow for failure to complete. The e-learning modules and the Summer School both finish off with tests in which the participants must be able to demonstrate that they have understood and fully grasped the subject matter.

We also share knowledge through a variety of other channels, such as periodic webcasts and business unit workshops. In addition to the professional skills training programmes, we also have training for all staff levels focused on coaching, communication, reporting and management skills. We also have knowledge exchange programmes with a number of universities and research institutes. People with research talents and promising ideas are given the time to follow post-graduate education. Our aim is to increase the number of our people in post-graduate study and to support and finance further scientific research through the Foundation for Auditing Research set up at the end of 2015.

Mobility

Mobility is a key element in our flexibility and agility as an organisation, and this applies to all types of mobility – between offices, business units and industry sectors and within our global network. It also contributes to the breadth of experience that our professionals get. Through what we call Cycles of Experience, we impress on our professionals the importance of mobility and experience outside their regular comfort zones, with the aim of making them well aware, early in their careers, of the opportunities available and of the importance that broad-based experience has in terms of the well-rounded PwC professional. We introduce career-coaching meetings to staff from the level of senior associate 4 (those who are expected to make promotion to manager). These meetings address the individual's aims and ambitions and the new experiences that will add value both to the individual and to PwC. A Cycle of Experience can be of any magnitude: a move to another client portfolio or into another industry sector, a contribution to a corporate social responsibility initiative or to National Office, a move to another business unit or line of service, or a secondment within the global PwC network.

People Survey

Each year, we carry out a staff satisfaction survey amongst our partners, directors and staff (the People Survey), in which they can tell us what they like about PwC and where they see room for improvement. We translate the results of the People Survey into focused plans of action both at national level and within the business units. In 2016, we also carried out two (each among half of our partners, directors and staff) short satisfaction surveys (pulse surveys) with a limited number of questions mainly about culture and behaviour.

Diversity

We are striving for an inclusive culture in which everyone, irrespective of sex, cultural background and sexual orientation, can feel comfortable and valued. Our approach is also aimed at longer term retention of people who are struggling in the labour market. Diversity is important to us because we believe strongly that the quality of what we do is enhanced when issues are addressed by people from differing perspectives, and it attunes us better to the outside world

Our aim is to have at least 25% of our partner and director appointments female. Appreciation of diversity is addressed in a number of our specific training sessions. By looking at things from different perspectives, these sessions aim to encourage people to develop greater understanding and appreciation of each other. Multicultural professionalism training is part of our regular programme. Our aim is that all PwC people will have followed it at some stage. In addition, we have a variety of campaigns and communications through which we promote diversity among our people.

Physical and mental wellbeing
Our work is very demanding, and we have launched a wellness programme (Fit for Future) designed to help our people stay physically and mentally fit. An element of this programme is a digital tool with which staff can monitor their well-being and health independently and anonymously. They can also call on a digital coach to assist with behavioural change in the areas of sleep, exercise, diet, smoking and drinking.

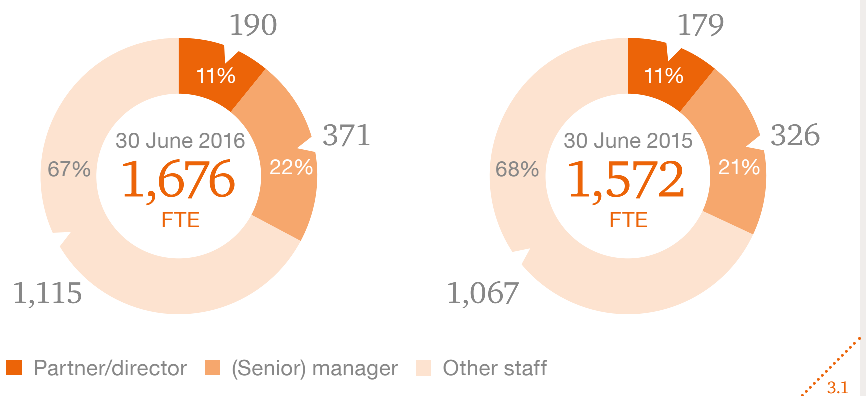
In addition, all our people receive an invitation for a health check-up every four years. The check-up includes a discussion with a lifestyle adviser. And our development programme includes focus on physical and mental health, with a number of training modules incorporating the Corporate athlete, Get your mailbox to zero, Mindfulness and Body & Brain workshops that help participants improve energy management and performance capacity.

Quality indicators for 'Human capital'

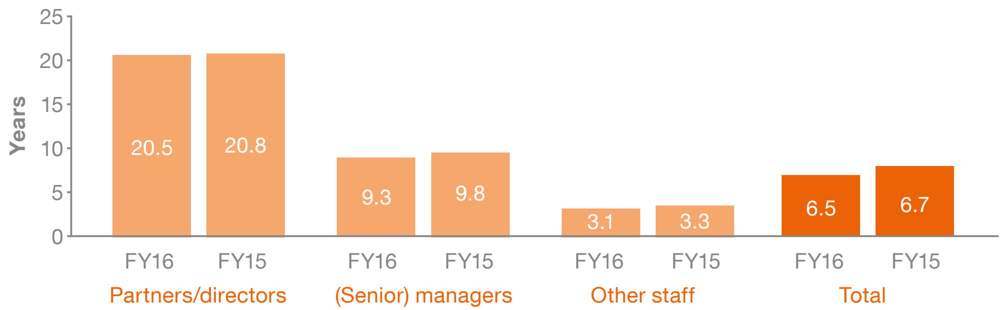
7% increase in the workforce
Our permanent workforce grew by 7% to 1,676 FTEs as of 30 June 2016. The average workforce was 1,672 FTEs during FY16 (FY15: 1,563 FTEs), while revenue showed a modest increase of 4%. We expect stable levels for the coming year.

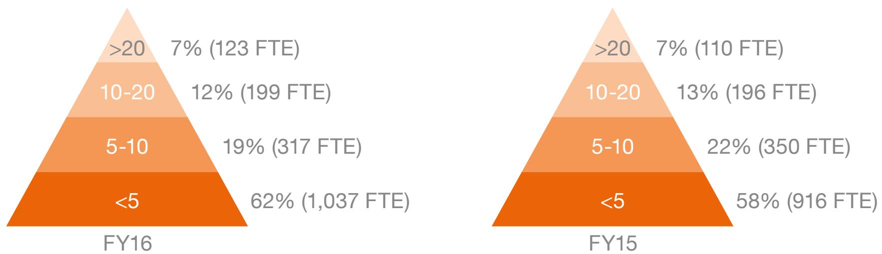
It was primarily the combination of the temporary mismatch between incoming and outgoing audit engagements, increases in the number of audit hours per engagement and growth in our Risk Assurance and CMAAS practices that caused the increase in the workforce. In addition, we also brought in extra resources (mainly at senior associate level) both from our international network (in particular, South Africa) and externally from a number of temporary placement agencies. This temporary and flexible expansion of our workforce provided support for our staff on a number of audits. To assure the necessary level of quality, these temporary PwC people were carefully screened as to expertise and experience and, before being deployed, were given four days of induction training plus (depending on staff level) access to our regular Summer School training. Our plan for the coming year is to reduce this temporary flexible support in order to create more stability within the audit teams.

We aim to attract and retain the best people, and to keep them motivated to stay with us. Through our focussed recruitment campaign, we continue proactively to bring new people in.



Average of 6.5 years' experience with PwC
On average, our people each have 6.5 years of experience with PwC, pretty much the same as prior year. Our partners and directors have an average of 20.5 years' experience with PwC and senior managers and managers 9.3 years. In FY15, the workforce was made up 58% of staff with less than 5 years' experience with PwC. By the end of FY16, this had increased to 62%, the result of a proportionately higher intake of new staff, both newly-qualified and experienced. As some of the intake came with experience from outside PwC, this higher level of intake had little effect on the staff mix (see 3.1).





Workforce in number of years' experience with PwC Netherlands.

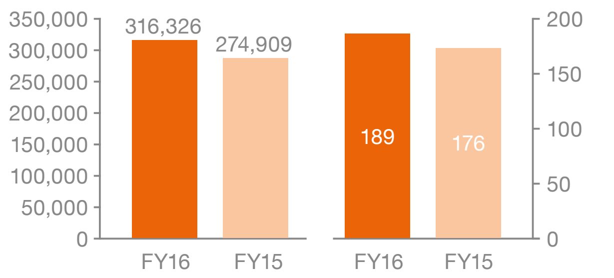
3.2

For the reporting criteria of the quality indicators 3.1 - 3.2, see Appendix C.

Quality indicators for 'Human capital'

Ongoing investment in training and education

We invest in the development of our staff through on-the-job training and internal and external education. The total time spent by staff on training and education has increased by 15% as a result of the increase in the workforce as a whole and in the average number of training hours per person. The average time invested by staff in education and training was 7% higher than prior year at 189 hours (24 working days) per person. We have provided extra training in connection with the measures for quality improvement and focus on culture and behaviour. We expect to maintain this average level of training and education hours for the coming year.



Total number of hours invested in training and education (internal and external)

Average number of **hours** of training and education per staff member

3.3

Lower turnover levels than prior year

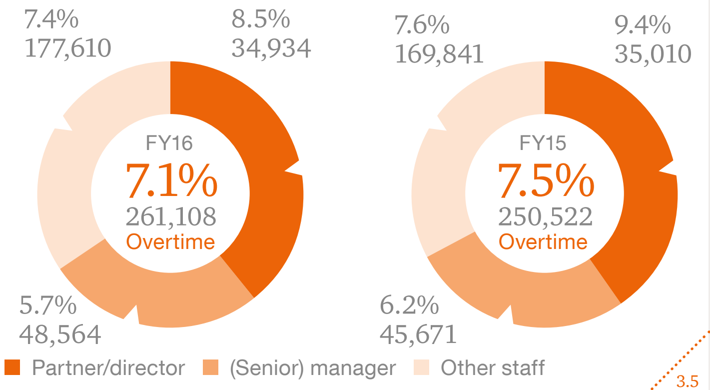
Turnover in our workforce fell this year to 13% (FY15: 15.8%). This past year turnover was 20.7% (FY15: 26.1%) for senior managers and managers and 10.6% (FY15: 12.9%) for other staff levels. Turnover among top talent is also lower than prior year, and turnover was also down among both men and women, with a lower percentage (10%) among women vs 14.5% among men.

Turnover	FY16	FY15
Total	**13.0%**	**15.8%**
(Senior) manager	20.7%	26.1%
Other staff	10.6%	12.9%
Turnover (Talent)	**FY16**	**FY15**
(Senior) manager	17.8%	22.4%
Other staff	7.0%	8.6%
Turnover (Male/female)	**FY16**	**FY15**
Male	14.5%	15.7%
Female	10.0%	16.2%
Turnover (Cultural background)	**FY16**	**FY15**
Dutch	12.7%	16.0%
Western	7.4%	15.9%
Non-western	13.2%	14.9%

3.4

Overtime 7%

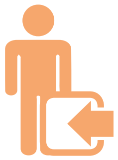
It is inherent in the seasonal character of our business that our staff work overtime, particularly in the third quarter. The total number of hours spent on audits increased by 9% in FY16 (see KPI 1.4), but, as we were able to achieve a 7% increase in the workforce, overtime hours as a percentage of total available hours fell slightly from 7.5% to 7.1% in FY16. In FY17, we will continue to focus on reducing the pressure of work through, amongst other things, focus on retention, greater client selectivity and improvements in the project and process management of our audit engagements.



3.5

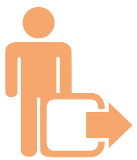
295 new staff recruited

Our workforce (in FTEs) increased again this past year. At 295 permanent people, the intake was slightly lower than prior year, but we were successful in retaining and motivating people to stay and only 187 people (FY15: 217) left PwC.



Joiners
FY16 295
FY15 314

3.6



Leavers
FY16 187
FY15 217

3.7

For the reporting criteria of the quality indicators 3.3 - 3.7, see Appendix C.

Quality indicators for 'Human capital'

High levels of staff satisfaction

73% of our Assurance people participated this past year in our staff satisfaction survey, the People Survey. The findings were that staff believe that their colleagues act with integrity; they are proud to be with PwC; they believe that our structure of working in teams and sharing knowledge contribute to solving complex problems and delivering high levels of quality; and they are encouraged to be open about mistakes and the lessons to be learnt therefrom. They also feel that talent management and mobility could be handled better; that on-the-job coaching and feedback need more attention; that we must focus more on multicultural diversity and improve the onboarding of new staff; and that technology and innovation need more attention. The results of a number of questions about our purpose, integrity, quality, coaching and mentoring are set out in the accompanying table.

The overall score in the staff satisfaction survey, as expressed in the People Engagement Index, has again shown improvement this year, from 79% in 2015 to 83% in 2016, as last year one of the best in the PwC network. These results underscore our belief that we are on the right track with our programme for change but, at the same time, we also recognise that, if we are to maintain this level of staff satisfaction, we need to continue to work on our capacity as a learning organisation.

The People Survey includes a number of propositions, and participants indicate whether they agree with each proposition, are neutral on the issue or disagree with it. The table indicates the percentage of agreement there is among our people as to the propositions.

	FY16	FY15
Questions concerning purpose and integrity		
The people I work with encourage me to be open about my mistakes and learn from them.	75%	-
The people I work with actively build trust with others inside and outside the firm.	74%	-
The people I work with actively build trust in society and help solve important problems through the work they do at PwC.	-	57%
The people I work for operate with integrity.	90%	90%
At PwC, I feel comfortable discussing or reporting ethical issues and concerns without fear of negative consequences.	75%	73%
It is safe to voice my opinions at PwC.	77%	79%
Questions concerning quality		
The leaders I work with are committed to providing high quality services to external clients.	86%	83%
The leaders I work with lead by example.	72%	67%
Questions concerning coaching and supervision		
The people I work with are willing to help each other, even if it means doing something outside their usual activities.	81%	82%
The learning and development I have received at PwC (including on the job development, self study and elearns) has prepared me for the work I do.	82%	87%
The people I work with support me through regular on the job feedback and coaching.	68%	65%
People engagement index	83%	79%

3.8

From abroad to the Netherlands	FY16	FY15
Shorter than one year	76	39
Longer than one year	36	40

3.9

From the Netherlands to abroad	FY16	FY15
Shorter than one year	10	4
Longer than one year	14	19

3.10

Increased international mobility

The number of overseas colleagues who joined us in the Netherlands (for both short-term and long-term stays) increased in comparison to prior year. There were 112 in total, of which 76 were for less than one year and most were from South Africa at senior associate level. Those who came for a longer period were mainly colleagues with greater experience. We expect that the number of overseas colleagues coming in to strengthen our practice will decrease slightly this coming year.

During FY16, 24 of our people (of which ten were for a period shorter than one year) went on secondment abroad, mainly under the framework of the Cycles of Experience programme. We expect that the number of out-bound secondments will remain at similar levels in the coming year.

For the reporting criteria of the quality indicators 3.8 - 3.10, see Appendix C.

Client and engagement acceptance

- Client acceptance and independence
- Engagement acceptance
- Acceptance and risk panels
- Selectivity

4

Our acceptance procedures are designed to ensure that we only accept clients that act with integrity and that fit within our norms and values, and that we accept only those engagements for which we have the resources, capacity and professional expertise available to assure delivery of the high level of quality that our stakeholders may expect from us.

Client acceptance and independence

A successful client relationship begins with mutual trust between the client, its stakeholders and us as the auditor. To ensure that this trust is in place from the start, we have developed robust client acceptance processes and systems that focus on identifying the risks inherent in the client and ensuring that we fully understand them. This helps us ensure that we accept only those clients that we believe fit within our acceptance criteria. At the same time, as auditors we are obliged to comply with the fundamental principles of objectivity, integrity, professional behaviour and independence. The global independence standards and systems applied by our teams ensure that we remain independent of our audit clients. We confirm this independence to clients in the annual Board Report.

