2017-2018

Transparency Report

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The original Transparency Report was prepared in Dutch. This document is an English translation of the original Report. In case of differences between the English and the Dutch version, the latter shall prevail.

This is a navigable PDF file. Click on the report's chapters to the left of the page to navigate through this Transparency Report. By clicking on the icon below, you navigate to the document *"Transparency Report Appendices"*.

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Foreword

We present to you our Transparency Report for the financial year 2017-2018, setting out what we have done this past year in terms of achieving our purpose, our purpose being to contribute to trust in society and help solve important problems. We have all worked hard to increase the trust that both you and other stakeholders have in us. We have moved forward on a broad array of measures focussed on the quality of our work, and we have tightened up on them and accelerated them where needed. We can, therefore, look back on a year of further progress in our change programme towards achieving structural quality improvement and real cultural and behavioural change.

On 1 July this year, I took over from Ad van Gils as Chair of PwC Accountants N.V. I would very much like to thank Ad sincerely for the way in which he has led us during recent years on our journey towards becoming a purpose-led and values-driven organisation. Strengthened by what we have all collectively achieved during the past years and motivated by the challenges that lie ahead of us, Joris, Michel, Wytse and I will be continuing our journey with enthusiasm and passion. We are well aware that the road ahead of us will not always be easy. Developments, resulting for instance from new technological opportunities or changing expectations and demands, will continue to influence significantly how we need to go about our work.

There will be many occasions when our resilience and our colleagues' resilience will be tested, for instance when stakeholders' views about our progress differ from our own or when we face societal debate or negative publicity that impinge on our work, our organisation or our profession. It is in these very circumstances that we must be transparent in joining the debate and in reflecting, learning and encouraging each other to continue resolutely on our journey.

It is very important here that we remain constantly aware that we are not alone on this journey and that we maintain regular contact, dialogue and connectivity with our stakeholders, be they supervisory bodies, politicians or clients and colleagues. We are constantly building on and investing in our relationships with them - through transparency about what we do and why we do it, through understanding of and respect for each other's views, and also very much through having the courage to be open to criticism and to consult with each other in the conviction that it promotes mutual improvement and support.

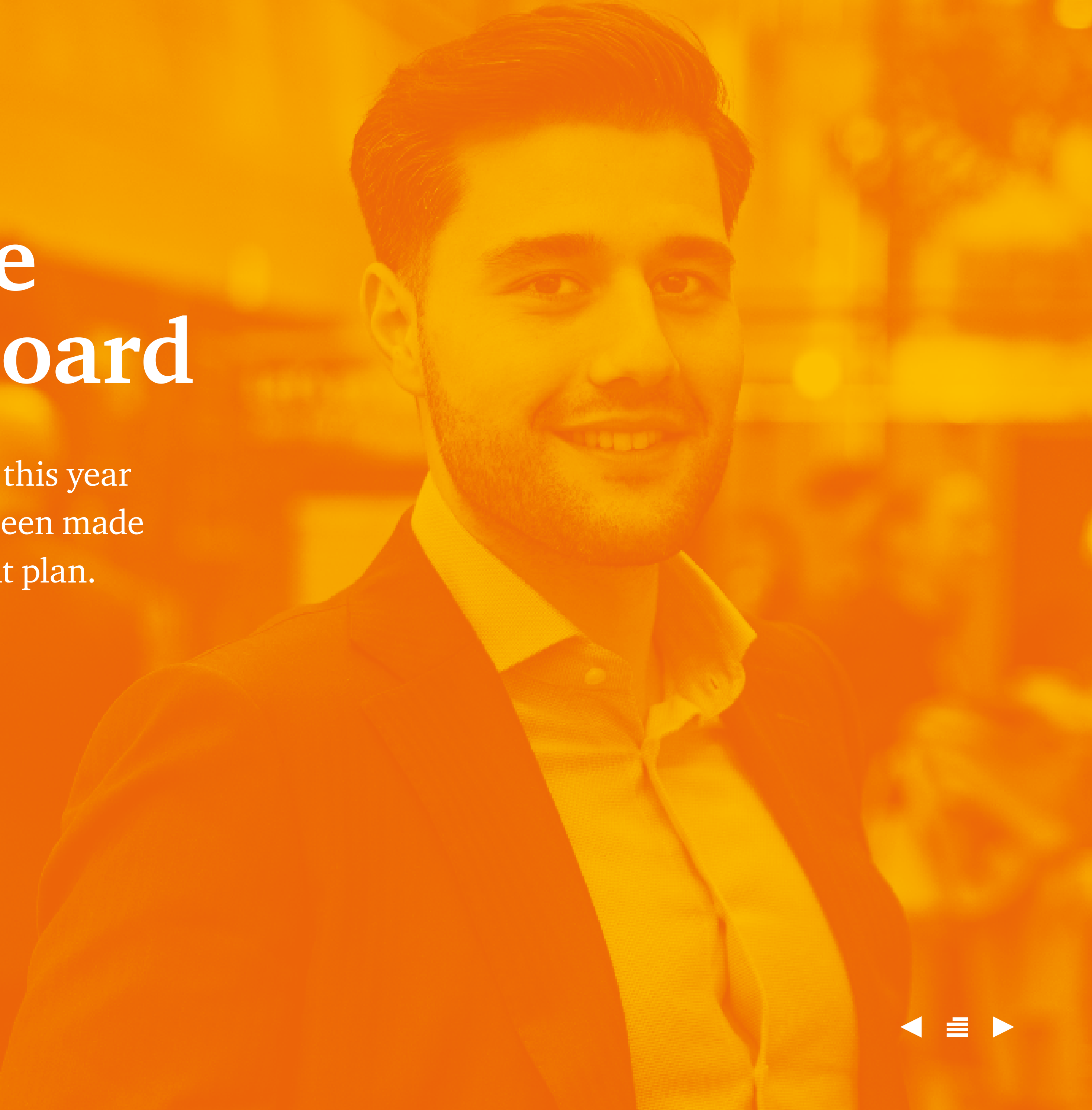
My team and I are incredibly motivated to take the next steps along our journey, and we are looking forward to working together with all those we meet along the way.

