



Report of the Board of Management

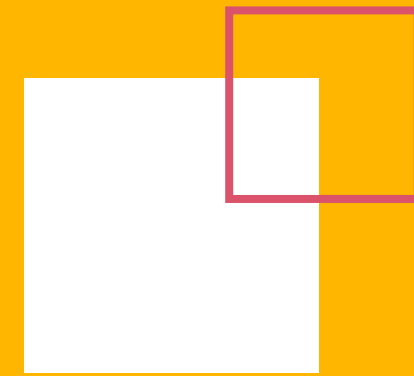
Risk management

Annual Report

2022/2023



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Success in achieving our strategic objectives depends largely on our ability to respond to the complex and competitive environment in which we work. Key complicating factors currently include the war in Ukraine and compliance with EU sanctions, high inflation, the tight labour market, rapid technological developments and stringent scrutiny by supervisory bodies. As our objective is to identify and act upon risks in a timely manner, we monitor developments and trends as they evolve in society in general, in the business environment in which we operate and within our organisation. We believe this will contribute to the long-term success of our business.

Risk management is the process of identifying, assessing and controlling risks to our business and is focused on continuous improvement. Quality and integrity require an organisation that is keen to learn. Our approach to risk management is based on the 'plan, do, check and act' cycle (PDCA). Our risk strategy is founded in the Network Standards provided by the PwC Network.

The responsibility for identifying and managing risks lies with the Lines of Service boards and, ultimately, the Board of Management with supervision from our Supervisory Board. A safe and respectful work environment and commitment to our values and ethical behaviour are part of PwC's Code of Conduct and therefore our risk culture. The tone at the top is key in that risk culture.

We use the Three-Lines Model to set the roles and responsibilities related to managing risks:

1. The first line establishes and maintains appropriate processes for the management of operations and risk and internal control. It ensures compliance with legal, regulatory and ethical expectations.
2. Operating from an independent position, the second line provides complementary expertise, support, monitoring and challenge related to the management of risk.

3. The third line provides independent and objective assurance and advice to (senior) management on the adequacy and effectiveness of governance and risk management (including internal controls). The third line is provided by Internal Audit.

Our risk appetite describes the extent to which we are accepting risks in realising our strategic objectives. Considering the societal impact of our services, we follow a prudent approach with a low to moderate risk appetite.

In our services to clients we have Quality Management Systems (QMSs) in place per Line of Service (Assurance, Tax & Legal and Advisory). As we aim for high quality, the operational processes used to provide clients with services also entail a variety of risk management policies. This differs per LoS as each has its own specific requirements and procedures due to the difference in service delivery, legislation, regulatory requirements and professional standards. A detailed description of Assurance's QMS is provided in the Transparency Report. For Tax & Legal the QMS specifies the expected key activities in quality requirements. The Advisory QMS is also ISO 9001:2015-certified.

Monitoring and reviewing the QMS is embedded in our operations. Compliance with the Network Risk Management Policies is assessed through Engagement Quality Reviews (EQRs) and Engagement Compliance Reviews (ECRs). The PwC Network executes Quality Management Reviews (QMRs) for the Assurance LoS. The Compliance Officer has a legally delegated supervisory responsibility regarding auditor compliance with laws and regulations and regarding the operation of the QMS of LoS Assurance. PwC NL has extended this monitoring role for the Compliance Office to include all Lines of Service. The Internal Audit Department (IAD) periodically reviews the design and operational effectiveness of QMSs, carrying out a risk-specific programme of audits.

A fraud risk analysis has been carried out annually for PwC NL. Fraud risks are structurally present in our business. We implement a range of measures to mitigate these risks, which include having clear core values, policies and procedures, training etc. Key areas to fraud risks are related to payments, purchases, (non-)financial reporting, and management override of controls.

Overview of main risks

At least once per year we assess our risk with regard to our The New Equation strategy and our risk appetite. The main strategic risks are included in the table below where we set out the main risks identified, and the most relevant mitigation and actions being taken to prevent or mitigate any occurrence and/or impact. The risks were scored based on an assessment of impact should the risks occur and the likelihood that this will happen. In the assessment of impact the perspectives financial, client, reputation, compliance/legal and people were involved. The risks scored overall medium to high.

In addition, we have linked the material topics (see page 11) to the risks in the table on the next page. This provides insight onto which sustainable matters are related to these risks. In the event one of the main risks actually materialises, this is not expected to lead to any doubt about the organisation continuing on a going-concern basis in the coming twelve months. This is confirmed by the Board of Management in the Statement by the Board of Management on page 49 of this report.