Procedures for the acceptance of new clients and new engagements at existing clients

We accept new clients only when we are assured of the integrity of the new client and when we have sufficient people and professional expertise to assure a high level of quality. We also assess the independence requirements that apply to the client and whether the service is permitted under the national and international legislative and regulatory requirements that apply. For example, Dutch law prescribes that advisory services to public interest entities (PIEs) conflicts with the statutory audit responsibility.

Acceptance and risk panels

As part of our acceptance procedures, we assess the risk profile of the client and the engagement, including an assessment of integrity, management and Supervisory Board attitudes towards the auditor, sector-specific risks, the quality of the systems of internal control and other experiences with the client. Where we identify a higher than normal level of risk in the client or engagement, prior approval is needed from the business unit's Quality Assurance Partner, the Assurance Risk Management Partner and, where necessary, the Assurance Board. In some cases, we do not accept the client or the engagement. Where it is in the public interest that we accept such a higher risk engagement, we take additional steps to mitigate the risk by, for instance assigning a Quality Review Partner or Concurring Partner to the engagement.

We also have Acceptance and Risk Panels for referral of potential clients and engagements where our risk assessment or the size criteria indicate a need for wider assessment. Dependent on the nature of the engagement, in addition to the partner/director responsible, the panel may include the Assurance Risk Management Partner, the Business Unit, Industry or Competence Leader and/or a member of the Assurance Board. Depending on the circumstances, other members can be included in a risk panel, for instance other partners or directors involved on the engagement (including the QRP), the client relationship partner, a representative from the global PwC network, the Operations Partner of the business unit, a representative from our Office of General Counsel (legal department), a staff member from the Independence Office and/or a proposal manager from the Proposal Desk. The risk panel may decide to impose additional requirements to address the risks identified, for instance an additional level of involvement, such as a second partner on the engagement or a specialist as part of the engagement team.

Selectivity

Through the deployment of suitably qualified staff and our commitment to deliver high quality, we are looking more closely than in the past into engagements that we may not wish to continue or accept. If we identify clients that do not add sufficient value to the level of quality we are looking to deliver or if their conduct is not in line with our expectations, we resign from the client. If we do not have the resources to deliver the service, large or small, then we do not participate in the proposal process. We do not compromise on quality.

Composition of turnover PwC

Composition of turnover PwC Netherlands 2015-2016 (€ millions) [1]

Nature of the engagements

Clients	Statutory annual financial statement audits	Other annual financial statement audits	Other reports and assurance reporting	Assurance-related services	**Total Assurance services** [2]	Advisory, Tax & HRS and other audit services	**Total**	**% of total**
Statutory annual financial statement audits (PIE clients)	39	-	4	4	**47**	1[3]	**48**	7%
Statutory annual financial statement audits (non-PIE clients)	162	5	6	6	**179**	37	**216**	29%
Other annual financial statement audits		36	3	1	**40**	7	**47**	6%
Other reports and assurance reporting			22	4	**26**	49	**75**	10%
Assurance-related services				51	**51**	85	**136**	18%
Other					-	222	**222**	30%
Total	**201**	**41**	**35**	**66**	**343**	**401**	**744**	100%

Composition of turnover PwC Netherlands 2014-2015 (€ millions) [1]

Nature of the engagements

Clients	Statutory annual financial statement audits	Other annual financial statement audits	Other reports and assurance reporting	Assurance-related services	**Total Assurance services** [2]	Advisory, Tax & HRS and other audit services	**Total**	**% of total**
Statutory annual financial statement audits (PIE clients)	33	1	4	2	**40**	1[3]	**41**	6%
Statutory annual financial statement audits (non-PIE clients)	157	10	6	9	**182**	39	**221**	32%
Other annual financial statement audits		38	4	1	**43**	7	**50**	7%
Other reports and assurance reporting			14	3	**17**	19	**36**	5%
Assurance-related services				47	**47**	68	**115**	16%
Other					-	234	**234**	34%
Total	**190**	**49**	**28**	**62**	**329**	**368**	**697**	100%

1 Turnover represents the amounts charged for engagements by PwC Netherlands. Amounts charged directly by other international PwC member firms to our multinational clients, including audit clients, are not included in this table.
2 This represents the turnover from assurance services, including audit and other support services provided by other Lines of Service.
3 This represents non-assurance services for PIE clients where we are of have been the statutory auditor. This revenue is generated entirely from services permitted under Article 24b of the legislative framework (Wta), effective 1 January 2013, including the transitional provisions thereof.
4 The comparative numbers have been adjusted following a more accurate methodology for classification.

The consolidated revenue reported in the annual financial statements of PricewaterhouseCoopers Accountants N.V. for 2015-2016 amounted to € 303 million (2014-2015: € 293 million), of which € 190 million (2014-2015: € 181 million) related to statutory audit work and € 113 million related to other services (2014-2015: € 112).

4.1

For the reporting criterion of the quality indicator 4.1, see Appendix C.

Engagement performance

- The PwC Audit
- Team roles and responsibilities
- Delivery centres
- Consultation with National Office
- Professional technical information
- Quality handbook
- Engagement-specific quality reviews
- Real Time Reviews
- Audit partner improvement plan
- Auditor's report new style and the AGM
- Communication with the audit client
- Notification of potential unusual transactions
- Confidentiality and protection of information
- Legal and disciplinary proceedings
- Notification of incidents

5

Our systems and procedures are designed to ensure that the auditor's reports issued by our external auditors provide a reasonable degree of assurance to the users regarding the reliability of the audited financial information and that it complies with the legislative and regulatory requirements that apply. Our various new forms of communication are a response to the current expectations of our stakeholders.

The PwC Audit

We use a globally applied audit methodology (the PwC Audit) that revolves around the issues and complexities that are specific to each client and we use a state-of-the-art electronic audit file system (Aura) and industry-specific audit programmes. Our well trained and experienced people are at the heart of this audit methodology. The approach they apply is smart and they use the most up-to-date techniques that, coupled with the current 6-step audit process, results in an audit that is robust, insightful and relevant.

The audit process begins with *1. Client acceptance & independence* We have addressed this in the previous section. The other steps are set out below.

2. Deep business understanding

A deep understanding of the client's business is crucial to the quality of our audit, and we look in detail and at an early stage into the client's processes, systems and data. To ensure that we have a good understanding of the client, we use business analysis models and company-specific and sector-specific expertise. Getting the right depth of understanding also helps ensure that the information we provide to our clients is timely and relevant.

3. Relevant risks

Our audit work focuses on risks that can significantly affect the client's financial reporting. Identifying and selecting the relevant risks is of great importance to the effectiveness of the audit. We regularly give our people risk assessment skills training, and we encourage them to be inquisitive by nature and to use professional scepticism to help ensure that all relevant risks are identified and that an appropriate audit approach is developed to deal with them.

4. Intelligent scoping

We set the scope of our audit work based on what we identify regarding risk, materiality, size, complexity and structure. This scoping sets out what we plan to do, what audit evidence we will be looking to obtain, the client operations we will be looking at, how we will go about it and which PwC professionals and tools are needed. This is documented in Aura, and the information to be provided by the client is exchanged via the secured online portal Connect. This portal allows

PwC Audit

1. Client acceptance & independence

2. Deep business understanding

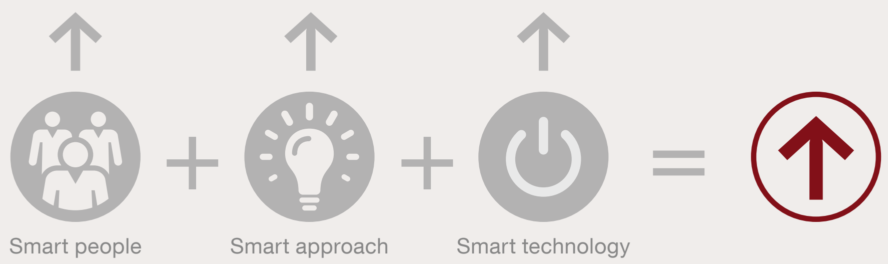
3. Relevante risks

4. Intelligent scoping

5. Robust testing

6. Meaningful conclusions

PwC's audit is built on a foundation of smart people, a smart approach and smart technology. This, together with our six-step audit process, results in an audit that is robust, insightful and relevant.

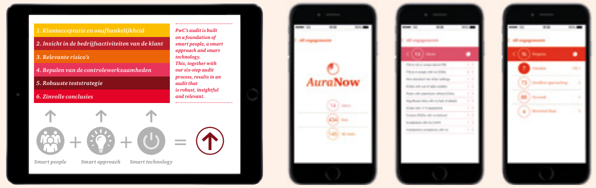


Three technologies that power our audits

Aura

Aura

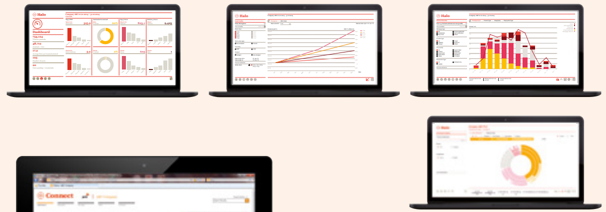
The Aura application provides support to our Assurance teams in their audit work, by providing them with a systematic risk-based approach that enables them to focus on the things that matter. Aura integrates a variety of tools to promote audit quality, consistency and ease of documentation. The application also integrates with a wide variety of other tools and applications, creating one workspace for client work. Aura enables us to plan, perform and document our audit work better.



Halo

Halo

Halo is our new data auditing suite of tools allowing us to identify and assess risks and determine where to focus audit efforts. Halo allows us to analyse patterns and trends, identifying unusual and high-risk transactions. Halo comprises three key components: acquisition of client data, transformation of data and applications for testing and analysis of data; and it clearly links the risks identified to the mitigating measures needed.



Connect

Connect

Connect is our collaborative workflow tool, providing fast, efficient and secure information sharing at every stage of the audit. It monitors the status of requests and information between our clients and the engagement team on a real-time basis. Connect provides visibility for both our clients and us to be able check progress on the go, anytime, anywhere.

both the client and us to monitor real-time the status, timeliness and completeness of the information to be provided and other aspects that are important to the quality of our work.

5. Robust testing

Our testing strategy, the way we implement it and the evaluation of the results are all critical to the quality of our audit. We continually challenge ourselves to improve the quality and value of our audit by simplifying work processes, innovating and using the most modern technology. Process mining within data analysis and benchmarking both provide us with better insights and levels of assurance than traditional testing methods could provide on such vast volumes of data and on systems' operating effectiveness. We expect that the use of data analysis and new technologies (such as Halo) is set to really take off in the coming years and, within our global network, we are investing substantially in these developments.

6. Meaningful conclusions

Not only does our audit methodology provide stakeholders with assurance as to the integrity of an entity's financial reporting but, because we bring together the combined know how and experience of our network, it also enables us to draw conclusions that are more informed and more scientifically based. We report to our clients' senior management through the Management Letter, to the Supervisory Board through the Board Report, to shareholders through the AGMs at listed companies and to the broader stakeholder groups of our PIE clients through the auditor's reports new style.

Team roles and responsibilities

The engagement leader (the partner or director responsible for a project or an engagement) and the engagement manager are responsible for supervising the audit, reviewing the work done, coaching the team and maintaining audit quality. Our audit software, Aura, is designed to help audit team members track the progress of the engagement, ensuring that all work has been completed, that work is reviewed by the appropriate individuals including the engagement partner/director and, where applicable, the Quality Review Partner, and that all matters arising have been appropriately addressed.

The engagement leader is expected to:

- Lead the performance of the audit and its documentation by being proactively and sufficiently involved throughout the audit, including ensuring that the risks have been assessed and dealt with appropriately
- Drive a cultural mind-set that strives for continuous quality improvement, challenges engagement team members to think, analyse, question and be rigorous in their approach
- Foster an integrated coaching culture and demonstrate a willingness to learn and to coach others

- Be responsible for the engagement team consulting appropriately on difficult or contentious matters, initiating those consultations where necessary
- Have an ongoing involvement in assessing the progress of the audit and in making key judgement calls
- Be satisfied that the review, supervision and quality management procedures in place are adequate and effective and
- Take overall responsibility for reviewing and assessing the quality of the work done, its proper and timely documentation and the validity of the conclusions reached.

The engagement manager supports the engagement leader by:

- Setting an example in the performance of the audit and its documentation by being involved throughout the audit, including identifying the risks and ensuring that they are dealt with appropriately
- Striving for continuous quality improvement, challenging engagement team members and maintaining rigour in the audit process
- Fostering an integrated coaching culture and demonstrating a willingness to learn and to coach others
- Together with the engagement leader, setting up arrangements for timely reviews of audit work and documentation
- Taking into account the nature, extent and level of reviews already performed by other members of the team, ensuring that the work performed and the documentation are consistent with the nature of the engagement; and
- Reviewing the work done, including evaluating the quality, documentation and conclusions.

In addition to reviews by the engagement leader and engagement manager, all staff are expected to critically self-review their own work to make sure that it meets the requirements that apply.

Delivery centres

A key element of our approach is to reallocate certain administrative and standardised audit procedures to service delivery centres, thereby generating enhanced quality, greater efficiency and increased speed through scale.

We use PwC delivery centres in the Netherlands, Germany, Poland, India and South Africa, all of which fall under strict quality requirements set by the global PwC network. The quality management systems in the delivery centres are reviewed periodically by a team from the global PwC network.

Consultation with National Office

There are a number of pre-determined situations in which the engagement leader is required to consult with National Office, for instance if the external auditor is considering the issue of an adverse or qualified auditor's report, a disclaimer of opinion or any other form of non-standard report.
The consultation process begins with the audit team submitting a memorandum setting out, in a pre-determined format, the facts of the case, the regulatory requirements, the client's proposed accounting treatment in financial reporting cases and the views of the audit team. National Office issues its advice based on this memorandum, where necessary after further consultation within the global PwC network. The consultation is carried out in close liaison with the audit team and by designated National Office experts. On listed company and higher risk clients, a minimum of two National Office staff members must be involved, including at least one National Office partner or director. National Office inputs the outcome of the consultation into the consultation database, and the engagement leader must indicate concurrence with both the facts and the ultimate conclusion of the consultation. In principle, the conclusion is binding. If the engagement leader is not in agreement with the conclusion, the matter is referred to the Assurance Board for a final ruling and action.

Also, if it appears that there is an error in a set of financial statements already published on which an auditor's report (or other form of report) has been issued, the engagement leader must consult with National Office.

Professional technical information

National Office also distributes periodic professional technical updates to keep the Assurance practice up to date on developments in regulatory matters and auditing and accounting standards. Examples are the weekly newsletter, the Spotlight publication, and the PCAOB updates and the Audit and Accounting Alerts from our US GAAS Desk. The findings of our Real Time Review programme are shared periodically with the entire Assurance practice, amongst other things through the monthly RTR Alerts. We also hold regular (mandatory and non-mandatory) e-learning and webcasts. Furthermore, National Office is also responsible for maintaining Inform, a portal available to all PwC staff and to financial professionals at clients and other business associates that provides professional technical information in the areas of financial reporting, assurance and risk management. Finally, National Office plays a leading role in the development of our Learning & Development Programme.

Quality handbook

The handbook, Distinctive Quality, How to find your way in PwC Assurance, provides our people with guidance in their day-to-day work and includes the Assurance Risk Management database (Matrisk) that sets out our internal requirements in the area of risk management. The handbook and Matrisk are accessible to all our professionals through Inform, our centralised professional information database.

Engagement-specific reviews
The engagement-specific reviews are carried out by the Quality Review Partners (QRPs), appointed by the Assurance Board, who are responsible for reviewing information provided by the audit team and the information in the audit file. Where Real Time Reviews are carried out, the RTR team provides support to the audit team and the QRP. The QRPs are given guidance and training to support them in their role.