Agnes Koops-Aukes

Chair of the Board
PricewaterhouseCoopers Accountants N.V.

Report of the Assurance Board

We report on the developments of this year and the improvements that have been made following our quality improvement plan.



Continuing our journey

Our dot on the horizon is clear: to become a purpose-led and values-driven organisation. And this purpose is building trust in society and solving important problems. All the decisions we take must be driven by our purpose.

These decisions relate to the engagements we take on and how we do them, how we discharge our responsibilities, and how we define success. All we do to become a purpose-led and values-driven organisation we bring together in the word ‘journey’.

In addition to working constantly on quality improvement and focussing on innovation and growth, last year’s strategic priorities included moving along on this journey and reflecting it in our behaviour and day-to-day practices. We need to be able to see our decision-making and behaviour through a variety of different lenses if we are to remain relevant, contribute to trust in society and solve important problems – through the lenses not only of our own stakeholders but also of our clients’ stakeholders. This is the way to achieve our purpose.

In the dialogue sessions we held throughout the year, our stakeholders have made it clear that our integrity and quality remain paramount to them in terms of implementing our strategy. These two subjects link seamlessly into our core business, namely performing good quality audits and being (and remaining) of added value in a changing world. Our definition of quality means that our work complies with all applicable laws and regulations and is of added value to our stakeholders. Our goal is to restore trust in this core business.

Visual 1 Our journey and the three strategic priorities

Priority 1 | Bring the journey to life

Priority 2 | Build quality business

Priority 3 | Grow and innovate

Feedback from colleagues regarding our journey

Our Global People Survey (GPS) (the annual world-wide survey carried out among our people regarding how they experience our culture, strategy and working conditions), together with the surveys we carry out periodically specifically among our people in the Netherlands, both indicate that we are making progress in our journey. Within the Assurance practice, awareness of our purpose has increased 15% (from 81% to 93%), and 83% of our colleagues indicate that they have discussed our values (act with integrity, make a difference, care, work together and reimagine the possible) in their day-to-day work. We can still make progress in the areas of achieving our purpose and living up to our values on a day-to-day basis. 42% of our colleagues indicated this year that they had applied our purpose and values in their daily work (compared to 28% in the prior year). Our focus for the coming years will be on the tangible application of purpose-led and values-driven behaviour and on getting feedback on this from colleagues and other stakeholders.

Following, amongst other things, the results of our internal and external reviews, our root cause analyses and discussions with our Public Interest Committee and the AFM (the Dutch Authority for the Financial Markets) we reassessed our quality improvement plan at the beginning of this year. This reassessment resulted in a plan that focusses primarily on a deeper and more intensive approach to ongoing key issues and priorities. We report back on this in the following pages.

This has contributed to the progress we have made this year in the change programme we initiated for structural improvement in quality and for tangible change in culture and behaviour. Having said that, we know we are not there yet. At the end of May 2018, the Monitoring Committee Accountancy (MCA) set up by the accountancy sector published its second report on the progress being made in the change process initiated in the sector to improve quality, culture and behaviour within audit firms. The Committee concluded that the implementation and operation of this change process is still proceeding too slowly and that the measures taken need to be applied in greater depth and with greater clarity as to the results achieved.

This report underscores the need for the greater depth and intensity that we have brought to our quality improvement plan. So we continue to set the bar high for ourselves and we recognise that we also have a role to play in the sector. In this context, under the leadership of the NBA within the Public Interest Steering Group, amongst other things, we are working on creating more in-depth analyses of the structural models in the sector, such as the business, partner and remuneration models. The MCA and other stakeholders are urging us to look even more closely at identifying unhealthy incentives within these structural models and at how we can remove these incentives.

Reassessment of our quality improvement plan

We set out here what we have achieved this year in the key aspects of our quality improvement plan.

A centrally-driven and comprehensive control on quality

The only 'red card' we received in the AFM's 'Quality of PIE audit firms' report, issued in June 2017, was the AFM's criticism of our centrally-driven and comprehensive control on quality (referred to by the AFM in its report as 'being in control'). While we do have many initiatives ongoing in this area, the supervisory body felt that we do not have a comprehensive evaluation of quality improvement that directly links the measures and initiatives taken to the results achieved.

During 2017-2018, we developed an integrated report that measures quality and quality improvement within our audit firm. Quality indicators that previously came from various different reports are now linked and presented in our Integrated Dashboard. This provides us with a better basis for regular assessment of, and control over, quality and quality improvement. As from this current year (2018-2019), we and our Business Unit Leaders will be making more active use of the dashboard to monitor progress.

In early 2018, we also set up the Quality Council (see page 22 of the appendix to this Transparency Report). One of the roles of the Quality Council is to manage and monitor (quality in) the root cause analysis process and evaluate the results thereof. The Quality Council also provides input to the resulting quality improvement plan and periodically monitors the effectiveness of the measures taken and the follow up action, based amongst other things on the outcome of the KPIs included in the Integrated Dashboard. The Quality Council also advises the Assurance Board on the actions initiated by those with in-line responsibility (and how these link to each other).

Greater capacity in the workforce

The push for quality in the audit and the increasing demand for assurance services are keeping our people fully occupied. We need greater capacity in our workforce if we are to allow them sufficient time to implement quality improvement initiatives and cope with the fluctuating demand for assurance services. The Assurance practice now has ninety more FTEs than it had at 30 June 2017, fifty of which are in the audit practice. In addition to the regular intake through our Associate Academy, we have also specifically been able to attract a number of more experienced people (see also KPI 5.1).

The dilemmas the sector is facing

In recent years, both we and the sector as a whole, have invested in closing the performance gap in audit quality. We are spending more time on the audit and on the documentation thereof in our files, and we have further encouraged (and as a result boosted) the learning capacity of our organisation. Our efforts are primarily aimed at transforming ourselves into a purpose-led and values-driven organisation that puts our societal role at the centre of what it does. It is becoming increasingly clear to us that a quality-focussed culture is a prerequisite for real quality improvement.