Strategic priority	Risk	Risk description	Risk appetite	Mitigation and actions	Related material topics
Client focused	Societal risks and trust	Failure to anticipate, understand and respond to market and societal expectations and concerns, or to engage in the broader societal agenda, which will erode trust in our profession and in our business and will put the relevance and value of PwC at risk.	Medium	We engage with stakeholders via the stakeholder dialogues and with clients via client dialogues. We also have constructive dialogues with professional bodies and standard setters like the NBA, NOB, Kwartiermakers and members of parliament and institutions like VNO/NCW. We actively participate in the media by sharing thought leadership knowledge and views.	Entity specific topics
	Regulations and/or public policy	Failure to constructively engage stakeholder groups in support of our purpose, which will constrain our ability to influence the regulatory agenda and increase the risk of regulatory change that would hamper our ability to operate in a sustainable way. Failure to comply with independence, legal, ethical or professional requirements and to manage and maintain our data securely.	Medium	We engage with stakeholders via the stakeholder dialogues. We also have constructive dialogues with professional bodies and standard setters like the NBA, NOB, Kwartiermakers and members of parliament and institutions like VNO/NCW. And we participate in NBA's 'Stuurgroep Publiek Belang' and the European Contact Group. Our policies and procedures are designed to help PwC comply with independence, legal, ethical or professional requirements. We also foster a culture in which compliance matters are fuelled by the tone at the top. We are rolling out the Data Responsibility Program and initiatives to enhance the data quality.	Entity specific topics
	Climate	Failure to anticipate, understand and respond to the impact of climate change on the business and to prepare for its implications, including (i) the impact of physical risks and related disruption, (ii) the impact of transitional risks on certain clients, sectors, economies and on our services, and (iii) failure to meet PwC's commitments related to climate.	Medium	We have a PwC Corporate Sustainability policy. We have an initiative to include ESG risk factors in the client and engagement acceptance in a structured way. We are preparing to implement the new CSRD legislation in our way of working.	Climate change Biodiversity and ecosystems
	Technology-enabled disruption	Failure to prepare for and respond to disruption, including bringing new services and solutions to the market with speed and agility.	Medium	Roll-out of the go-to-market strategy of strategic technology initiatives. We identify and engage with potential alliance partners. We also foster a culture in which innovation is supported and fuelled by the tone at the top.	Economic
Community of solvers	Purpose, values and behaviours	Failure to embed our purpose in our strategy and to ensure values and behaviours that support our purpose and our strategy are embedded consistently in our business model and in our decision-making, which will both prevent the achievement of our strategy and result in reputational risk.	Low	We have onboarding programmes for all new joiners in which our purpose, values and behaviours have the spotlight. We focus on a purpose-led and values-driven culture throughout PwC and demonstrate that with an adequate tone at the top in leadership messages.	Business conduct
	Network mutuality/alignment	Failure to act collaboratively as member firms given pressures caused by conflicting regional and national priorities in the external environment. Failure to act together as PwC NL given pressures caused by conflicting LoS priorities.	Low	All PwC Europe, PwC EMEA and PwC Global Leadership teams focus on cooperation and common interest. We set a culture for PwC NL of a one-firm focus through industry focus and go-to-market initiatives.	Business conduct



Strategic priority	Risk	Risk description	Risk appetite	Mitigation and actions	Related material topics
Community of solvers	People	Failure to attract, retain and train appropriate talent in order to realise opportunities and meet clients' changing needs and anticipate diversity (background, skills, gender etc.) and workforce-related changes such as automation, and coach/train the appropriate talent to develop future leaders.	Low	We are in the process of modernising our working conditions policies including learner pathways and differentiated career paths. We have established Young Boards for each LoS and for PwC NL level to reflect on a variety of topics, including talent management.	Own workforce Workers in the value chain
Human-led, tech-powered	Technology resilience and availability	Failure to manage critical system availability, impacting the ability to service clients and manage the business.	Low	We roll out the Business Operating Solutions driven by Global and implement a robust IT governance.	Economic
	Information and cybersecurity	Failure to manage the security of firm or other third-party information, causing legal breaches and reputational damage.	Low	We have PwC policies with regard to information security. The Network Information Security (NIS) organisation is in place that is solely focused on the security of our information systems. We are also upskilling our technology and security staff.	Business conduct
High quality	Client and service quality	A significant failure in client/engagement acceptance or continuance, or service delivery quality resulting in reputational damage.	Low	Each LoS has a Quality Management System (QMS). For LoS Assurance the QMS is in line with ISQM1 requirements, which aims to ensure that PwC complies with laws and regulations for the execution of audits. In addition, the QMS of PwC Advisory has an ISO 9001 certification. The PwC KYC policy ensures that our client acceptance and continuance is a robust process with involvement from leadership in accepting high-risk clients. We have a continuous process of impact assessments of quality findings, root-cause analysis leading to quality initiatives. We respond to significant failures through internal investigations.	Entity specific topics
	Significant matters	Failure to respond appropriately, with expertise and speed to significant adverse matters and major claims with actual or potential negative impact on the reputation of PwC NL. The adverse impact can be financial, security-related, technological and/or reputational.	Low	We respond to significant adverse matters and major claims through our Troublesome Practice Matters team. We also have insurance arrangements in place.	Entity specific topics
Sustainable growth	Investment	Failure to ensure sufficient investment in future growth areas and reinvestment in existing services.	Medium	We focus on possible acquisitions and monitor business cases based on a network policy regarding minimum investment requirements. There is also a Global Strategic Development Fund (SDF) to drive investments centrally.	Economic
	Resilience of member firms	Failure to withstand an economic, regulatory or political shock, or complete adequate contingency planning.	Medium	We coordinate such events through the network like PwC Europe, PwC EMEA and PwC Global leadership teams.	Business conduct Entity specific topics
	Black and Green Swan events	Failure to prepare for events with implications in terms of immediate/disaster response, reputational damage or potential macroeconomic impact such as regulatory change, inflation, environmental events of macroeconomic disruption created by events such as a pandemic.	Medium	We have policies and procedures such as the business continuity plan and crisis management policies.	Business conduct Entity specific topics