Real Time Reviews
The Real Time Review team (RTR team) carries out in-depth reviews of audits before the auditor's report is issued and helps audit teams to assure quality in their audit engagements. Where the team notes areas for improvement in the audit or in the documentation thereof, it provides coaching to the audit team involved. The RTR team does not highlight only areas for improvement, but also areas that are going well and it shares these lessons across the audit practice, in turn contributing to our organisation's capacity for change.

The RTR team provides support to engagements to which a QRP has been assigned. It identifies the key audit matters in consultation with the QRP and supports the QRP's work in those areas. The RTR team also coaches the QRP in improving the performance of his/her role.

Audit partner improvement plan
External auditors who receive a non-compliant conclusion in an Engagement Compliance Review (ECR) or on other reviews of their engagements (see the section 'Monitoring') are required to prepare an improvement plan. An additional internal file review (following the ECR approach) may also be commissioned for other specific reasons, such as in follow up to a review by an external supervisory body or the withdrawal of an audit opinion. The external auditor reviews the improvement plan with the business unit's Quality Assurance Partner and with the National Office Business Unit Leader, after which the plan is submitted to the Assurance Board for approval and thereafter monitored by the Compliance Office.

This improvement plan sets out a statement of the facts, a root cause analysis and the measures for improvement, based on critical self-assessment by the partner during the plan's preparation and discussion. The external auditor is expected to address not only the conduct and behaviour causing the error, but also to be open to feedback, to communicate transparently and to demonstrate a willingness to learn and improve. As recommended in the 'In the Public Interest' report, we monitor progress in the improvement plan during the year in which it was set up and during the two subsequent years.

An engagement that is assessed in an ECR as 'compliant with review matters' (CWRM) meets all the requirements that apply, while indicating that there were areas where the audit work could have been performed better. A CWRM conclusion leads to a robust discussion as to quality during the annual performance evaluation meeting (BMG&D) with the auditor. The external auditor involved is expected to discuss the causes and lessons learnt with the audit team, and he/she may call upon additional support in the form of some intensive coaching by a QRP and/or greater involvement by an RTR team. We also mandate such additional support for all partners and directors who received a 'non-compliant' assessment.

Auditor's report new style and involvement at AGMs
We expect our external auditors to be transparent as regards the audit work they have done and the matters that arose during the audit. This transparency is provided in the auditor's report new style that we issue on annual financial statements at all our PIE audit clients and large institutions. The auditor's report new style provides greater insight into the scope, materiality applied, key audit matters and audit approach. We aim to provide optimal transparency and information sharing in both the content and the lay out of the reports issued by our auditors.

It is our policy that our auditors are not only in attendance at the general meetings of shareholders (AGMs), but that they also proactively provide insight into the work done and into the auditor's report.

Informing the audit client
Our auditors discuss the audit plan, the interim findings (Management Letter) and the Board Report with the Supervisory Boards of their audit clients, particularly through the Audit Committees. We share with the supervisory and managing directors of our audit clients our Transparency Report and our responses to investigations by the supervisory authorities. It is our policy that our auditors discuss the main points of our Transparency Report, including the results of external supervisory investigations, with the Audit Committees of their clients. We inform the Audit Committee (or its Chair) as and when that client's audit is selected for external supervisory review and we share the results with the Audit Committee.

Providing insight into the Management Letter
We welcome audited entities providing publicly available insight into the Management Letter and the Board Report. It is up to the Chair of the Supervisory Board to address highlights from the Management Letter or Board Report during the AGM, and the auditor attending the AGM then monitors the accuracy and balance of what is presented. We also welcome the Supervisory Board audit committees of our audit clients addressing, in their reports, the key matters from our management letters and the key financial statement risks highlighted by the external auditor.

Reporting hours spent
Our auditors report to the Supervisory Board (or equivalent) of their audit clients the actual audit hours spent on the audit for the year and the expected hours for the following year, and this is followed by a proactive discussion with the board as to how these hours and the and other audit techniques can best be deployed to achieve a high quality audit.

Notification of potential unusual transactions
The NBA issued guidelines for the interpretation of the Wwft (Money Laundering

and Prevention Terrorism Financing Act) last year. We have implemented these and tightened up on our client acceptance and engagement continuance systems and procedures. The Wwft requires us to report, to the Financial Intelligence Unit Nederland (previously the Contact Point for Unusual Transactions, 'het Meldpunt Ongebruikelijke Transacties') set up by the Ministries of Finance and Justice, any actual or suspected unusual transactions at or by any of our clients. Notifications of potential unusual transactions are addressed in the Fraud Panel and notified to the FIUN where the transaction meets the criteria of the Wwft.

Confidentiality and protection of information

We assure the confidentiality and security of information obtained during the course of our work by means, amongst other things, of secured internal and external data transmission media and storage devices, both digital and non-digital. Within the PwC network, we have a Global Data Protection Policy and we have supplemented this in the Netherlands with the applicable elements of the far-reaching Dutch requirements concerning the protection of private information (the Dutch Data Protection Act) and with the notification obligation for data leaks that came into force on 1 January 2016. These are also addressed in our ICT Code of Conduct.

Legal and disciplinary proceedings

From time to time, we are faced with potential and actual liability claims and litigation, including disciplinary procedures arising from professional work we have undertaken at current or former clients. To the extent that these fall under civil law, they can involve either PwC or one or more if its partners, former partners, staff members and former staff members. Professional disciplinary proceedings always relate solely to individual professional practitioners. We are required to report disciplinary procedures to our external supervisory body.

Notification of incidents

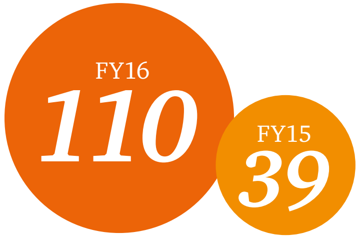
In addition to reporting professional disciplinary cases, we are also required to notify our external supervisory bodies of any internal incidents arising within our organisation. Any matter that can result in serious consequences for the integrity of our ongoing practice qualifies as a notifiable incident and is reported to the AFM.

Quality indicators for 'Engagement performance'

110 Real Time Reviews carried out

We carried out 110 Real Time Reviews in FY16, of which 47 also involved an engagement-specific quality reviewer (QRP). The Real Time Review team invested a total of some 10,000 review hours. We achieved our goal of having every external auditor (partners and directors) subject to a Real Time Review on least one engagement during the period from the start of the programme in FY15 to the end of FY16.

Number of RTRs completed



5.1

Slightly more National Office financial statement reviews

To provide support to the engagement teams, National Office financial reporting specialists carry out reviews of the financial statements of selected audit clients. Independent of the audit team, they cast an extra critical and specialist eye over the acceptability and completeness of the accounting policies used, the presentational aspects, the note disclosures and the clarity of the financial statements to the external reader.

Number of financial statement reviews

FY16	FY15
168	163

5.2

Number of audit reports issued

We issued more than 2,600 statutory audit reports last year, of which 185 related to PIE audit clients.

	FY16	FY15
Number of audit reports issued	More than 2,600	More than 2,500
of which PIEs	185	218

5.3

293 engagement-specific quality reviews carried out

At 11% and 0.6%, the percentage of statutory audits on which an engagement-specific quality review was performed in FY16 and the hours spent by the engagement-specific quality reviewer (QRP) as a percentage of the total hours on the engagement have both remained consistent with FY15 levels, while the total number of hours spent on audit engagements has increased (see quality indicator 1.4). Furthermore, the hours spent on the 47 RTRs that were carried out to support a QRP are not included in the reported percentage (quality indicator 5.5). As from FY17, there will be more emphasis placed on deploying the RTR team in the engagement-specific quality reviews selected. Our aim, in line with sector measure 5.3, is to subject every partner and director to two or more engagement-specific quality reviews.

	FY16	FY15
Number of independent quality reviews carried out by QRPs	293	283
As a percentage of the total number of statutory audits	11%	11%

5.4

	FY16	FY15
Hours spent by all QRPs as a percentage of the total hours spent on all audit engagements to which a mandatory QRP has been appointed	0.6%	0.6%

5.5

More early terminations

During the past year, we have had 22 early terminations of a statutory audit engagement. In sixteen cases (of which thirteen related to one non-PIE client and its subsidiaries), the client terminated the engagement, in three cases PwC terminated the engagement early and the other three cases were mutually agreed terminations. Of the 22 terminations, 21 were non-PIE clients and one was a PIE client, and the Compliance Office has notified this to the AFM.

	FY16	FY15
Early terminations of statutory audit engagements	22	7

5.6

For the reporting criteria of the quality indicators 5.1 - 5.6, see Appendix C.

Quality indicators for 'Engagement performance'

Increase in consultations with the Fraud Panel

The number of consultations with the Fraud Panel increased in comparison to prior year.

	FY16	FY15
Consultations submitted to the Fraud Panel	119	101

5.7

Decrease in the number of notifications of unusual transactions

Mandatory notification of transactions under the Wwft (Money Laundering and Prevention of Terrorism Financing Act) to the Financial Intelligence Unit Nederland is dealt with by the Compliance Office. There were seventeen notifications during the past financial year.

	FY16	FY15
Notifications of unusual transactions	17	21

5.8

Increase in the number of errors noted in financial statements

Last year, we identified ten instances of financial statements (all of them non-PIE clients) that we had audited in prior year and contained a fundamental error (under Dutch GAAP) that significantly affected fair presentation. These fundamental errors arose in a number of different areas. We carried out root cause analyses into these fundamental errors and shared the lessons learnt with the teams involved.

The clients involved were required to file an Article 362.6 notification. These represent some 0.4% of our annual statutory audits. In FY16, we identified one material, but not fundamental, error (under IFRS) at a PIE client (FY15: None).

	FY16	FY15
Number of fundamental errors noted (Dutch GAAP)	10	5
Number of material errors noted (IFRS)	1	0
Total	**11**	**5**
As a percentage of the total number of statutory audit reports issued	0.4%	0.2%

5.9

Increased headcount in our professional practice support functions

Some of our investment in quality has gone into increasing the headcount in our National Office and Independence Office. The number of FTEs in these support functions grew by 15% to 78. In total, there were 119 people involved across all three offices.

Number of partners/directors, senior managers/managers and other team members working in National Office, the Independence Office and the Compliance Office (FTEs)

	FY16	FY15
National Office	59	51
Independence Office	15	12
Compliance Office	4	5
Total	**78**	**68**

5.10

Fewer consultations regarding financial reporting and auditing

Our consultation procedures provide the audit teams with access to specialists in a wide variety of professional areas and a process that debates and challenges the positions submitted. In addition to voluntary consultations initiated by audit teams, we have also prescribed certain situations that require mandatory consultation. In FY15, these were extended to include the new-style audit reporting model and a number of specific areas of concern in the public sector. The number of consultations regarding financial reporting and auditing have fallen in FY16 as the consultations in these specific areas are no longer mandatory.

Formal National Office consultations completed

FY16 660

FY15 904

5.11

Investing in technology

The PwC network invests significant annual amounts in the development of new technology, including tools such as Aura, Halo and Connect (see also page 47). PwC Netherlands bears its share of these investments and also invests in technological developments locally. The total direct investment (cash-out) by the Dutch Assurance practice in audit-related technology amounted to € 4 million in FY16 (FY15: € 2 million), excluding investments in back office systems and the direct time spent on internally developed software.

	FY16	FY15
Investments in technology (in million euros)	4	2

5.12

For the reporting criteria of the quality indicators 5.7 - 5.12, see Appendix C.

Quality indicators for 'Engagement performance'

Status of legal proceedings

We are involved in the aftermath of a number of bankruptcies. The more important of these relate to Econcern, a number of Fairfield funds (that have incurred losses because of the Madoff fraud), LCI Technology and Stichting Zonnehuizen.

Econcern
In an out of court settlement on 28 December 2015 with the liquidator, the banks and a number of creditors, PwC agreed to pay € 25 million. As part of the settlement, three of the four virtually identical appeals lodged by the parties with the Trade and Industry Appeals Tribunal (CBb) were dropped. The appeal lodged by PwC with the CBb in connection with the fourth investor claim is ongoing. On 3 August 2016, this investor also initiated civil proceedings against PwC. Furthermore, the former managing and supervisory directors of Econcern have also have also held PwC responsible.

As a result of the above appeal being dropped, the provisional one-month suspension order placed on the two auditors involved was ratified as definitive by the Disciplinary Counsel of Accountants ('de Accountantskamer'), and this suspension was implemented in early 2016.

Fairfield funds
These proceedings have involved four civil cases against PwC in recent years.

Two of the cases were brought in New York. One of these was settled on 6 January 2016 with a group of fund investors who had brought a class action, and PwC and PwC Canada jointly agreed to pay USD 55 million. PwC's decision to settle this case was based solely on the excessive risks and legal costs involved in such cases in the United States. Unlike the proceedings pending in the Netherlands, there was no substantive review whatsoever of PwC's work in this case. In the other case, the claim brought by the plaintiff (the fund liquidator) has been declared inadmissible, and the appeal against this is ongoing.

The other two civil cases were brought in Amsterdam. On 3 September 2014, the court dismissed one of the claims in its entirety - this after a claim filed by the same party had already been declared unfounded on all counts by the Disciplinary Counsel of Accountants in 2012, against which no appeal was filed. The plaintiffs have appealed the decision of the court, and this appeal is ongoing. The court has not yet ruled on the second civil case.

	Civil	Disciplinary
Number pending as of 1 July 2015	**10**	**4**
New cases	0	1
Cases adjudicated	4	3
Number pending as of 30 June 2016	**6**	**2**

5.13

LCI-Technology
This is a civil case, and there have been no developments during FY16.

Stichting Zonnehuizen
On 24 May 2016, the liquidator of Stichting Zonnehuizen, which was declared bankrupt in 2011, filed a disciplinary complaint with the Disciplinary Counsel of Accountants against the external auditor responsible for alleged non-detection of errors in the Stichting's annual financial statements. The verbal submissions have not yet taken place in this case.

On 13 June 2016, the judicial authorities in Belgium concluded that there were no grounds for the indictment of PricewaterhouseCoopers Accountants N.V. and one of its external auditors in a criminal investigation in Belgium into the tax affairs of a former client.

On 25 July 2016, a former real estate fund manager filed a disciplinary complaint with the Disciplinary Counsel of Accountants against one of PricewaterhouseCoopers Accountants N.V.'s external auditors regarding alleged private investment activities on the part of the external auditor. The external auditor is challenging the charge.

We are currently involved in a legal appeal against the AFM's decision to levy a fine (see page 59).

One incident notified to the AFM

Last year we notified one incident to the AFM. This related to an independence-restricted service provided to a PIE audit client by foreign members of the PwC network.

	FY16	FY15
Number of incidents notified to the AFM	1	1

5.14

For the reporting criteria of the quality indicators 5.13 - 5.14, see Appendix C.

Monitoring

6

Monitoring is a fundamental element of our learning organisation and of our continuous quality improvement. It includes our own internal monitoring as well as the monitoring by our external supervisory bodies. It is our policy to analyse the underlying root causes of all matters highlighted by these monitoring processes, and we take appropriate action and monitor whether the action taken is effective.

Internal monitoring

Internal monitoring comes in various forms, and the whole range of the tools we use provides us with constant insight into the extent to which we are in control of our quality and into areas from which we can learn and improve on.

Monitoring through quality indicators (KPIs)
The Assurance Board, Business Unit Leaders, Quality Assurance Partners and National Office all periodically monitor our levels of quality through a number of quality indicators (KPIs). These KPIs also include those recommended in the 'In the Public Interest' report and in the NBA Guidance 1135 (Publication of Quality Indicators, issued on 4 March 2016). The Assurance Board periodically evaluates progress on the more important of the KPIs.

Our periodic survey among partners and staff, the People Survey (see the section 'Human capital'), is also a key element of our internal monitoring via quality indicators.