But we need to do more if we are to restore public trust. We must be open and transparent about the dilemmas we face within our sector and within PwC. As in many sectors, our business model and the way we are organised involve risks that need to be mitigated. We acknowledge that the ways of working, both within our own organisation and across the sector, can involve incentives that can negatively affect both our audit quality and our independence. It is important that we identify these incentives and adequately address the risks they bring, while recognising that, any new measures can bring new incentives and risks with them. A good and open dialogue is essential to achieving a sensible balance between the measures taken and the related risks.

Furthermore, to restore public trust in the profession, it needs to be clear to stakeholders what an unqualified auditor's report entails – but, importantly, also what it does not entail. The primary responsibility for continuity, fraud and compliance with laws and regulation rests with the entity's management and the supervisory board. It is the auditor's responsibility to identify and assess the risks relating to continuity and material misstatement, whether unintentional or resulting from fraudulent reporting, misappropriation of assets or bribery and corruption. But at the same time, undetected fraud or unexpected bankruptcy does not necessarily or automatically mean that the auditor's performance has been inadequate.

We are actively contributing to the debate with internal and external stakeholders to address the expectation gap that may exist in these areas. We realise that we also have a responsibility within the sector as a whole, and we are therefore an active participant in the NBA initiative regarding the Change Agenda Audit ('Veranderagenda Audit'). We are also engaged in the more fundamental analysis of the structural models within the sector, such as the business, partner and earnings models. Since the NBA published its green paper on structural models, the MCA and other stakeholders have urged us to get into this more deeply and to identify ways in which we can further mitigate the incentives.

See the PwC NL Annual Report 2017-2018 for a comprehensive summary of the outcome of our stakeholder dialogue and how we have responded to this.

Nevertheless, workload continues to be a focus of attention, and we are planning to expand our workforce further by taking on more people and retaining them for longer. We are also working on greater use of technology in the audit and continued outsourcing of standard work to specialist delivery centres. This contributes not only to ongoing quality improvement but also to a better balance between the amount of work to be done and the human resources available to do it.

For the same reasons, in September 2018 we set up a competence centre and various centres of excellence in the Netherlands to complement the existing delivery centre. These centres have been brought together, along with our staff planning department, into the newly formed Audit Support department. We have developed a specific Bachelor Traineeship training programme for the people joining these centres and have already recruited 35 graduates with a financial education with plans to expand this to seventy FTEs during 2018-2019. These colleagues will perform the more standard aspects of the audit work and provide support to the audit teams in certain specific areas. They do not need to obtain the accountancy qualification, but will of course be trained in the specific areas of the audit on which they will be focussing. Our aim with these support centres is not just to improve quality, but also specifically to bring more stability to our planning and create acceptable workload levels.

Professional scepticism as a hallmark of culture and behaviour

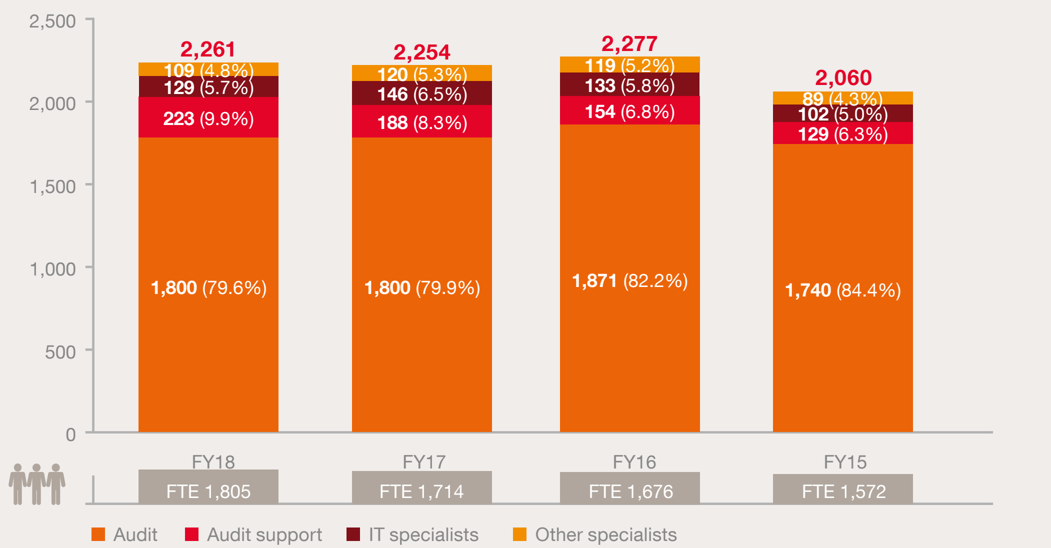
A professionally sceptical mindset is crucial in an auditor. This has also been clear from our root cause analysis. To keep this at the forefront of our minds and to improve the levels of professional scepticism, we have held dilemma workshops in all our business units, covering potential barriers to good professional scepticism and linking solutions identified through to our values. As a logical follow up to this, we are currently organising meetings to exchange feedback, also key in the development of a professionally sceptical mindset.

In the feedback sessions with clients, they indicate that they do see us becoming more and more professionally sceptical, though how we bring across the (less positive) messages is an area where we can still grow.

This year, we have reassessed how we request feedback from clients and how this feedback links into our public interest role. As a result our 2018-2019 feedback requests will cover not only what we have meant to the client itself but the value we added for its stakeholders, including for society as a whole. We will also be asking our clients for their views on how we have lived up to our values in the services we have provided.

We will continue to encourage the giving and receiving of feedback. Experience tells us that feedback is at its most effective when given in the moment. This helps us to reinforce ourselves as a learning organisation, continuously improving its working methods and with an outward, societally-focussed culture as its norm. This is why we believe that coaching on the job is so important, as is the use of what we call Snapshots (see page 14 of the appendix to this Transparency Report).

Hours spend on audit engagements (x1.000) and permanent staff (FTEs) in the period FY15-FY18



Different disciplines work together on our audit engagements

Of the total number of hours that we spent this year on audits, 79.6% was spent by our auditors. They have been supported by IT specialists (5.7%) and by other specialists such as financial reporting, valuation, pension, tax and data specialists (4.8%).