Culture and Behaviour Monitor
As from this year, we have started to inventory changes in culture and behaviour by applying a so-called Culture and Behaviour Monitor (see the paragraph 'Leadership'). This methodology will be further worked out in the coming years.

Review of compliance with the PwC Network Standards
Annually, the global PwC network reviews our self-assessment of compliance with the PwC Network Standards.

PwC global's reviews of our quality management system
The global PwC network reviews our quality management system and system updates on an annual basis, what. we refer to as a Quality Management System Review (QMR). These reviews by the PwC network are carried out on the basis of the PwC network Global Assurance Quality Review Program (GAQR). The programme, which is based on prevailing professional standards relating to quality control (including ISQC1), incorporates the policies, procedures, tools and requirements that have been agreed within the PwC network.

The programme is coordinated centrally by the so-called International Team Leaders (ITL), a group of senior partners. This monitoring by the ITL, with the ongoing involvement and support on the part of its members, is designed to achieve a consistent and effective application of the review process across the PwC network.

Reviews by the Internal Audit Department
Our Internal Audit Department also has an annual programme of testing that covers the design and operating effectiveness of the quality management system.

Engagement quality reviews
The objective of so-called Engagement Compliance Reviews (ECRs) is to review the quality of the engagement and its compliance with the various PwC policies and procedures and to identify areas for improvement. These reviews are led by partners assigned, specifically from the global PwC network, to, inter alia, bring consistency of approach to the evaluation process. The network's selection criteria require that all engagements with a higher risk profile are selected at least twice every six years. The reviews cover all business units every year, with each partner and director being selected at least once every five years.

Any instances assessed as non-compliant result in sanctions (potentially including financial sanctions) for the partner or director responsible. Those assessed as compliant with review matters do not lead, in and of themselves, to sanctions but, if there are repeat instances or if other quality issues have been noted, this can result in a financial sanction (see also the section 'Evaluation and remuneration').

In addition to the ECRs carried out by our global organisation, we also have a programme of additional internal file reviews carried out to the ECR methodology. These reviews are carried out when specific circumstances so dictate, for instance when a review by an external supervisory body identifies a fundamental or material error in a set of financial statements after the audit opinion has been issued. The results of such reviews also figure in the evaluation and remuneration process for partners and directors.

Monitoring by the Compliance Office
The Compliance Office reports its findings three times a year to the policymakers and co-policymakers, and these reports are also discussed with the Public Interest Committee. The recurring elements of these reports are the design and application of, and compliance with, our policies for quality, contact with the external supervisory bodies and notifications to the AFM. Early terminations of statutory audits are notified by the Compliance Office to the AFM.

Report of Infringements
Each year, PwC draws up the legally required Report of Infringements. The term 'infringement' is wide-ranging - in short, any infringement of any internal or external requirement, ranging from minor infringements (such as late archiving of a file) to violations which could materially affect the quality of an audit (such as engagements being assessed as non-compliant in an internal or external review). Appropriate remedial action is taken and shared with the entire practice.

External monitoring

The structure of engagement reviews by the AFM and other supervisory and regulatory authorities keep us focused on improving quality. The reviews also help us to meet our own objectives in this area. If shortcomings are reported by any of them, the engagement is subjected to an internal review in line with the ECR methodology, primarily to help ensure consistency of ratings and evaluation for the purposes of any financial sanction on the external auditor involved. We also determine what remedial action can and should be taken and we analyse what went wrong.

AFM reviews
In our quarterly meetings with the Netherlands Authority for the Financial Markets (the AFM), we update the supervisor as to current developments and respond to any questions they may have. Where the AFM submits questions regarding our statutory audits based on publicly available information, we carry out further investigation as necessary and to the extent that we had not already started the process at our own initiative. The AFM also carries out theme-focussed investigations in addition to its regular periodic reviews of our audit engagements and quality management framework.

Other external reviews
In addition to the AFM, other external bodies also conduct investigations regularly. The Central Government Audit Service (ADR), for instance, carries out reviews of our files of audits in the local government sector, and the Inspectorate of Education carries out reviews at educational institutes, for instance into the funding and financial statement audits of the individual institutes. The Dutch Healthcare Authority (NZa - Nederlandse Zorgautoriteit) monitors health insurance companies' application of the Health Insurance Law (ZVW) and the Law on Exceptional Medical Expenses (AWBZ), and sometimes makes use of its right to review the auditor's audit files. Furthermore, ad hoc reviews can be commissioned by or on behalf of government, primarily ADR investigations into the audit of subsidy claims.

Root cause analyses

Under the direction of our Root Cause Analysis Steering Group, we carry out root causes analyses into the findings of reviews, both external supervisory reviews and our own internal reviews (the RTRs and ECRs). We assimilate the elements that can have both positive and negative effects on quality, such as professional technical knowledge, mentoring and evaluation, professional scepticism, availability and usage of resources and training. We take lessons from them both - from our good practices, mistakes and other aspects - and we focus on the underlying causes rather than on putting right the symptoms.
We pull together the results of all the individual analyses into an overall root cause analysis, which enables us to get a better overview of the changes we need to implement in order to achieve structural improvement in our audit quality.

A root cause analysis is carried out in several phases and by different teams. The team that performed the review carries out the first analysis of issues and potential causes, by analysing the factual findings and interviewing the teams involved. The RTR team does this for findings arising from RTRs and the ECR team for findings arising from ECRs.

From these analyses, we extract and combine the more important findings relating to quality with the issues originally raised. This exploration of the issues is the first step in the analysis. To get a better understanding of the deeper causes, we organise sounding sessions per staff level (partners/directors, senior managers/managers and senior associates/associates) in which we drill down deeper into the analyses of the issues and causes. These sessions are organised by the RTR team and moderated by specialists from the Advisory practice experienced in these analysis techniques. Using the '5 x why' method in these sessions, we continue to question why until the underlying cause is identified.

We then combine the results of the individual analyses and sounding sessions with the results and information from other sources, such as the People Survey, the culture survey, file mentoring and test analyses linked to our training programmes. Representatives of, amongst others, the Assurance Board, National Office, Learning & Development, the RTR team and the ECR team meet to consider and evaluate all the information and then determine a plan of action. This can lead to changes to our quality improvement programme, training curriculum (including

Summer School), methodologies or the risk-based selection of RTR engagements.

We are continuing with the structural implementation and intensification of root cause analyses as an element of our continuous quality improvement trajectory. We are aiming to maintain our position as a learning organisation, in these ever-changing times, by continuously reassessing the goals we have set for ourselves, and our RTR process is an important driver in this.

The learning circle

We translate lessons learnt and areas for improvement coming from the internal and external review processes into action plans. National Office monitors progress on the implementation of these action plans and reports to the Assurance Board on a quarterly basis via its Quality Improvement Plan. This status update is addressed by the Assurance Board and supplementary action is taken as needed.

Quality indicators for 'Monitoring'

Results of the engagement reviews (ECRs)
37 engagements were subject to an ECR during this past year, of which 33 were audit engagements and 4 were non-audit engagements. Thirty two of the engagements reviewed were compliant with our requirements though two (FY15: one) of these 32 engagements was rated as compliant with review matters. We have seen an improvement in engagement quality this past year in the PIE segment (listed companies and large financial institutions).

Five audit engagements, all in the non-PIE market, were rated as non-compliant for the following reasons:
1. An inter-office audit report issued within the PwC network that referred to an incorrect financial reporting standard
2. A so-called fundamental error in the application of Article 2:408 of the Dutch Civil Code (exemption from consolidation) arising because the requirement to file the consolidated financial statements of an entity higher in the group had not been met on a timely basis, thereby invalidating the application of the exemption from consolidation
3. Insufficient work performed and documented regarding journal entries within the standard audit work relating to the identification of fraud risks
4. Insufficient work performed and documented regarding the valuation of investments and the group audit
5. Insufficient work performed and documented on revenue recognition and the related receivables, work in progress and journal entries within the standard audit work relating to the identification of fraud risks

We performed further investigative work on these audit files, including remediation where necessary, and concluded that the audit opinions issued were appropriate.

Our initial review of the ECR results made clear that we need to be more selective in the engagements we can, and wish to, accept and in the stability of our teams. The results also underscore the importance of constant attention to the measures for improvements that we have implemented, such as better file documentation (documenting the story of the audit) and the use of data analysis and other new audit techniques.

Any instances of non-compliant files result in sanctions (including financial sanctions) being levied on the partner or director responsible and in the start of an improvement trajectory during which he or she is subject to additional mentoring and review. There were three teams with an ECR rating of best-in-class in terms of engagement quality, and this was positively reflected in their evaluation and remuneration. This was also the case for one of the audit teams whose files were reviewed by the PCAOB.

Number of ECRs completed	Compliant	Non-compliant		Total
		PIE	Non-PIE	
FY16	32	0	5	37
FY15	37	0	0	37

6.1

Lessons learnt from the 2015 root cause analyses
The key lessons learnt from the 2015 root cause analysis process were as follows:
- Improve the project and process management of our audit engagements
- Engage more frequently in robust debate within the team and with the client on the achievability of deadlines
- Increase the effectiveness of central messages
- Strengthen the collaboration between audit and IT specialists from our Risk Assurance practice
- Increase our knowledge of auditing and financial reporting standards
- Create greater flexibility in planning

We have crafted actions for improvement in each of these areas and these have been incorporated into our change programme, evaluation and remuneration systems, Human Capital policies and training programmes.

Our initial review of the 2016 ECR results, the additional internal reviews, the external reviews of engagement quality and the fundamental errors we identified all made clear that we need to improve in the following areas:
- Journal entry testing: Determining the completeness of journal entries and adequately following up on the journal entries selected for testing
- Revenue testing: Applying the appropriate test strategy and performing testing that is consistent with this
- Understanding the IT environment, the IT general controls and the evaluation of IT risks, including testing of the reliability of the computer-generated reporting that our auditors use for audit purposes
- File documentation, such as the accurate and specific documentation of the story of the audit and the reproducibility of audit information.

This initial evaluation of the results re-confirmed the findings of the 2015 root cause analysis. The results also demonstrate that the implementation of the improvements to the quality of our service delivery has not been without its setbacks and that it involves time and effort on the part of partners and staff. So, as part of our programme of improvement this coming year, we will continue to focus on the audit of revenue recognition, increased awareness in the areas of fraud and corruption risks, reliance on other auditors, the role of IT in the audit and the documentation of audit work done.

For the reporting criterion of the quality indicator 6.1, see Appendix C.

Quality indicators for 'Monitoring'

Findings of reviews by external supervisory bodies
In late 2015, the US supervisory body, the PCAOB, carried out a regular periodic review of three of our 2014 audits of entities listed on an exchange in the United States. Two of these were carried out in collaboration with the AFM (a so-called joint inspection).

On 17 March 2016, the PCAOB reported that these three file reviews did not identify any audit performance issues that, in the inspection team's view, resulted in the Firm failing to obtain sufficient appropriate audit evidence to support an audit opinion.

The PCAOB review also included a review of certain aspects of our quality management system, including 'tone from the top', independence, partner nomination and remuneration and consultation procedures. In its 17 March 2016 report, the PCAOB also indicated that this review did not result in any findings regarding the elements of our quality management system that it had reviewed.

The results of the AFM file reviews are provisional and some are still under discussion. The AFM review of a total of eight files is still in progress and we will make the results known as and when the process is complete and the results are final.

The AFM is carrying out a two-phase review into the implementation of the future-focussed measures for improvement, firstly into the design of the measures and then into their operating effectiveness. The review into the design of the changes incorporated into our quality management system and the related future-focussed measures for improvement took place in 2015. The resulting AFM reporting in October 2015 regarding progress made in the measures for change and improvement confirmed that we are well on the way with our implementation of the sector measures, but that there is still work to be done. We have dealt with the matters for attention noted in this reporting by incorporating them into our implementation process and change programme, and the AFM reviewed this follow up in March 2016.

The AFM review into the operating effectiveness of the changes implemented and the related future-focussed measures for improvement has been running since May 2016. In this review, the AFM is looking into the extent to which the vision, policies and procedures have been implemented and how they are being recognised and reflected in daily practice.

The AFM has indicated that it intends to issue its definitive report into all of these matters at the end of the first quarter of 2017, covering both the implementation of the future-focussed measures for improvement and the eight audit files reviewed.

In connection with a review of a case dating from 2012, the AFM issued a so-called 'instructive letter on compliance with standards'. A letter of this nature does not constitute an enforcement measure.

All files reviewed by other supervisory bodies, such as the ADR (the Central Government Audit Service), the Inspectorate of Education and the NZa (the Dutch Healthcare Authority) during the past year were found to be compliant. In FY16, for the first time, NOREA (the Dutch professional body for IT auditors) carried out a review of the quality of service provided by registered EDP auditors in our Risk Assurance business unit. This covered both a review of Risk Assurance's quality control system and a review of two files. No findings were noted.

Reviewed by	Number of engagements reviewed		Number of engagements with reported findings		Of which deemed to be non-compliant after ECR	
	FY16	FY15	FY16	FY15	FY16	FY15
AFM	-	-	-	-	-	-
PCAOB	3	-	0	-	-	-
ADR	12	16	0	0	-	-
Inspectie van het Onderwijs	13	17	0	0	-	-
NZa	4	5	0	0	-	-
NOREA	2	-	0	-	-	-
Overige instanties	7	3	0	0	-	-
Total	**41**	**41**	**0**	**0**	**-**	**-**

*The engagements with reported findings have been subject to an internal (ECR) review process.

6.2

6.3

For the reporting criteria of the quality indicators 6.2 - 6.3, see Appendix C.

Quality indicators for 'Monitoring'

Fine levied by the AFM

On 16 March 2016, on the basis of its 2013-2014 review of a number of 2011-2012 audit files, the AFM (the Netherlands Authority for the Financial Markets) levied an administrative fine on PwC, in the amount of €845,000, for failing to meet the duty of care required by Article 14 of the Wta (the Audit Firms Supervision Act). This duty of care requires the organisation to take steps to help ensure that its external auditors comply with the standards particularly those relating to professional competence. PwC filed an appeal against this decision on 15 June 2016, taking issue with the rationale supporting the AFM's decision. PwC believes that the test criteria, as they stand, are unclear and that it is important that clarity be provided as to what is expected of PwC in terms of the duty of care and what sanctions may be applied and in what circumstances. Clarity on this score is also important for future reference.

In PwC's view, the supervisory authority has not provided any adequate evidence to support the claim that PwC, as an organisation, failed to meet its duty of care. It has not been made clear which aspects of PwC's work were insufficient or the reasons why the sanction of a fine was applied when PwC had never been found to have breached its duty of care in the past. PwC has an internal quality control framework that operates as it should and has not attracted any sanction in the past.

PwC's appeal is not directed at the quality of the decision itself. PwC acknowledges, on the basis of its own internal review, that there were elements of three of the reviewed files where the execution/documentation of the audit could have been better. But this does not necessarily mean that PwC failed to meet its duty of care. On the basis of a non-representative sample, the AFM selected ten out of some 2,500 audit files for review. The seven issues that were highlighted in four of the ten audit files reviewed form the basis of the AFM's conclusion as to whether we met or failed to meet our duty of care. As this was not a representative sample and only ten files were reviewed, PwC cannot concur with this conclusion – even more so given that the duty of care standards that apply to PwC as an organisation are not the same as the standards that apply to the audit files themselves. The supervisory body is effectively interpreting the duty of care as an obligation to deliver when it is in fact an obligation to apply best efforts. What may be expected of us is that we continue unstintingly with the improvement measures already being put in place to foster a culture focussed on quality and learning.

The appeal we have filed constitutes a request on our part for the AFM to re-evaluate its decision. If the AFM does not provide the necessary clarity, PwC does still have the option of moving to file an appeal with the District Court and, if need be at a later stage, to take the appeal higher to the Trade and Industry Appeals Tribunal (CBb).