To improve quality, we have for some years been outsourcing more and more standardised work to specialised delivery centres and competence centres (both in-country and abroad) and, last year, we set up the Project Management Office. In 2017-2018, we outsourced 9.9% of total audit hours (prior year: 8.3%) to the delivery and competence centres and the PMO. More and more disciplines and colleagues with specific competencies are contributing to our engagements.

While this means that our auditors have more time for their primary responsibilities, it does also require more of their project management skills.

The number of audit hours spent by auditors grew by some 60,000 between FY15 and FY18 (an increase of 3.4%) while our basic headcount grew by 233 FTEs in the same period (an increase of 14.8 %). Over the years, other disciplines have taken on proportionately more of the hours. These trends contribute to achieving our objective of reducing the workload while also improving audit quality.

We encourage our colleagues to request and discuss feedback immediately after an engagement has been completed, rather than once or twice a year. Although we have made progress here, we can see room for improvement and so coaching and giving and receiving feedback remain key points of attention for the current 2018-2019 year.

Planning the audit process and using project management as a tool for quality

An optimal audit process begins with good planning, spreading work as evenly as possible throughout the year. We rolled out a new tool this year ('Octopus') that enables us to follow planning changes more closely and get a better overview of the financial aspects of our capacity planning. This has improved planning insight throughout the year, resulted in more effective decision-making regarding the deployment of our people on engagements, and has significantly improved our insight into the financial performance of our engagements. The tool also better enables both the Assurance Board and individual partners and directors to assess whether we have the capacity to meet changes in client deadlines and take on new clients or engagements – and when we need to say 'no' to new clients or to new engagements from existing clients.

The work performed at clients takes place at varying times: in the autumn (what we call the interim audit), but primarily in the spring (the year-end audit, the peak in our season). By spreading the work more evenly throughout the year, we can reduce the pressure of work as we approach the spring deadlines and thereby also improve the quality of our work. We have developed a special programme ('Flow') that is designed to bring forward, to the spring and summer of 2018, 55,000 audit hours that were planned for the current 2018-2019 year, representing 3% of total audit hours.

To facilitate this optimisation, this past year we have invested in our planning department by making it, as from 1 September 2018, an integral part of the Audit Support department referred to earlier. Our team planning coordinators look not only to staff availability but also to matters like continuity within the teams and the preferred flexibility of individual team members. In this process, they agree with the team on the timing needed for the work, the timing of technical specialist involvement and the tasks to be outsourced to the delivery centre, competence centre or centre of excellence (and the timing thereof).

The audit process continues to require more and more specialist involvement and use of the centres mentioned earlier, which increases the importance of project management. Good allocation and planning of the work leads to a more efficient audit, avoids unnecessary work (for both the audit team and the client), and ultimately benefits quality. Between August 2016 and January 2018, we have trained 970 colleagues from 118 different teams in process optimisation under the Lean Six Sigma and Business Process Reengineering principles.

We have also expanded our Project Management Office (PMO), set up last year, from ten to twenty FTEs and moved it into the Audit Support department as of September 2018. Our project managers supervise and coordinate the audit planning process, including assessing standardisation, risk management and team member planning, taking much of the coordination work away from the auditors who then have more time for their primary responsibilities. This year, the PMO Group has provided 15,000 hours of support to the audit teams on our forty largest clients (prior year: 6,100 hours). In the coming two years, we plan to double the number of project managers to forty FTEs.

Keeping technical expertise up to date

Focus on fraud and corruption

More than ever before, society and our stakeholders expect auditors to play an active role in the detection of fraud, and this has been a key aspect of our quality improvement process for a number of years now. This past year, we have focussed our audit work particularly on the detection and discussion of fraud and corruption risks, both within our teams (through a specific memo on fraud) and with our clients (through a fraud risk questionnaire), on specific audit steps to be applied to fraud and corruption risks, and on performing supplementary audit work where indications of potential fraud are identified.

In conjunction with fraud specialists, National Office (our professional technical support office) has developed some hands-on training to make us more streetwise, challenging our audit teams to learn to think like a fraudster in order to help identify potential fraud risks at clients. At the same time, we focussed on the audit work necessary to mitigate the risks identified and the training focussed particularly on the identification of corruption risks at clients, reflecting, amongst other things, the NBA's new Practice Guideline 1137 'Corruption and the work of the auditor'. A key element of the training was also guidance in opening up the fraud and fraud risk discussions with clients and in approaching clients regarding their responsibilities for the prevention and detection of fraud through their internal control systems.

From left to right: Michel Adriaansens, Wytse van der Molen, Agnes Koops-Aukes and Joris van Meijel.

Members of the Assurance Board

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 1 September 2018. She has been Chair of the Board of PricewaterhouseCoopers Accountants N.V. and an authorised executive director of the Board of Management since 1 July 2018.

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. His portfolio consists of Human Capital, Journey and Markets.

Wytse van der Molen* (born 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. He is responsible for the Risk & Quality portfolio, CMAAS and Risk Assurance.

Joris van Meijel* (born 1973) joined PwC in 1997 and has been a partner since 2011. He has been a member of the Board of PricewaterhouseCoopers Accountants N.V. since 1 July 2018. He is responsible for the Finance and Operations portfolios and the Assurance Change Programme.

Change to the composition of the Assurance Board as of 1 July 2018
Ad van Gils stepped down as Chair of the Board of PricewaterhouseCoopers Accountants N.V. as at 1 July 2018 and Agnes Koops-Aukes was appointed Chair and Joris van Meijel joined as of 1 July 2018.

* **Authorised executive director of** PricewaterhouseCoopers Accountants N.V.

A one-day training on fraud has been mandated by our professional body, the NBA. However, our hands-on approach goes a step further. Our training on fraud is given by behavioural experts and fraud experts from our forensic practice. It was part of our Summer School at the beginning of last year for all Assurance professionals from third-year senior associate level upwards. We have also given a tailored version of the training to our less experienced colleagues. As a result, our entire Assurance practice has now had fraud training.