Our objective, and the objective of the audit, has always been to continue to ensure that we issue the right audit report. Based on the remediation work undertaken, it is clear that we achieved this in all the cases reviewed, including on the engagements viewed by the AFM as unsatisfactory.

If PwC's position is upheld on appeal, an amount equal to the fine will be contributed to the Foundation for Auditing Research (FAR), the foundation set up last year to carry out academic research into the drivers of audit quality.

	FY16	FY15
Number of fines levied by external supervisory bodies	1	0
Monetary amount of the fines levied by external supervisory bodies (€)	845,000	0

6.4

Positive evaluation of our quality management system

The annual global network review of our quality management system resulted in no significant findings and no new recommendations. It appeared that one recommendation from prior year, relating to the implementation (and attendance monitoring) of mandatory interview training for staff involved in recruitment interviews, had already been partly followed up, and we have since then implemented it in full.

Our Internal Audit Department too had no significant findings to report as a result of its annual review of the design and operating effectiveness of our quality management system and, on this basis, we concluded that PwC Netherlands complies in all material respects with the PwC Network Standards.

No correction of material errors indicated by the AFM

There were no material errors noted by the AFM that required correction in financial statements audited by us.

	FY16	FY15
Number of material errors corrected on the basis of notifications from the AFM	0	0

6.5

For the reporting criteria of the quality indicators 6.4 - 6.5, see Appendix C.

Evaluation and remuneration

- Evaluation and remuneration process
- Remuneration based on performance
- Quality matters
- No additional remuneration for regular conduct
- Sanctions policy

7

Quality is the primary driver in the evaluation and remuneration of our external auditors and managing directors

The partner evaluation and remuneration process is set out in the table below. This process is monitored annually by the Remuneration Committee of the Supervisory Board, with ad hoc input from the Chair of the Partner Council. The members of the BoM are evaluated by two members of the Remuneration Committee and the Selection and Appointments Committee, with input from the Chair of the Partner Council and the Chair of the BoM. In addition, the Remuneration Committee and the Public Interest Committee (particularly the latter) are responsible for monitoring that quality and quality improvement are properly reflected in the remuneration of partners. Our remuneration arrangements are not only in line with the 'In the Public Interest' report, but also wholly consistent with our strategy of ensuring that both positive and negative performance in the area of quality significantly impact partner remuneration.

The evaluation and remuneration process for directors is the same as that for the partners, except that the various roles are filled by different functional roles. For directors, it is the Business Unit Leader who submits the proposal to the Assurance Board regarding the role of the director, the Assurance Board determines the role/responsibility and mapping, and the Business Unit Leader who has the role of Primary Reviewing Partner.

The SB is responsible for determining the remuneration of the members of the BoM. The remuneration arrangements for the BoM have been brought into line with the 'In the Public Interest' report as from 1 July 2015, with the members of the BoM now receiving a fixed remuneration independent of the organisation's profitability and a variable element that can be set at up to a maximum of twenty percent of the fixed remuneration dependent on the achievement of long-term goals set by the SB within the context of the societal role of the organisation. Further information is provided in the PwC NL Annual Report 2015-2016 and in the information regarding remuneration arrangements on our website.

Remuneration based on performance

The aggregate amount of partner and director remuneration varies annually based on the financial performance of PwC Netherlands. Partner remuneration is based on a points system in which the Euro value per point is determined at the end of the year as the profit available divided by the aggregate number of points in circulation. Points are allocated to partners as of the beginning of each year. These are 50% fixed (based on role and responsibility (mapping)) and 50% variable (based on rating), with a regular good performance entitling the partner to the full basic amount of the variable element. The variable element can fluctuate positively or negatively based on the evaluation of the individual partner's performance in the areas of: Clients (50% weighting), People (25 % weighting) and Firm/strategy (25% weighting). Directors receive a fixed salary and a variable element dependent on their individual performance and the profitability of PwC Netherlands. The variable element is determined on a basis similar to that for partners.

The Assurance Board sets the salary range for directors on an annual basis. The salary is dependent on the roles and responsibilities of the individual director. We also award directors an annual variable remuneration for the past year, which is determined on a basis similar to that for partners, in which a regular good performance means a variable element of about one third of the total remuneration.

Quality matters

We also expressly evaluate and reward quality positively. The partners, directors and their team members who score as best-in-class in engagement quality (in ECRs) are evaluated positively in the Clients element of the evaluation, and this is rewarded with additional remuneration. In addition to ECR results, we also clearly take other instances of engagement quality performance into account in our evaluation and remuneration processes. For instance, we actively support and suitably reward those partners and directors who stand their ground when this is appropriate, who resign from clients that do not meet our quality requirements or who arrange for deadlines to be delayed where this becomes necessary. As from FY16, an above-average performance in terms of engagement quality automatically results in a positive evaluation in the Clients element of the evaluation, and this represents a variable remuneration element of between one sixth and one third (i.e. an increase in total remuneration of between 8.3% and 16.7%), on condition that the partner's conduct meets

The evaluation and remuneration process for partners runs as follows:

Start of the financial year

Determination of the partner's role	*Mapping*	*Determination of objectives*
• The Assurance Board Leader submits a proposal to the Board of Management. • The Board of Management determines the role/responsibility of the partner for the coming year, based a recommendation from the Remuneration Committee of the SB.	• Following the recommendation from the Remuneration Committee of the SB, the Board of Management allocates the partner to a particular mapping category and to a particular position within that category.	• In consultation with the Primary Reviewing Partner, the partner determines his/her personal objectives, including specific quality objectives and within the context of the strategy of the organisation.

End of the financial year

Evaluation	*Rating*	*Remuneration*
• An assessment is made at the end of the year of the extent to which the partner has met his/her objectives in the areas of *Clients (including Quality & Risk), People* and *Firm/Strategy*. • Performance is evaluated during the BMG&D (Evaluation, Mapping, Goal setting & Development) meeting on the basis of a self-evaluation prepared in advance by the partner (the partner report).	• The evaluation leads to a rating (from 1 to 5) for performance in each of the areas of *Clients, People and Firm/Strategy*, each of which are reflected in the remuneration for that year. • The Assurance Board makes a recommendation to the Board of Management, which then determines the rating of the partner on the basis of a recommendation by the Remuneration Committee of the SB*.	• The outcome of this process results in a profit share in the form of a variable management fee that reflects the role, specific respon-sibilities and individual performance during the financial year.

Under the Wta, only experienced professional practitioners at the levels of partner and director may be appointed, and registered with the AFM, as external auditors. All other staff operate under the responsibility of, and report to, the external auditor and have no signing authority.

the expectations we have set a PwC partner. Also, above-average contribution to our quality management system or distinctive performance in the people area attract positive ratings in the Firm/strategy respectively People element in the evaluation, and this represents a variable remuneration for each of these elements of between one sixth and one third (i.e. an increase in total remuneration of between 4.2% and 8.3%).

Quality that does not meet the required level in the areas of engagement quality, management responsibility for the quality management system, independence, business conduct, people and baseline expectations (see below) also has a negative impact on the remuneration of the partner/director. Commercial or other performance cannot compensate for the Clients element in the evaluation Assurance partners and directors are not rewarded for cross-selling at audit clients.

The manner in which we evaluate quality and the affect that the results of reviews have on the evaluation and remuneration of partners and directors is presented in the table on the next page.

In line with the 'In the Public Interest' report, a 6-year clawback scheme has been introduced as from 1 July 2015 for audit partners (not for directors) in Assurance. Under this scheme, the audit partners build up a remuneration-based reserve that, at the end of the six-year period, should represent the equivalent of one full year's average remuneration for the six-year period. If it transpires, before the end of the six-year period, that the audit partner has issued an incorrect opinion for which the partner is culpable and which has resulted in societal damage, the auditor, at the discretion of the SB, loses entitlement to part or all of the deferred remuneration. The clawback is a rolling scheme, meaning that in year 7 one sixth of the deferral is released to the partner and a new one-sixth deferral is set up.

No additional remuneration for regular conduct
The manner in which our partners and directors conduct themselves with clients, colleagues and other stakeholders can negatively impact their remuneration. 'Regular' conduct (i.e. the conduct that we can expect of everyone) need attract no additional remuneration. We refer to this as 'baseline expectations'. Baseline expectations represent conduct in line with our Code of Conduct, complying with all the internal and external regulatory requirements that apply and demonstrating proactive involvement within the firm. Non-compliance with baseline expectations negatively affects total remuneration by up to 50%.

Sanctions policy
Any instance of non-compliance with external and internal requirements or unacceptable behaviour can result in a sanction being levied by the BoM. This can vary from a written warning or reprimand to suspension or dismissal. The section 'Ethics and independence' summarises the bodies to which infringements can be notified.

Quality indicators for 'Evaluation and remuneration'

Our evaluation and remuneration processes look not only at engagement review results but also at how partners and directors stand their ground when is appropriate, resign from clients that do not meet our quality requirements and arrange for deadlines to be delayed where this becomes necessary. The processes also look at contributions to our quality management system and performance in the People element of evaluation. How these are suitably reflected in partner and director evaluation and remuneration is set out in the table below.

Evaluation elements	Test reference	Internal assessment	Evaluation	Impact on total remuneration[1,2]	Number of financial sanctions	
					FY16	FY15
Engagement quality	- Internal reviews (ECRs) - External reviews - Disciplinary rulings	Assessment levels: 1. Compliant - 'best in class' 2. Compliant 3. Compliant with review matters (CWRM) 4. Non-compliant (NC)	Distinctive performance in terms of engagement quality/best in class engagement file: Positive effect on evaluation	+8.33 to +16.66% impact on total remuneration	9 positive	3 positive
			Compliant: No effect on evaluation	No effect on remuneration	-	-
			CWRM: No effect on evaluation, unless there are other negative quality indicators or repeat situations	No effect on remuneration unless in combination with other quality indicators or in repeat situations: -12.5 to -50% impact on total remuneration	0	0
			NC: Negative effect on evaluation, increasing if the negative situation is repeated	12.5 to -50% impact on total remuneration	12	5
Quality management system PwC (QMS)	• External reviews • Internal reviews • Internal audits	Results of QMS reviews and audits	Effects the evaluation of management	Up to -16.66% impact on total remuneration	0	0
		Individual contribution to PwC quality (in terms of roles, projects etc.)	Distinctive contribution: Positive effect on evaluation	+4.16 to +8.33% impact on total remuneration	5 positive	-
Personal independence	• External reviews • Internal reviews • Internal audits	Independence Sanctions Committee decision: • Warning • Reprimand	Warning: Letter of notification, with no effect on evaluation	No effect on remuneration	-	-
			Reprimand: Note in file, though the effect can be greater in the case of ownership of prohibited securities or in more serious cases	More serious reprimands: -6.25 to -50% impact on total remuneration	0	0
Personal behaviour / Business conduct	• Complaints and notifications • Internal audits	BoM decision based on advice from the Business Conduct Committee or the Complaints Committee	Letter of notification, with no effect on evaluation	No effect on remuneration	-	-
			Note in file, though the effect can be greater in more serious cases and even greater in repeat situations	More serious reprimands: -6.25 to -50% impact on total remuneration	0	0
Compliance with require-ments and standards (baseline expectations)	Specific objectives: number of training hours, financial management etc	Evaluation of baseline expectations	If unsatisfactory: Negative effect on evaluation	Up to -50% impact on total remuneration	1	1
People component in evaluation	• People KPIs (incl. People Survey) • 360 degree feedback	• Evaluation business unit results (People Survey)[3] • Evaluation 360 degree feedback	Above average: Positive effect on remuneration	+4.16 to +8.33% on total remuneration	21 positive	8 positive
			Unsatisfactory: Negative effect on remuneration	-6.25% to -12.5% impact on total remuneration	4	11

[1] For a 'regular' good evaluation. [2] There is also a clawback arrangement in place; this did not need to be applied in FY16. [3] Partners and directors evaluated collectively per business unit.

7.1

For the reporting criterion of the quality indicator 7.1, see Appendix C.

Governance

Our governance

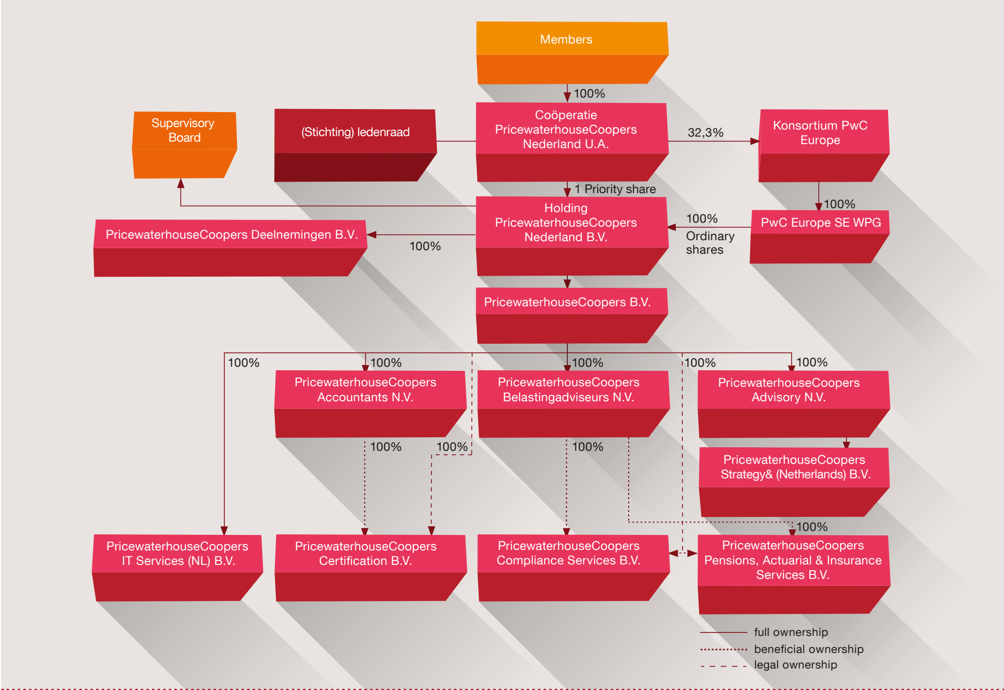
Our legal structure
PricewaterhouseCoopers Accountants N.V. is the audit firm of PwC and the holder of the licence under Article 5 of the Audit Firms Supervision Act (Wta). PricewaterhouseCoopers Accountants N.V. ('Assurance') is a wholly owned subsidiary of PricewaterhouseCoopers B.V., which is a wholly owned subsidiary of Holding PricewaterhouseCoopers Nederland B.V. Holding PricewaterhouseCoopers Nederland B.V. is a wholly owned subsidiary of PwC Europe SE Wirtschaftsprüfungsgesellschaft, Germany, and Coöperatie PricewaterhouseCoopers Nederland U.A. holds one (the only) priority share with the rights to exercise control over Holding PricewaterhouseCoopers Nederland B.V.

Coöperatie PricewaterhouseCoopers Nederland U.A. ('Coöperatie') and Holding PricewaterhouseCoopers Nederland B.V. have concluded association agreements with each of the private limited liability companies owned by the professional practitioners ('partner BVs'). Under these agreements, the professional practitioners are made available by the partner BVs to practise one of the professions within our Lines of Service in exchange for a management fee.

As of 30 June 2016, Coöperatie PricewaterhouseCoopers Nederland U.A. had 269 associated members, of which 112 were made available to PricewaterhouseCoopers Accountants N.V. The majority of the professional practitioners (being partners/members) made available to the audit firm have been registered with the AFM as external auditor. This registration takes place after a quality assessment has been made. The external auditors are appointed by the Assurance Board.

PricewaterhouseCoopers Accountants N.V. has offices in:
Alkmaar, Amsterdam, Arnhem, Breda, The Hague, Eindhoven, Enschede, Groningen, Maastricht, Rotterdam, Utrecht and Zwolle.