National Office has also developed new guidance, work programmes and templates, and the existing guidelines concerning fraud consultation have been tightened up. In addition, this past year our RTR team has focussed on coaching our audit teams on fraud risk assessment and on planning and executing the work directed at these fraud risks. A fraud risk questionnaire has also been developed by fraud specialists from our Advisory practice that provides a basis for in-depth discussion with clients regarding fraud risks and the related measures needed to manage them. The outcome of this questionnaire is also addressed within the audit team and, where necessary, with fraud specialists. The audit teams can also call on tools developed by our Advisory fraud experts, such as payment and Chamber of Commerce analyses. Finally, there have been more consultations submitted to and dealt with by the Fraud Panel (see also KPI 6.7). The outcome of all our initiatives has been to generate greater awareness of fraud, improved the quality of the fraud risk evaluations, and improved the documentation of the audit work done.

Learning from our Real Time Reviews

We have continued with the in-line coaching of our audit teams (i.e. while the audit is ongoing). The Real Time Review team (RTR team) completed 148 in-depth reviews of selected audit files before issue of the audit opinions (see also KPIs 6.10 and 6.11), as a result of which we are learning from each other more quickly through coaching on the job and we are identifying potential quality risks at an earlier stage. In a mutual learning culture, mistakes and good practices are shared, and this increases awareness of the decisions that need to be made, the factors that need to be considered and the areas where things can go wrong.

Digitalisation requiring new skills of the auditor

The increasing digitalisation of the world around us is having a significant effect on how an audit is performed. While new technologies bring with them greater convenience, efficiency and accuracy, they also bring risks for us and for our clients, and as a result we are seeing an ever increasing demand for innovative services like data analysis, cybersecurity and other assurance services that help protect processes, systems and people. Consequently, our clients and other stakeholders also expect us to be focussing more on providing assurance on non-financial information, and this is creating growth for our CMAAS and Risk Assurance business units. CMAAS provides advice on accounting issues, capital markets transactions and treasury, and Risk Assurance focusses on providing assurance on processes and systems, including cybersecurity and non-financial information. We expect further growth for these business units in the coming years.

In order to respond to these developments, we are placing more emphasis in our training programmes on IT, we are offering young colleagues the opportunity to follow the Digital Auditing master's programme, and we have set up a Digital Assurance Traineeship as from September 2018 to train participants, over a two-year period, for a role in the digital interface between audit and risk assurance. The Digital Assurance Traineeship has been set up in the same format as our Associate Academy, the trainee programme we have for staff following the Dutch chartered accountancy qualification.

In addition to this, we are increasingly looking to recruit people with a technical background. We need colleagues with a STEM profile (Science, Technology, Engineering and Mathematics), particularly in our Risk Assurance and CMAAS business units.

Services other than financial statement audits

Our colleagues in the Risk Assurance and CMAAS business units have spent much time this year on a number of significant once-off client projects. Client implementation of accounting standards IFRS 9 (Financial Instruments), IFRS 15 (Revenue from Contracts with Customers) and IFRS 16 (Leases) has resulted in extra work. CMAAS provides advice to our non-PIE clients and third parties and provides support to the audit teams as they audit the implementation of these standards. We are identifying increasingly innovative ways of providing this advice and support. For instance, to support the implementation of IFRS 15, CMAAS has developed a tool that helps our clients to get clear and efficient insight into all their revenues from customer contracts.

Our people make the difference

It is our people who determine the quality of our service, and it is they who are the agents for our change programme. So we continue to do all we can to attract and retain top talent, reflecting specifically on the competencies that we need to develop or attract if we are to continue to be relevant to our stakeholders in the future. Also important to us is that we engender an inclusive culture in which we embrace diversity. Inclusivity means that everyone should feel involved and valued – not in spite of, but because of, the differences. We believe that working in teams that are diverse, that facilitate differing points of view, results in qualitatively better audits and services to our clients.

The challenge we face is not only in recruiting female colleagues or colleagues with a migrant background, but in holding on to them for longer. Turnover among colleagues with a non-Western background dropped sharply this year (from 16.0% to 13.6% - see KPI 5.3), as did turnover among female colleagues (from 16.8% to 11.9%). Promoting female colleagues and colleagues with a non-Western background to senior positions, and subsequently retaining and developing them in those positions, remain key matters for attention. To bind talent to us for longer, we have more regular meetings with these groups and we listen to what is driving them. We do this both from the Assurance Board and within the business units through what we call next generation groups. These groups consist of colleagues up to and including manager level who meet on a regular basis to exchange ideas with their business unit management teams. We realise that the new generation often has different expectations, for instance on the subject of flexible working. Consequently, we developed a plan of action last year with a group of young colleagues on this very subject. The plan consists of three elements: Make it possible (fine-tuning systems to facilitate flexible working hours), Make it known (leadership leading by example), and Make it work (facilitating open and frank dialogue within the teams). We started a pilot in September 2018 that facilitates flexibility in working hours within a set of pre-agreed guidelines.

Staff satisfaction currently at its highest level ever

Our Dutch Assurance people are among the most involved of all PwC people in the global network of member firms. The People Engagement Index for Assurance rose this past year to 85% (prior year: 83%). This rating indicates that the vast majority of our colleagues are proud to be working at PwC, would recommend PwC as an employer, and expect to be still working at PwC for the coming year. Needless to say, we are pleased with these results. They illustrate that we have taken the right approach with our change programme. At the same time, we acknowledge that there are still matters for attention, such as workload (see page 29), and that we need to continue to focus on reinforcing ourselves as a learning organisation if we are to maintain this level of satisfaction.

Learning from our internal reviews

An important test of our service quality is the international Engagement Compliance Review (ECR). This internal testing is carried out by partners, directors and managers independent of the engagement being reviewed, some of whom come from elsewhere in the global PwC network. The objective of the ECR is to review the quality of completed engagements and to identify areas for improvement. During 2017-2018, 37 (prior year: 40) of our assurance engagements were subject to an ECR. One file was deemed to be non-compliant (prior year: five files), a file supporting the audit of a subsidy claim. Five engagements (prior year: 7) met the applicable requirements but with a 'compliant with review matters' rating. We evaluate the resulting lessons learned (see also KPI 7.1) and address them, as necessary, in our Quality Improvement Plan.

In our CMAAS and Risk Assurance practices, ten and nine file reviews, respectively, were carried out. All nineteen complied with the applicable requirements, though six with a 'compliant with review matters' rating.

During 2017-2018, supervisory bodies such as the Central Government Audit Service (ADR) and the Dutch Healthcare Authority (NZa) reviewed 24 files in the context of their regular supervisory responsibilities. All 24 files were found to be satisfactory. In the prior year (2016-2017), one file reviewed by the ADR received a 'compliant with review matters' rating and one file reviewed by the Inspectorate of Education was deemed to be non-compliant.

The AFM has not carried out any regular inspections this year into the quality of our statutory audit files. The US supervisory body (the PCAOB) started its regular tri-annual investigation process in September 2018, and we expect the results around mid-2019.

Appeal against the file levied by the AFM

On 16 March 2016, as a result of its regular 2013-2014 inspection of 2011-2012 audit files, the Dutch Authority for the Financial Markets (AFM) levied an administrative fine on PwC in the amount of € 845,000 for failure to meet its duty of care under Article 14 of the Wta (the Audit Firms Supervision Act). PwC filed an appeal against this decision to levy a fine in order to obtain clarity as to the frame of reference to be used to test application of duty of care. Our *Transparency Report 2016-2017* addresses this in more detail on pages 9-10.

The Rotterdam court delivered its decision at the end of December 2017. The court is of the opinion that the deficiencies noted in the audit work of the external auditors of an audit firm are, in and of themselves, not sufficient for reaching a conclusion as to whether the audit firm did not meet its duty of care. The court believes that such a conclusion may be drawn only on the basis of investigation into how the audit firm meets its duty of care, and this can vary on a specific case-by-case basis. The case the AFM brought regarding the deficiencies it noted in the audit work of PwC's external auditors is not sufficient to support, beyond reasonable doubt, the AFM's conclusion that PwC did not meet its duty of care. The court therefore overturned the decision to levy a fine.

In our view, the opinion of the Rotterdam court has provided greater clarity regarding the frame of reference to be used to test the application of duty of care by audit firms. We hope that this decision will contribute to the dialogue with the AFM about the way in which we, as an organisation, can facilitate and encourage the quality of the audits performed by our external auditors. The AFM has appealed the decision.

If the decision to levy a fine is definitively overturned on higher appeal, a monetary amount equal to the fine will be contributed to the Foundation for Auditing Research (FAR), the foundation that carries out academic research into the drivers of audit quality to which various audit firms actively contribute by, amongst other things, making data available.

Continuing our commitment to improvement

Aside from our continuous investment in the development of our people, we continue to work on the quality of the services we provide and on our transformation towards becoming an organisation fully equipped for the future. We continue to work towards becoming an organisation that delivers good quality audits and that is, and continues to be, of added value to its stakeholders and society in a changing world. It is our goal to restore trust in this core responsibility and, supported by our change programme, we will press resolutely on with our journey to becoming a purpose-led and values-driven organisation – in the sure knowledge that this will lead to structural quality improvement and real cultural and behavioural change.

We would very much like to thank all our colleagues for their commitment and contribution during this past year, our clients for their understanding for the higher bar that we have set, and all our stakeholders for the trust they have had in our transformation into a purpose-led and values-driven organisation.

Amsterdam, 27 September 2018

The Assurance Board,
Agnes Koops-Aukes (Chair)
Michel Adriaansens
Joris van Meijel
Wytse van der Molen

Report of the Public Interest Committee

PricewaterhouseCoopers Accountants N.V.

The PIC reports on how it has discharged its supervisory responsibilities with regards to safeguarding the public interest within the audit firm.

Report of the PIC

A regularly recurring item on the Public Interest Committee (PIC) agenda has been the wide range of work being done in the area of improving audit quality. While much has been done by PwC this past year (and in earlier years) to improve the quality of the audit work performed, the reality of the situation is that the sector needs to move forward more quickly on this. Although the second report issued by the Monitoring Committee Accountancy (the MCA) in May 2018 differentiates between the speeds of progress achieved by the individual audit firms, the report still contains serious criticism and it is clear the Committee believes that, overall, the improvement progress made by the firms/sector is neither quick enough nor intensive enough.

It is the ambition of both the Board of PricewaterhouseCoopers Accountants N.V. (the Assurance Board) and the PIC to speed up and intensify the measures needed. We realise that any future measures to be taken might well affect the organisation's business model. It is consistent with the current climate that the Assurance Board is transparent about the dilemmas inherent in its business, partner and remuneration models and to engage in the dialogue about what PwC is doing about them or plans to do about them. Increasingly, organisations like PwC are being judged on the integrity of their intentions and the credibility of the way they do business – and this sometimes means facing up to some difficult decisions. The Committee regularly challenges the Assurance Board on this, to help PwC not only to achieve its ambitions but specifically making them real by opening itself up as a learning organisation. From what we have seen, the Assurance Board is taking the need to speed up some of the processes seriously.

Supervision

During the financial year 2017-2018, the PIC has monitored the way in which PricewaterhouseCoopers Accountants N.V. safeguards the public interest in the audit opinions it issues. In this written report, the Committee sets out how it has discharged its supervisory responsibilities in 2017-2018 and presents its conclusions as to how the public interest is currently safeguarded within PwC.

The PIC has been one of the sub-committees of the Supervisory Board of Holding PricewaterhouseCoopers Nederland B.V. ('Holding') since the installation of the Supervisory Board following the Future Accountancy Working Group's 'In the Public Interest' report. The members of the Supervisory Board are all independent third parties. Following the wish expressed by all the supervisory board members to be closely involved with the issues that the PIC deals with regarding the audit firm, the PIC has comprised all members of the Supervisory Board as from 2017-2018.

The PIC met five times during the financial year 2017-2018, with four members attending all meetings (100% attendance) and the other three members being absent from one meeting each (80% attendance).