Our legal structure - as of 30 june 2016



PricewaterhouseCoopers B.V. also has the following wholly owned subsidiaries:
- PricewaterhouseCoopers Belastingadviseurs N.V. ('Tax')
- PricewaterhouseCoopers Advisory N.V. ('Advisory')
- PricewaterhouseCoopers Compliance Services B.V.
- PricewaterhouseCoopers Certification B.V.
- PricewaterhouseCoopers Pensions, Actuarial & Insurance Services B.V.
- PricewaterhouseCoopers IT Services (NL) B.V.

PricewaterhouseCoopers Compliance Services B.V. ('CoS') focuses on the issue of compilation reports.

PricewaterhouseCoopers Certification B.V. handles assignments that fall under mandatory accreditation, such as assurance on CO2 and NOx emissions and ISO certification of information security management systems (ISMS).

PricewaterhouseCoopers Pensions, Actuarial & Insurance Services B.V. (PAIS) provides advice and intermediation in the areas of pensions and insurance products, since 2012 under a Wft licence from the Netherlands Authority for the Financial Markets (AFM).

PricewaterhouseCoopers IT Services (NL) B.V. provides IT services to PwC network entities, particularly the entities that are part of the four country European collaborative association (as further described below).

The collaborative association of five PwC European member firms

PwC Netherlands is a participant in the PwC Europe SE Wirtschaftsprüfungsgesellschaft collaboration initiative (hereafter referred to as 'the five country European collaborative association' or 'the collaborative association'. With the exception of its one single priority share, Coöperatie PricewaterhouseCoopers Nederland U.A. has transferred all the shares it held in Holding PricewaterhouseCoopers Nederland B.V. to the collaborative association. Similar transfers were made by the top local holding entities of the PwC member firms in Germany, Austria and Belgium, and the PwC firms in these four territories are now largely indirectly owned collectively by the partners in these four territories. The partners of the participating firms voted to extend the collaborative association to include PwC Turkey as from 1 July 2015; the legal aspects of this have been started and will be completed in late 2016.

The entire share capital of the collaborative association is held by Konsortium PwC Europe, a legal entity under German law that is transparent for regulatory purposes. Coöperatie PricewaterhouseCoopers Nederland U.A. holds 29.98% of the equity rights in Konsortium PwC Europe, Konsortium PwC Deutschland & Österreich holds 63.08% and PwC Belgium BVBA holds the remaining 6.94%.

The members of the Board of Management of PwC Europe SE Wirtschaftsprüfungsgesellschaft have been designated as co-policymakers. The Compliance Officer monitors compliance with the policies for quality on behalf of the policymakers and co-policymakers.

Our global network

PwC is a global network of separate and independent member firms operating locally in countries throughout the world. At the end of June 2015, the network consisted of 756 offices in 157 countries, with a workforce of 208,109 people of whom 10,611 were partners. In financial year 2014-2015, PwC's global revenues amounted to USD 35.4 billion. Coöperatie PricewaterhouseCoopers Nederland U.A., Holding PricewaterhouseCoopers Nederland B.V., PricewaterhouseCoopers B.V. and their subsidiaries are all part of this network. The member firms that comprise the global PwC network are members of PricewaterhouseCoopers International Limited (PwCIL), a United Kingdom-based private company limited by guarantee. The PwC network, therefore, is not an international partnership and the member firms do not constitute any form of legal partnership or group of companies, except in a very limited number of cases that have been agreed for specific purposes.

PwCIL has a coordinating role, including for example setting standards in the areas of risk and quality management. PwCIL does not provide services to clients, but focuses solely on reinforcing and supporting the network in the areas of strategy, knowledge development and the expertise of the professional practitioners, and protection of the PwC brand. PwC IL does not own any of the member firms and the member firms do not own any of the other member firms, except in a number of very specific cases.

PwC IL has the following governance bodies:

- Global Board – responsible for the management of PwC IL, supervision of the Network Leadership Team and the approval of PwC Network Standards
- Network Leadership Team – responsible for the overall strategy of the network of PwC member firms
- Strategy Council (consisting of the chairs of the larger PwC member firms within the network, including the Chair of PwC Nederland) – approves changes to the network's strategy to facilitate consistent implementation of the strategy
- Network Executive Team – coordinates the Lines of Service and the more important functional areas (such as risk and quality, methodology, human capital, operations, brand and communications) across the network, reporting to the Network Leadership Team.

All services are delivered by the individual member firms for their own account and risk. PwC IL is not responsible or liable for any actions or omissions of any of its member firms, it cannot exercise control over their professional opinions and it cannot bind them in any way. Member firms, in turn, may not act as agent for or representative of PwC IL or any other member firm, and they are responsible solely for their own actions or omissions.

Member firms may participate in regional affiliations designed to encourage collaboration and the application of common strategies and risk and quality standards.

Each member firm has its own policies and procedures, based on the standards of the PwC network, and each member firm has access to the common methodologies, techniques and support materials for many of the services developed to help member firms operate consistently and in accordance with PwC practice.

Each member firm is responsible for monitoring the effective operation of its quality management system, including both a self-assessment and an independent review thereof. Additionally, PwC IL monitors the extent to which the member firm is in compliance with network standards, including reviewing not only the way in which the member firm carries out objective quality controls of all its services but also the processes that the member firm uses to identify and manage risk.

For assurance work, the global PwC network has a review programme directed specifically at quality, based on the professional standards that apply (such as ISQC-1 and, where applicable, the quality control standards of the US Public Company Accounting Oversight Board). The objective of this particular programme is to assess whether:

- the quality and risk management systems have been appropriately designed and are operating effectively in accordance with the network's standards and policies;
- the engagements selected for review have been conducted in compliance with the professional standards that apply and with the requirements of the PwC Audit; and
- significant risks have been appropriately identified and managed.

The global PwC network is organised into two large geographical areas: Asia, Pacific, Americas (APA) and Europe, Middle East, Africa (EMEA). This is not a management or reporting structure but is intended to achieve an optimum level of coordination within integrating markets and client needs. Coöperatie PricewaterhouseCoopers Nederland U.A., Holding PricewaterhouseCoopers Nederland B.V. and PricewaterhouseCoopers B.V. and their subsidiaries are part of EMEA.

Our organisational structure

Assurance Board

The members of the Board of PricewaterhouseCoopers Accountants N.V. (also referred to as the Assurance Board), together with the members of the Board of Management of Coöperatie PricewaterhouseCoopers Nederland U.A., are designated as the policymakers of PricewaterhouseCoopers Accountants N.V. The Assurance Board is responsible for the design and operating effectiveness of the quality and risk management systems. The Chair of the Assurance Board is automatically a member of the BoM and the single statutory director of PricewaterhouseCoopers Accountants N.V. During 2015-2016, the Assurance Board consisted of Michael de Ridder (Chair), Peter Jongerius, Agnes Koops-Aukes and Michel Adriaansens. As of 1 July 2016, Wytse van der Molen was appointed and Peter Jongerius stepped down.

The Chair of the Assurance Board (who is also the sole statutory director of PricewaterhouseCoopers Accountants N.V.) is appointed by the General Meeting of PricewaterhouseCoopers Accountants N.V. The Chair appoints the other members of the Assurance Board as authorised executive directors. Both the Chair and the other members are appointed for a maximum period of two four-year terms.

Partner Council

The Partner Council represents the collective interests of the members and provides advice on germane issues that are presented to Coöperatie PricewaterhouseCoopers Nederland U.A.'s General Meeting for approval. The Partner Council may also provide advice, either on request or on its own initiative, and may act as advocate in the interests of the partner concerned in cases of internal dispute.

Business units

Given the structure and size of the audit firm, we have vested some of the Assurance Board's responsibilities in business units (BUs), each led by a Business Unit Leader with the following responsibilities:

- Implementation of the regulatory requirements that apply for quality, risk management and conduct and behaviour, the Business Unit Leader being supported in this by the BU Quality Assurance Partner who is responsible for quality aspects such as the acceptance, continuance and performance of engagements including the statutory audits
- Design and management of an effective infrastructure (adequate levels of people and resources, industry expertise, and business unit planning), the Business Unit Leader being supported in this by the BU Operations Partner
- Management of the team in terms of service quality and the monitoring and development of our people, their experience and their behaviour, the Business Unit Leader being supported in this by the BU Human Capital Partner
- Management of the BU's goals in the areas of revenue, productivity, profitability, Human Capital and quality, the Business Unit Leader being supported in this by the BU Operations Partner
- Implementation of the change programme, the Assurance Journey, the Business Unit Leader being supported in this by the Change Partner.

Members of the Assurance Board

Michael de Ridder (born 1963) joined PwC in 1986 and has been a partner since 1996. He has been a member of the Board of PricewaterhouseCoopers Accountants N.V. since September 2008 and Chair since 1 July 2013. Since 1 July 2013, he has also been an authorised executive director of the Board of Management. He is Chair of PwC's Risk & Quality Platform and of the Independence Sanctions Committee, and his portfolio consists of Partner Affairs, Spokesperson and, up to 1 July 2016, Quality & Risk. Within the global network, he is a member of the EMEA Assurance Leadership team and of the Strategy Council of the Global Assurance Leadership team.

Michel Adriaansens* (born 1963) joined PwC in 1987 and has been a partner since 1999.He has been a member of the Board of PricewaterhouseCoopers Accountants N.V. since 1 May 2015, and is responsible for the Assurance Change Programme, internal communication and, as from 1 July 2016, the Quality & Risk portfolio.

Agnes Koops-Aukes* (born 1969) joined PwC in 1992 and has been a partner since 2007. She has been a member of the Board of PricewaterhouseCoopers Accountants N.V. since September 2013 and is also Business Unit Leader of BU North-Central. Her portfolio comprises Human Capital, Learning & Development, Diversity and Director Affairs.

Wytse van der Molen* (1969) joined PwC in 1994 and has been a partner since 2006. He has been a member of the Board of PricewaterhouseCoopers Accountants N.V. since 1 July 2016. His portfolio comprises Operations and Markets.

Changes to the composition of the Assurance Board as of 1 July 2016

Peter Jongerius stepped down as a member of the Assurance Board on 30 June 2016, and Wytse van der Molen was appointed to the Board on 1 July 2016. Peter had been a member of the board of PricewaterhouseCoopers Accountants N.V. since 2009. His portfolio comprised Operations and Markets.

* Authorised executive directors of PricewaterhouseCoopers Accountants N.V.

As of 30 June 2016, the Assurance practice has seven business units, covering twelve locations, consisting of four geographic Assurance business units and three nationally operating business units: Capital Markets Accounting & Advisory Services (CMAAS), Risk Assurance and National Office. The business units North and Central were combined as of 1 January 2015 into business unit North-Central. The Business Unit Leaders coordinate with the Assurance Board through the Assurance Management Team, set up to facilitate consistency of operational management across the Assurance practice.

CMAAS provides accounting and valuation advice primarily to non-audit clients and provides support to our audit teams in specific accounting areas. Risk Assurance delivers and develops non-financial assurance services in addition to its IT role in the audit teams.

Business units (as of 30 June 2016)	
Amsterdam	Alkmaar and Amsterdam
South Holland	The Hague and Rotterdam
North-Central	Arnhem, Enschede, Groningen, Utrecht and Zwolle
South	Breda, Eindhoven and Maastricht
CMAAS	Operating nationally
Risk Assurance	Operating nationally
National Office	Operating nationally

Industry groups
In addition to being allocated to business units, all our professionals (as from a certain grade) are also part of an industry group. This is essential in maintaining a good understanding of market trends, regulatory environments and other relevant developments. The exchange of information within the groups, across Lines of Service, help maintain quality in our service delivery.

We have eight industry groups:

- *Industrial Products*
- *Retail & Consumer*
- *Financial Services*
- *Energy, Utilities & Mining*
- *Technology, Media and Telecom*
- *Transport & Logistics*
- *Private Equity*
- *Public Sector*

Board of Supervisory Directors
The internal supervisory role at PwC Nederland is discharged by the independent Supervisory Board (SB). Since 1 May 2015 the SB had comprised six members, and this was increased to seven members as of 1 September 2015. The members of the SB are appointed by the General Meeting of Coöperatie PricewaterhouseCoopers Nederland U.A. on the basis of a binding proposal submitted by the SB. The members of the SB qualify as co-policymakers of both PricewaterhouseCoopers Accountants N.V. and Coöperatie PricewaterhouseCoopers Nederland U.A. within the context of the Audit Firms Supervision Act (‘Wta’). Members of the SB are appointed for a term of four years and may be reappointed for a maximum of one further term of four years.

Following Principle III.1 of the Dutch Corporate Governance Code, the role of the SB is to oversee the activities of the Board of Management and the overall business affairs of Holding PricewaterhouseCoopers Nederland B.V. and its affiliated group enterprises, as well as to provide advice to the Board of Management. Amongst other things, the SB is also tasked with approving the appointment of the Compliance Officer. The Chair of the SB is also Chair of the General Meeting of Coöperatie PricewaterhouseCoopers Nederland U.A.

As of 1 July 2015 the SB comprised Jan Maarten de Jong, Nout Wellink, Naomi Ellemers, Frits Oldenburg, Yvonne van Rooy and Cees van Rijn. On 1 September 2015, the SB was extended to include Annemarie Jorritsma. The Report of the Supervisory Board is included in the Annual Report 2015-2016.

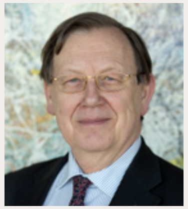
The SB has the following committees:

Audit Committee
The role of this committee is to assist the SB in its decision-making processes in the area of financial matters. These include the annual financial statements and co-signing thereof and the annual report (both of which include PricewaterhouseCoopers Accountants N.V.'s financial statements), the financial reporting process, including the preparation and determination of Holding PricewaterhouseCoopers Nederland B.V.'s annual plans and budgets, major capital investments and the design and operating effectiveness of the internal risk management and control systems. The Committee also advises the SB on the selection of the external auditor and on the preparation of the proposal to the General Meeting regarding the auditor's appointment and fee. The Committee comprises Cees van Rijn (Chair), Frits Oldenburg and Annemarie Jorritsma.

Remuneration Committee
The role of this committee is to assist the SB in its decision-making processes in the area of remuneration policies and practices. These include the approval of policies for the remuneration of the Board of Managing Directors, partners and staff and the SB's supervision of their proper implementation. The Committee comprises Annemarie Jorritsma (Chair), Jan Maarten de Jong, Yvonne van Rooy and Nout Wellink.

Selection and Appointments Committee
The role of this committee is to assist the SB in its decision-making processes in the area of appointment policies and practices. These include approval of the appointment policies to be implemented, selection and submission processes for the appointment of members of the SB (on the advice of the Selection and Appointment Committee), approval of the appointment of the Compliance Officer and selection and preparation of a binding submission to the General Meeting for the appointment of the Board of Managing Directors. The Committee consists of Jan Maarten de Jong (Chair), Naomi Ellemers and Frits Oldenburg.

Members of the Public Interest Committee as of 30 June 2016



Nout Wellink (Chair) was, until June 2011, President of De Nederlandsche Bank (the Dutch Central Bank). He is currently non-executive director of the Bank of China and Chair of the Wim Drees Stichting and the Bontius Stichting. Up to 1 September 2016, he was Chair of the Board of Governors of the University of Leiden. Wellink has been a member of PwC's Public Interest Committee since 2013.

Naomi Ellemers is a social psychologist and Distinguished University Professor at Utrecht University specialising in culture and behaviour within organisations. Amongst other things, she is a member of the Royal Netherlands Academy of Arts and Sciences, a Corresponding Fellow of the British Academy for the Humanities and Social Sciences (FBA) and a board member of Stichting Praemium Erasmianum. Ellemers has been a member of PwC's Public Interest Committee since 1 May 2015.

Cees van Rijn was CFO and member of the Board of Management of Nutreco. Amongst other things, he is currently a Supervisory Board Member of Detailresult Groep, Plukon Food Group, ForFarmers, FloraHolland, Erasmus Q-Intelligence and UTZ (Better Farming, a sustainable farming certification organisation). Van Rijn has been a member of PwC's Public Interest Committee since 2013

Yvonne van Rooy has been, amongst other things, Secretary of State for Economic Affairs, Member of the Dutch Parliament (Second Chamber) and Chair of the Executive Board of Utrecht University. She is currently Chair of de Nederlandse Vereniging van Ziekenhuizen (the Dutch Association of Hospitals) and, amongst other things, Chair of the Supervisory Board of Philips Electronics Nederland and a Member of the Supervisory Board of NN Group. She is also a board member of Stichting Administratiekantoor Koninklijke Briland, the Instituut Gak and the Royal Concertgebouw Orchestra, and a member of the Supervisory Boards of the Gemeentemuseum The Hague and the Fonds Nationaal Kunstbezit. Van Rooy has been a member of PwC's Public Interest Committee since 2013.

Public Interest Committee (PIC)
The Public Interest Committee (hereafter the PIC) was set up as a consequence of the Code for Audit Firms. Its role is to safeguard the public interest in the audit process. The PIC's role is to monitor the way in which PricewaterhouseCoopers Accountants N.V. and its Dutch entities ensure that the public interest is safeguarded in its auditor's reports. The Committee comprises Nout Wellink (Chair), Naomi Ellemers, Cees van Rijn and Yvonne van Rooy. All members are bound by specifically agreed independence requirements and they are independent of PwC in line with these requirements.

Code for Audit Firms
PwC endorses the values and principles set out in the Code for Audit Firms with a 2012 PIE licence. PricewaterhouseCoopers Accountants N.V. signed the Covenant of the Code for Audit Firms on 28 June 2012. This Code was issued by our professional body (the NBA) and sets out principles as to how PIE licence holders should handle matters such as dealing with governance and decision-making, quality and risk management, internal oversight, independence and remuneration. Our website (www.pwc.nl/nl/onze-organisatie/governance.jhtml) contains a detailed description of the way in which PricewaterhouseCoopers Accountants N.V. lives up to the values and principles set out in the Code for Audit Firms.

In line with the Code, PwC installed a Public Interest Committee on 1 July 2013. On 1 May 2015, this independent committee was succeeded by the Public Interest Committee of the SB. The PIC's role is to monitor the way in which the audit firm, PricewaterhouseCoopers Accountants N.V., ensures that the public interest is safeguarded in its auditor's reports. In its supervisory role, the Committee oversees the organisation's governance and decision-making processes, the quality and risk management systems, the remuneration policies and practices for external auditors (the partners and directors), the notification procedures, internal and external reviews, external reporting, stakeholder dialogue and reputational risk. The appointment process and the roles and responsibilities of the PIC are set out in a Charter published on our website. The Charter addresses, amongst other things, the right to information as set out in the Code and the way in which differences of opinion with the Board of Management and/or the internal supervisory body are to be handled.

Report of Findings
As required by the Code, the PIC has reported in writing to the SB regarding 2015-2016, and its report is included in this Transparency Report in the section 'Report of the Public Interest Committee'.

Statements

The purpose of the Transparency Report is to inform society, in a transparent manner, as to our vision and efforts in relation to our policies for quality.

The quality management framework of PricewaterhouseCoopers Accountants N.V., as summarised in this Transparency Report, is designed to provide a reasonable level of assurance that our statutory audits are performed in accordance with the legislative and regulatory requirements that apply.

We are continuously implementing improvements to our quality management framework. The steps we have taken, as set out in this Transparency Report, have been taken based on the results of reviews (carried out both internally and by our external supervisory bodies) and on the expectations that society has of auditors.

Policymakers' statement PricewaterhouseCoopers Accountants N.V.
The policymakers of PricewaterhouseCoopers Accountants N.V. have evaluated the design and operating effectiveness of the quality and risk management systems as summarised in this report. In doing so, they have made use of the reports issued by the Compliance Officer. Based on the evaluation the policymakers confirm that the quality management framework is operating effectively.

Amsterdam, 26 September 2016

Beleidsbepalers PricewaterhouseCoopers Accountants N.V.
Members of the Board of Management of Holding PricewaterhouseCoopers Nederland B.V.
Peter van Mierlo (Chair)
Michael de Ridder
(also Chair of the board of directors of PricewaterhouseCoopers Accountants N.V.)
Ad van Gils
Frank Engelen
Jolanda Lamse-Minderhoud
Marc Diepstraten
Members of the board of directors of PricewaterhouseCoopers Accountants N.V.
Michel Adriaansens
Agnes Koops-Aukes
Wytse van der Molen

Statement board of directors of PricewaterhouseCoopers Accountants N.V.
Based on the previously described, the board of directors of PricewaterhouseCoopers Accountants N.V. confirms that the internal monitoring of compliance with independence policies and requirements has been carried out, and the expertise required of our partners, directors and staff, including keeping abreast of professional developments, is maintained in a structured manner.

Amsterdam, 26 September 2016

PricewaterhouseCoopers Accountants N.V.
Michael de Ridder, managing director
Michel Adriaansens, titular director
Agnes Koops-Aukes, titular director
Wytse van der Molen, titular director

Independent Assurance Report

To: the General Meeting of Shareholders and the Supervisory Board of PricewaterhouseCoopers Accountants N.V.

We have examined the data and percentages included in the tables shaded in white entitled 'Quality indicators 1.1 to 7.1' ('the reported data') of the Transparency Report 2015-2016 of PricewaterhouseCoopers Accountants N.V. ('the Company') for the period 1 July 2015 to 30 June 2016.

The board's responsibilities

The board is responsible for the preparation of the information in the the reported data in accordance with Appendix C 'Reporting criteria of the quality indicators' and for the information contained therein of the Transparency Report 2015-2016.

Furthermore, the board is responsible for such internal control as it determines is necessary to enable the preparation of the information in the reported data that is free from material misstatement, whether due to fraud or error. The reported data must be read in conjunction with the reporting criteria.

Auditor's Responsibilities

Our responsibility is to examine the information in the reported data prepared by the Company and to report thereon in the form of an independent reasonable assurance opinion based on the evidence obtained. We conducted our engagement in accordance with Dutch law, including the Dutch Standard 3000 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information'. This requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether the information in the reported data is free of material misstatement.

The procedures selected depend on our understanding of the reported data and other engagement circumstances, and our consideration of areas where material misstatements are likely to arise. In developing our understanding of the reported data, we developed an understanding of internal control over the preparation of the information in the reported data in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion as to the effectiveness of the Company's internal control over the preparation of the reported data.

Our engagement also included: assessing the appropriateness of the reported data, the suitability of the criteria used by the Company in preparing the the reported data in the circumstances of the engagement, evaluating the appropriateness of the methods, policies and procedures, and models used in the preparation of the reported data, the reasonableness of estimates made by the Company and evaluating the overall presentation of the information in the reported data.

The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the reported data, whether due to fraud or error. In order to obtain reasonable assurance as to the reported data, our work included the following:
- assessing the suitability of the reporting criteria applied;
- evaluating the design, existence and operational effectiveness of the systems and processes surrounding the compilation and processing of the reported data, but not for the purpose of expressing an opinion on the effectiveness of the internal control system;
- auditing internal and external documentation on a sample basis to determine whether the reported data is supported by sufficient evidential matter;
- interviewing staff responsible for the analysis and reporting of the reported data.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the data and percentages included in the tables shaded in white entitled 'Quality indicators 1.1 to 7.1' have been prepared, in all material respects, in accordance with the reporting criteria as set out in Appendix C 'Reporting criteria of the quality indicators' of the Transparency Report 2015-2016.

The Hague, 26 September 2016

KPMG Accountants N.V.
R.R.J. Smeets RA

Appendices

Appendix A - Legislative and regulatory compliance framework

This appendix sets out how and where our reporting complies with the requirements of Article 30 of the Decree on the Supervision of Audit Firms.

		Chapter	Page
1	The Transparency Report		
a	Summary of the legal and organisational structure	Chapter 'Our governance'	65
b	Summary of the network of which the audit firm is part	Chapter 'Our governance'	65
c	Summary of the management structure	Chapter 'Our quality management system'	23
d	Description of the quality assurance framework and a statement by the policymakers	Chapter ‘Our quality management system’ Statements	23 72
e	Timing of the evaluation of the quality assurance framework	Statements	72
f	AFM supervision of the quality assurance framework	Paragraph ‘Monitoring’	54
g	List of public interest entities where a statutory audit was carried out during the year	Appendix B	77
h	Statement regarding internal supervision of compliance with independence requirements	Statements	72
I	Statement setting out the policies regarding knowledge management	Statements	72
j	Revenues of the Dutch element of the network, analysed by statutory audit work and other services	Paragraph 'Client and engagement acceptance'	44
k	Details of the remuneration structure for independent auditors	Paragraph 'Evaluation and remuneration'	60
2	Signing of the Transparency Report and immediate publication via internet	Statements	72

Appendix B - List of public interest entities (1)

The entities listed here are those PIEs* that became audit clients of PricewaterhouseCoopers Accountants N.V. during the financial year 2015-2016 at which we have started or completed a statutory audit.

A AKZO Nobel Assurantie N.V.
Akzo Nobel N.V.
B Bumper 6 (NL) Finance B.V.
C Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.
Curetis N.V.
D De Lage Landen International B.V.
E Enexis Holding N.V.
F F. van Lanschot Bankiers N.V.
FGH Bank N.V.
G Globaldrive Auto Receivables 2014-A B.V.
Globaldrive Auto Receivables 2014-B B.V.
K Kempen European High Dividend Fund N.V.
Kempen European Property Fund N.V.
Kempen Global High Dividend Fund N.V.
Kempen Global Sustainable Equity Fund N.V.
Kempen Orange Fund N.V.
Kempen Oranje Participaties N.V.
Kempen Profielfondsen N.V.
M Monuta Verzekeringen N.V.
N NE Property Coöperatief U.A.
NSI N.V.
N.V. Bank Nederlandse Gemeenten
N.V. Nederlandsche Apparatenfabriek “Nedap”
N.V. Nederlandse Gasunie
N.V. Univé Her
N.V. Univé Schade
O Oranjewoud N.V.
R Rabo Groen Bank B.V.
Rabo Herverzekeringsmaatschappij N.V.
Rabohypotheekbank N.V.
RWE Finance II B.V.
S SAECURE 15 B.V.
T Triodos Bank N.V.
Triodos Cultuurfonds N.V.
Triodos Groenfonds N.V.
Triodos Impact Strategies N.V.
Triodos Vastgoedfonds N.V.
V Van Lanschot N.V.
Verenigde Assurantiebedrijven Nederland N.V.
Z Zilveren Kruis Ziektekostenverzekeringen N.V.

* Companies established in the Netherlands listed on an EU regulated market, credit institutions and (re)insurance companies.

Appendix B - List of public interest entities (2)

The PIEs* listed here are those audit clients at which we started or completed a statutory audit during the financial year 2015-2016 and which were still audit clients of PricewaterhouseCoopers Accountants N.V. as at 30 June 2016 (in alphabetical order).

* Companies established in the Netherlands listed on an EU regulated market, credit institutions and (re)insurance companies.

A
Achmea B.V.
Achmea Bank N.V.
Achmea Pensioen- en Levensverzekeringen N.V.
Achmea Reinsurance Company N.V
Achmea Schadeverzekeringen N.V.
Achmea Zorgverzekeringen N.V.
ad pepper media International N.V.
Aegon Bank N.V.
AEGON Levensverzekering N.V.
AEGON N.V.
AEGON Schadeverzekering N.V.
AEGON Spaarkas N.V.
AKZO Nobel Assurantie N.V.
Akzo Nobel N.V.
Algemene Levensherverzekering Maatschappij N.V.
Amsterdam Commodities N.V.
ARCADIS N.V.
Avéro Achmea Zorgverzekeringen N.V.
AXA Belgium Finance (NL) B.V.

B
Bayer Capital Corporation B.V.
Beter Bed Holding N.V.
Blue Square Re N.V.
BNP Paribas Fund I N.V.
BNP Paribas Fund III N.V
British Transco International Finance B.V.
Brunel International N.V.
Bumper 6 (NL) Finance B.V.

C
Candide Financing 2007 NHG B.V.
Candide Financing 2008 B.V.
Candide Financing 2008-2 B.V.
Candide Financing 2011-1 B.V.
Candide Financing 2012-1 B.V.
Coca-Cola HBC Finance B.V.
Constellium N.V.
Conti-Gummi Finance B.V.
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.
Curetis N.V.

D
De Friesland Particuliere Ziektekostenverzekeringen N.V.
De Friesland Zorgverzekeraar N.V.
De Lage Landen International B.V.
Deutsche Bahn Finance B.V.
Deutsche Post Finance B.V.
Deutsche Telekom International Finance B.V.
DOCDATA N.V.
Dutch Mortgage Portfolio Loans VI B.V.
Dutch Mortgage Portfolio Loans VIII B.V.
Dutch Mortgage Portfolio Loans IX B.V.
Dutch Mortgage Portfolio Loans X B.V.
Dutch Mortgage Portfolio Loans XI B.V.
Dutch Mortgage Portfolio Loans XII B.V.

E
E.ON International Finance B.V.
E-MAC DE 2005-I B.V.
E-MAC DE 2006-I B.V.
E-MAC DE 2006-II B.V.
E-MAC DE 2007-I B.V.
E-MAC NL 2004-I B.V.
E-MAC NL 2004-II B.V.
E-MAC NL 2005-I B.V.
E-MAC NL 2005-III B.V.
E-MAC NL 2005-NHG II B.V.
E-MAC NL 2006-II B.V.
E-MAC NL 2006-NHG I B.V.
E-MAC Program B.V.
E-MAC Program II B.V.
E-MAC Program III B.V.
EMF-NL 2008-1 B.V.
EMF-NL 2008-2 B.V.
EMF-NL Prime 2008-A B.V.
Enexis Holding N.V.
Eno Zorgverzekeraar N.V.
Euronext N.V.
European Assets Trust N.V.
Eurosail-NL 2007-1 B.V.
Eurosail-NL 2007-2 B.V.

F
F. van Lanschot Bankiers N.V.
FBN Finance Company B.V.
FBTO Zorgverzekeringen N.V.
FGH Bank N.V.

G
Gas Natural Fenosa Finance B.V.
Globaldrive Auto Receivables 2012-A B.V.
Globaldrive Auto Receivables 2013-A B.V.
Globaldrive Auto Receivables 2014-A B.V.
Globaldrive Auto Receivables 2014-B B.V.
GrandVision N.V.

H
Hof Hoorneman Bankiers N.V.
Holland Colours N.V.

I
Insinger de Beaufort Umbrella Fund N.V.
Interpolis Zorgverzekeringen N.V.

J
J.P. Morgan Structured Products B.V.

K
Kardan N.V.
KAS BANK N.V.
Kempen European High Dividend Fund N.V.
Kempen European Property Fund N.V.
Kempen Global High Dividend Fund N.V.
Kempen Global Sustainable Equity Fund N.V.
Kempen Orange Fund N.V.
Kempen Oranje Participaties N.V.
Kempen Profielfondsen N.V.
Kigoi 2013 B.V.
KMU Verzekeringen N.V.