The discussions during the meetings were constructive and there was open and frank dialogue with the Chair of the Assurance Board and the Assurance Board member responsible for quality and 'the journey'. The Chair of Holding's Board of Management (the highest-level network entity in the Netherlands) was also at the meetings, together with the Compliance Officer and his deputy and the Manager for Public Affairs. When addressing specific issues, such as the results of internal quality reviews (ECRs), legal procedures or tools developed to improve quality (including data quality), the senior officer responsible within the organisation has also generally been in attendance.

Every meeting includes a discussion with the Assurance Board about quality, in nearly all cases based on the reassessed quality improvement plan put together at the beginning of 2017-2018 to speed up and intensify the ongoing key issues and priorities. The discussions regarding progress in the most important of the quality indicators identified by the Assurance Board were based on Assurance's quarterly quality indicator reports, providing insight into the way in which the Assurance Board manages on the basis of quality and quality improvement.

Other matters discussed during our meetings included: developments in the audit profession and the professional body (such as the NBA's sector root cause analysis and its green paper on structural models), PwC in the media, the results of the 2018 stakeholder dialogue, developments within the audit firm (such as the suitability screening of potential board members), the Compliance Officer's periodic reports, the results of the culture and behaviour monitor, the lessons learned from claim situations, the way that quality performance is reflected in the evaluation and remuneration of staff and partners/directors, and the improvement plans put in place by individual audit partners/directors following file reviews. Also, with the Assurance Board, we discussed disciplinary complaints received, independence infringements noted, ongoing investigations, and the response that PwC is putting together regarding the appeal filed by the AFM against the decision by the court to overturn the AFM's decision to levy a fine.

In addition to contact during the regular committee meetings, the Chair of the PIC has from time to time also had ad hoc contact with the Chairs of the audit firm, the Board of Management and the Supervisory Board on specific matters of interest.

The Committee's self-evaluation was carried out as part of the overall Supervisory Board evaluation, and this is addressed in the Report of the Supervisory Board, included in Holding's Annual Report 2017-2018.

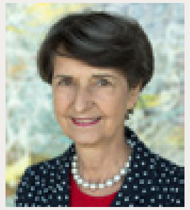
Focus on society and stakeholders

During our constructive and frank discussions with the Assurance Board regarding commitment and approach, we have repeatedly emphasised that a changing and more societally-engaged mindset is needed across the entire sector if the desired cultural change is to be achieved, and we have requested the Assurance Board to reflect this in all the relevant channels within the accountancy sector. The fact that one individual firm's efforts have resulted in the firm having its house better in order does not make the verdict on the sector as a whole any better. The political and societal response is focussing on the overall conclusions. This was clear from the AFM's 'Quality of PIE Audit Firms' report dated 28 June 2017, the debate surrounding the Law on Supplementary Measures for Audit Firms, and the second MCA report.

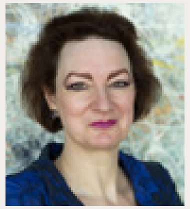
The challenge here remains to stay the course and ensure that the changes are not only sustainable but are also achieved in a shorter timeframe. If there is to be confidence that the measures put in place do indeed have a sustainable outcome, it must be clear that the measures for improvement are delivering results. We have also discussed with the Assurance Board that attention needs to be given to the relevance of what is happening internationally in this area.

We closely monitor the dialogue that the Assurance Board has with a broad group of stakeholders, and Holding reports back on this in its Annual Report 2017-2018. The dilemmas and issues surrounding the remuneration and partner models, the workload, the role of the auditor in identifying fraud, and the way in which the auditor responds when fraud is discovered are all matters discussed with the Assurance Board and by the Assurance Board with its internal and external stakeholders.

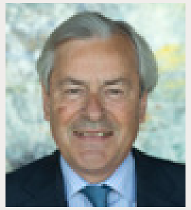
We welcome the visible involvement of the Assurance Board in the audit sector's agenda for change and in the development of the papers issued by the NBA's Public Interest Working Group. The Supervisory Board, through its Chair and the Chair of the PIC, also participates in meetings with stakeholders (including the regulator) and individual Supervisory Board members participate in meetings that PwC holds with its



Yvonne van Rooy (born 1951) has been, amongst other things, Secretary of State for Economic Affairs, Member of the European and Dutch Parliaments, Chair of the Executive Boards of both Tilburg and Utrecht Universities and Deputy Crown-appointed member of the Social and Economic Council of the Netherlands (SER). She has been Chair of de Nederlandse Vereniging van Ziekenhuizen (the Dutch Association of Hospitals) since 2012. Her other appointments include Chair of the Supervisory Board of Philips Electronics Nederland, member of the Executive Board of the Confederation of Netherlands Industry and Employers (VNO-NCW), board member of Stichting Administratiekantoor Koninklijke Brill, supervisory director of NN Group, Member of the Curatorium Protectors of the Camp Vught National Memorial, member of the Supervisory Boards of the Nationaal Kunstbezit (the Netherlands Art Collection Foundation), the Nexus Institute and the Gemeentemuseum The Hague (the Municipal Museum of The Hague. Van Rooy has been a member of PwC's Public Interest Committee since 2013 and as of 1 July 2018 has been appointed Interim Chair.



Naomi Ellemers ((born 1963) is a social psychologist and professor at Utrecht University, working in areas such as remuneration and motivation, organisational diversity and change, moral behaviour and ethics. Amongst other things, she is a member of the Royal Netherlands Academy of Arts and Sciences and a Corresponding Fellow of the British Academy for the Humanities and Social Sciences (FBA). Previously she led the Social and Organisational Psychology department of Leiden University, with responsibility for various research projects and, amongst other things, the educational curriculum. She is currently a board member of the Praemium Erasmianum Foundation. Ellemers has been a member of PwC's Public Interest Committee since 1 May 2015. In her primary role as university professor at Utrecht University, she has entered into a collaborative arrangement with the AFM under which she will be involved, amongst other things, in the promotion and publication of academic research into the psychological processes involved in supervision. Given her secondary role as supervisory director at PwC, she will not be involved in any way in research into audit firms.