Koninklijke Ahold Delhaize N.V.
Koninklijke Brill N.V.
L Laurelin II B.V.
M Merrill Lynch B.V.
Monuta Verzekeringen N.V.
N NE Property Coöperatief U.A.
NSI N.V.
N.V. Bank Nederlandse Gemeenten
N.V. Hagelunie
N.V. Nederlandsche Apparatenfabriek "Nedap"
N.V. Nederlandse Gasunie
N.V. Noordhollandsche van 1816, Levensverzekeringmaatschappij
N.V. Noordhollandsche van 1816, Schadeverzekeringsmaatschappij
N.V. Univé Her
N.V. Univé Schade
National Academic Verzekeringsmaatschappij N.V.
O Optas Pensioenen N.V.
Oranjewoud N.V.
OZF Zorgverzekeringen N.V.
P PDM CLO I B.V.
Pharming Group N.V.
Rabo Groen Bank B.V.
Rabo Herverzekeringsmaatschappij N.V.
Rabohypotheekbank N.V.
Reis- en Rechtshulp N.V.
R RWE Finance B.V.
RWE Finance II B.V.
S SAECURE 9 B.V.
SAECURE 10 B.V.
SAECURE 12 B.V.
SAECURE 13 NHG B.V.
SAECURE 14 NHG B.V.
SAECURE 15 B.V.
SBM Offshore N.V.
Schlumberger Finance B.V.
Securitized Guaranteed Mortgage Loans II B.V.
Staalbankiers N.V.
T ThyssenKrupp Finance Nederland B.V.
Triodos Bank N.V.
Triodos Cultuurfonds N.V.
Triodos Groenfonds N.V.
Triodos Impact Strategies N.V.
Triodos Vastgoedfonds N.V.
U Univé Stad en Land Brandverzekeraar N.V.
UVM Verzekeringsmaatschappij N.V.
V Van Lanschot N.V.
Verenigde Assurantiebedrijven Nederland N.V.
Veritas Petroleum Services Holding B.V.
VimpelCom Holdings B.V.
Vonovia Finance B.V.
W Woningborg N.V.
Z Zilveren Kruis Ziektekostenverzekeringen N.V.
Zilveren Kruis Zorgverzekeringen N.V.

Appendix B - List of public interest entities (3)

PIEs that were no longer an audit client of PricewaterhouseCoopers Accountants N.V. as at 30 June 2016 or audit clients at which no statutory audit was performed or at which there has been a change in the client's PIE status:

A
- Achmea Beleggingsfondsen N.V.
- Acier 2011-I B.V.
- Adriana Infrastructure CLO 2008-I B.V.
- Alliander N.V.
- Amlin Europe N.V.
- argenx N.V.
- Avéro Achmea Zorgverzekeringen N.V.
- AXA Belgium Finance (NL) B.V.

B
- B of A Issuance B.V.
- Barclays SLCSM Funding B.V.
- BMW Finance N.V.

C
- Coöperatie Klaverblad Verzekeringen U.A.
- Core Laboratories N.V.

D
- DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V.
- DELA Natura- en levensverzekeringen N.V.
- Dela Verzekeringen N.V.
- Dutch MBS XV B.V.
- Dutch MBS XVI B.V.
- Dutch MBS XVII B.V.
- Dutch MBS XVIII B.V.

E
- Electrorisk Verzekeringsmaatschappij N.V.
- Essence III B.V.
- Essence IV B.V.
- Essence V B.V.

G
- Gemalto N.V.
- Globaldrive Auto Receivables 2011-A B.V.
- Goudse Levensverzekeringen N.V.
- Goudse Schadeverzekeringen N.V.

I
- Impregilo International Infrastructures N.V.

K
- Klaverblad Levensverzekering N.V.
- Klaverblad Schadeverzekeringsmaatschappij N.V.
- Koninklijke BAM Groep N.V.

L
- LeasePlan Corporation N.V.
- LeasePlan Finance N.V.
- LEO-MESDAG B.V.
- Loyalis Leven N.V.
- Loyalis Schade N.V.

M
- MESDAG (Charlie) B.V.
- MESDAG (Delta) B.V.

N
- N.V. Koninklijke Porceleyne Fles
- NIBC Bank N.V.
- North Westerly CLO I B.V.
- North Westerly CLO II B.V.
- North Westerly CLO III B.V.
- North Westerly CLO IV 2013 B.V.

O
- Onderlinge Verzekering Maatschappij ZLM U.A.
- Optimix Investment Funds N.V.

P
- PostNL N.V.

S
- SAECURE 7 B.V.
- SAECURE 8 NHG B.V.
- SAECURE 11 B.V.
- Securitized Guaranteed Mortgage Loans I B.V.
- Shell International Finance B.V.
- Sound II B.V.
- Stellae-I B.V.
- STMicroelectronics N.V.

T
- The Economy Bank N.V.
- TNT Express Worldwide N.V.

U
- USG People B.V.

V
- Volkswagen Financial Services N.V.
- Volkswagen International Finance N.V.

W
- Wereldhave N.V.

X
- X5 Retail Group N.V.

Bijlage C - Reporting criteria of the quality indicators

Nr.	Reporting criterion	NBA Practice Note	Page
1.01	Number of hours spent during the financial year by financial reporting, valuation, pension and taxation specialists on support to audit engagements, as a percentage of the total number of hours charged to PwC's audit engagements (statutory and voluntary).	○	32
1.02	Number of hours spent during the financial year by IT specialists from our Risk Assurance business unit on audit engagements, as a percentage of the total number of hours charged to PwC's audit engagements (statutory and voluntary), differentiating between PIE and non-PIE.	○	32
1.03	Number and percentage of hours spent during the financial year by partners/directors, senior managers/managers and other team members (including contracted-in staff, the flexible workforce and short-term secondments) on PIE and non-PIE audit engagements, other engagements and internal activities.	○	32
1.04	Number of hours spent during the financial year by partners/directors, senior managers/managers and other team members (including contracted-in staff, the flexible workforce and short-term secondments) on PIE and non-PIE PwC audit engagements, as a percentage of the total number of hours spent by all professional staff on all PwC's audit engagements.	○	32
2.01	Number of PwC partners, directors and director candidates subject to personal independence testing during the financial year Number of independence infringements identified by the Independence Office during the financial year as part of the Personal Independence Compliance testing of PwC partners, directors and director candidates.	○	36
2.02	The number of sanctions levied by the Independence Sanctions Committee during the financial year as a result of the Personal Independence Compliance Testing of PwC partners and directors/director candidates, differentiating between written warnings and reprimands.		36
2.03	Number of complaints handled by the Complaints Committee during the financial year relating to the Assurance practice of PwC. Number of internal and external notifications to the Business Conduct Committee during the financial year under the complaints and notifications procedures relating to the Assurance practice of PwC.		36
3.01	Ratio of the numbers of partners/directors, senior managers/managers and other team members (FTEs) in permanent employment at 30 June 2016 (excluding trainees, support staff, contracted-in staff, the flexible workforce and short-term secondments).		41
3.02	Average number of years' experience with PwC Netherlands of partners/directors, senior managers/managers and other team members at 30 June 2016.		41
3.03	Number of hours spent during the financial year by professional staff (excluding trainees, support staff, contracted-in staff, the flexible workforce and short-term secondments) (FTEs) on internal and external training and education. Average number of hours per FTE during the financial year, calculated as the total hours spent by professional staff (FTEs) (excluding trainees, support staff, contracted-in staff, the flexible workforce and short-term secondments) on internal and external training and education divided by the total number of professional staff (excluding trainees, support staff, contracted-in staff, the flexible workforce and short-term secondments) (FTEs).	○	42
3.04	Number of leavers during the financial year with a permanent contract in the staff levels up to and including senior manager, per PC&D rating, years' experience, male/female and cultural background (as indentified by Human Resource department staff), as a percentage of the average workforce in these categories.	○	42
3.05	Number and percentage of overtime hours worked during the financial year by partners/directors, senior managers/managers and other team members in permanent employment with PwC (excluding trainees, support staff, contracted-in staff, the flexible workforce and short-term secondments) (FTEs), as a proportion of the total number of contractually available hours.		42

○ The quality indicator is taken from the NBA Practice Note 1135 Disclosure of Audit Quality Factors. PwC reports in the Transparency Report 2015-2016 on all quality indicotors stated in the Practice Note.

Nr.	Reporting criterion	NBA Practice Note	Page
3.06	Number of professional staff joiners during the financial year from the staff level junior associate up to and including partner (excluding expats and internal promotions but including staff on call) (FTEs).		42
3.07	Number of professional staff leavers during the financial year from the staff level junior associate up to and including partner (excluding expats and internal promotions but including staff on call) (FTEs).		42
3.08	Percentage of positive responses from the People Survey during the financial year to questions related to coaching and audit quality and the results of the People Engagement Index that measures staff satisfaction with PwC as an employer.	○	43
3.09	Number of overseas professional staff (headcount) working for PwC Netherlands during the financial year for a period shorter than one year (short-term) and for longer than one year (long-term).		43
3.10	Number of professional staff (headcount) working outside the Netherlands during the financial year for a period shorter than one year (short-term) and for longer than one year (long-term).		43
4.01	Accounting policies are the same as those for the Holding PricewaterhouseCoopers Nederland B.V. annual financial statements.		45
5.01	Number of Real Time Reviews initiated and completed during the financial year by the RTR team including those in support of the QRP.		51
5.02	Number of formal reviews of financial statements carried out during the financial year by National Office specialists prior to issuance of the auditor's report.	○	51
5.03	Total number of statutory auditor's reports issued during the financial year, as included in the engagement registration system, and those relating to PIE auditor's reports.		51
5.04	Number of independent quality reviews carried out by QRPs during the financial year. Number of independent quality reviews carried out by QRPs during the financial year, as a percentage of the total number of statutory audits.	○	51
5.05	Average number of hours spent during the financial year by all QRPs on independent quality reviews, as a percentage of the total number of hours spent on all audit engagements to which a mandatory QRP was appointed.	○	51
5.06	Number of engagements resigned from during the financial year that constitute early terminations and for which use was made of the digital tool for notification to the external supervisory body (AFM).		51
5.07	Number of consultations submitted during the financial year to the Fraud Panel.		52
5.08	Number of notifications of unusual transactions submitted during the financial year to the Financial Intelligence Unit.		52
5.09	Number of fundamental errors (Dutch GAAP) or material errors (IFRS) noted during the financial year at entities where PwC was also the statutory external auditor in the prior year, as registered with National Office. Number of fundamental errors (Dutch GAAP) or material errors (IFRS) noted during the financial year, as a percentage of the total number of statutory audit reports issued.	○	52
5.10	Number of professional staff in permanent employment and contracted-in staff working in National Office, the Independence Office and the Compliance Office (excluding support staff) at 30 June 2016 (FTEs).	○	52

○ The quality indicator is taken from the NBA Practice Note 1135 Disclosure of Audit Quality Factors. PwC reports in the Transparency Report 2015-2016 on all quality indicotors stated in the Practice Note.

Nr.	Reporting criterion	NBA Practice Note	Page
5.11	Number of formal consultations submitted to National Office during the financial year regarding financial reporting and audit matters.	○	52
5.12	Millions of euros invested in the development of new technology relating directly to audit during the financial year, consisting solely of cash-out, including the Dutch Assurance practice's share of investments in the development of new technology within the network and excluding internally generated time and related expenses.	○	52
5.13	Number of legal cases pending during the financial year, differentiating between civil and disciplinary cases.		53
5.14	Number of incidents notified to the external supervisory body (AFM) using the digital tool during the financial year.		53
6.01	Number of engagements reviewed during the financial year under the global ECR process, differentiating between audit engagements and non-audit Assurance engagements. Results of the ECRs, differentiating between compliant and non-compliant engagements (compliant including compliant with review matters).	○	57
6.02	Number of engagements reviewed during the financial year by external supervisory bodies and the number with reported findings.	○	58
6.03	Number of engagement reviews by external supervisory bodies during the financial year on which findings were reported that were deemed to be non-compliant after being subject to an internal review (ECR-methodology).		58
6.04	Number and amount (in Euros) of fines levied during the financial year on PwC by external supervisory bodies.		59
6.05	Number of material errors noted during the financial year at PwC-audited entities on the basis of notifications from the AFM. Number of material errors noted during the financial year at PwC-audited entities on the basis of notifications from the AFM, as a percentage of the total number of statutory audits.		59
7.01	Number, per evaluation element, of financial quality sanctions that have been or will be levied on partners and directors during the financial year by the Remuneration Committee of the SB under the evaluation and remuneration policies.		63

○ The quality indicator is taken from the NBA Practice Note 1135 Disclosure of Audit Quality Factors. PwC reports in the Transparency Report 2015-2016 on all quality indicotors stated in the Practice Note.

Appendix D - Glossary

AFM	Netherlands Authority for the Financial Markets, the external independent body responsible for the supervision of financial enterprises and of audit firms with a PIE licence
Assurance Board	Board of directors of PricewaterhouseCoopers Accountants N.V.
BCC	Business Conduct Committee, to which staff refer if they note instances or suspicions of professional misconduct
BMG&D	'Beoordeling, Mapping Goalsetting en Development' (Evaluation, Mapping, Goal setting & Development), the PwC process surrounding the evaluation and remuneration of partners and directors
BU	Business unit, the sub-units of the Assurance practice, determined on the basis of geography and/or professional specialism
CAD	Country Admissions Committee, the body that advises the BoM on the appointment of new partners and directors
CMAAS	The business unit Capital Markets and Accounting Advisory Services
Compliance	Compliance with the legal, regulatory and other requirements and standards that apply
Compliance Officer	Officer responsible for overseeing compliance with the legal, regulatory and other requirements and standards that apply
Compliance Office	Office responsible for overseeing compliance with the legal, regulatory and other requirements and standards that apply
CR	Corporate Responsibility, doing business on a sustainable basis
Cycles of experience	Programme to encourage mobility among our professionals
ECR	Engagement Compliance Review, internal reviews carried out by the global network into the quality of client engagements
General meeting (GM)	Meeting of the PwC partners who, via their partner BVs, are the members of Coöperatie PricewaterhouseCoopers Nederland U.A.
HC	Human Capital, the term used for the department or persons responsible for PwC's staffing policies and the implementation thereof
Independence Office	Support function that provides support to PwC professionals in maintaining their personal independence and the independence of PwC
ISA	International Standards on Auditing
KPI	Key performance indicator or quality indicator
L&D	Learning and Development, the support function within PwC that provides the training and management development programmes
LoS	Line of Service, the three professional service units through which PwC offers and delivers its services: Assurance, Tax & HRS and Advisory
National Office	Practice support function that underpins and provides support to the professional quality of external auditors and other staff
NBA	Netherlands Institute of Chartered Accountants
NOREA	Professional association for IT auditors in the Netherlands (RE = registered EDP auditor).
Partner Council	Body that represents the collective interests of the members of Coöperatie PricewaterhouseCoopers Nederland U.A. (the partner BVs) and provides advice, either on request or on its own initiative, to the BoM on issues to be submitted to the GM
PCAOB	Public Company Accounting Oversight Board, the US external supervisory body
PC&D	Performance, Coaching & Development: the system managing the evaluation of our staff
People Survey	Our annual staff satisfaction survey
PIE	Public Interest Entity, organisations that, because of their scope or role in society, impact a wide range of stakeholder groups (for instance, listed companies, insurers and financial enterprises) and for the statutory audit of which audit firms are required to have a licence from the AFM
PwC Europe	The PwC Europe collaboration of the four member firms in Germany, the Netherlands, Austria and Belgium
PwC Experience	Our internal behavioural programme that focuses on maintaining relationships on the basis of trust and genuine interest
Risk Council	Body, chaired by a member of the BoM, which provides support to the BoM and the LoS boards in the area of enterprise risk management
QRP	Quality Review Partner: a partner assigned to carry out engagement-specific quality reviews
RTR	Real Time Review: An in-depth review of audit engagements carried out by a team independent of the audit team before the auditor's report is issued
Wft	'Wet op het financieel toezicht' (the Act on Financial Supervision), which sets the legal parameters for the solidity and behaviour of financial enterprises and regulates supervision of the financial sector in the Netherlands
Wta	'Wet toezicht accountantsorganisaties' (the Law on the Supervision of Audit Firms), which regulates the external supervision (by the AFM) of audit firms

Acknowledgements

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