Jan Maarten de Jong (born 1945) was a member of the Managing Boards of ABN AMRO and ABN AMRO Holding from 1989 to 2002. He joined Algemene Bank Nederland in 1970 and held a number of positions including Director General and member of the Managing Board. He was adviser to the Managing Boards of ABN AMRO and ABN AMRO Holding from 2002 to 2006. De Jong's other positions have included supervisory directorships at AON Nederland, CRH Plc (Ireland), KBC Bank NV (Belgium), Heineken, Nutreco, Theodoor Gilissen Private Bankers and de Onderlinge 's-Gravenhage. Amongst other things, he is currently a member of the Supervisory Board of KBL European Private Bankers S.A. (Luxemburg) and a member of the Managing Board of Stichting Preferente Aandelen ASML. De Jong has been a member of PwC's Public Interest Committee since 2017.

most important stakeholders. These provide us with up-to-date insight into the expectations that PwC stakeholders have and into the way in which PwC addresses these. We fully agree with the Assurance Board's view that there must be a role for both the legislator and the regulator, as well as for organisations like PwC, in the dialogue with stakeholders about the issues playing out in the sector.

As a societally relevant organisation, PwC's responsibility goes further than service quality. The ambition of the Assurance Board is to remain relevant through the development of knowledge and talent, through sharing this knowledge, and through taking the lead in debates on issues relevant to society.

All of our meetings during the year included consideration of key societal developments and an update of ongoing and recent legislation and regulation as they apply to auditors and audit firms, including the Law on Supplementary Measures for Audit Firms (and the ensuing suitability screening).

Quality under control

One particular key issue that was extensively discussed with board members and the Compliance Officer again this year was PwC's approach to monitoring the effect of the measures implemented to improve audit quality.

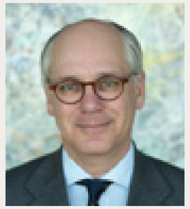
As previously requested, the Assurance Board has provided us with periodic insight on a more integrated basis into the relevant aspects of quality with regard to the audit firm, the (statutory) audits performed, and the efficacy of the quality improvement process.

At the beginning of the reporting year 2017-2018, the AFM report, the results of the internal quality reviews (ECRs), the meeting with the MCA, the passage of the Law on Additional Measures for Accountancy Organisations, and the activities of the NBA's Public Interest Working Group combined to give the Assurance Board cause to reassess the efficacy of the measures put in place and the initiatives taken to improve quality, and to determine how the speed of achievement could be improved. The Assurance Board is well aware that PwC is not there yet and that it can do better. Progress has been made, but the results are not yet always evident.

While we can see the progress that is being made on the integrated reporting, the message we have given to the Assurance Board is that the insight the reporting provides needs to be clearer and simpler, for instance by clarifying in the reporting the linkage between the assessments made and the measures implemented.

In terms of the change programme, in addition to putting measures and follow up steps in place, the Assurance Board has also focussed on the underlying issues. Furthermore, the results of the root cause analysis carried out by the Assurance Board have been included in the quality improvement plan. We have requested the Assurance Board to evaluate regularly whether the analysis is being done in sufficient depth to make it clear that all the real root causes are being identified.

Annemarie Jorritsma (born 1950) has been a member of the Dutch Senate (Eerste Kamer) for the VVD since 9 June 2015 and Chair of the Nederlandse Vereniging van Participatiemaatschappijen NVP (the Dutch private equity association) since 1 September 2015. She stepped down as Mayor of Almere in September 2015, a position she had held since 2003. She was also Chair of the VNG (the Association of Netherlands Municipalities) for seven years. Prior to that, she was a minister in the Kok Cabinet for eight years, four with the Ministry of Transport and Water Management and four with the Ministry of Economic Affairs. Jorritsma's other positions include Chair of Koninklijke Nederlandse Heidemaatschappij, Chair of the Supervisory Board of Alliander, Ambassador for Topvrouwen and Chair of the jury for businesswoman of the year. Jorritsma has been a member of PwC's Public Interest Committee since 2017.



Frits Oldenburg (born 1961) has been of-counsel with FG Lawyers since 2013. He was a member of the Board of Trustees of the International Bureau of Fiscal Documentation from 2004 to 2014 and was a partner with NautaDutilh from 1995 to 2013. As a notary, he specialised in company law and was also, amongst other things, a board member of de Koninklijke Notariële Beroepsorganisatie (the Dutch professional organisation for notaries). He is currently a member of the Managing Board of Stichting Vrouwe Groenevelt's Liefdegesticht, the Dutch Red Cross' North and East Gelderland District and Stichting Astma Bestrijding (the Dutch foundation for combatting asthma). He has been a member of PwC's Public Interest Committee since 2017 (after having been a member of this committee from 2013-2015).

Cees van Rijn (born 1947) was CFO and member of the Board of Management of Nutreco from 2001 to 2011. His previous appointments included CFO of Sara Lee Meats Europe, CFO Northern Europe of the McCain Foods Group and a number of positions with Nutricia. He is currently supervisory director at ForFarmers, Chair of the Supervisory Board of the Detailresult Groep and supervisory director at Royal FloraHolland, the Plukon Food Group, UTZ Certified and Erasmus Q-Intelligence. Van Rijn has been a member of PwC's Public Interest Committee since 2013.

Changes to the composition of the Pubic Interest Committee as of 1 July 2018
Nout Wellink left PwC's Public Interest Committee as of 1 juli 2018 and Yvonne van Rooy was appointed Interim Chair of PwC's Public Interest Committee.

In its self-evaluation at the end of 2017-2018, the Supervisory Board indicated that it believes that the supervision of the cultural change is well embedded, though the Board also feels that better insight needs be obtained, from the integrated reporting, into how quality and quality improvement is managed.

Changes in policymakers and co-policymakers in 2018-2019

As from the beginning of this current financial year 2018-2019, the audit firm and Holding each have a new board of management. The Supervisory Board believes that the diversity of experience, background, competencies and personalities delivers a team that can move PwC forward, in the coming years, along its transformational process towards becoming a purpose-led and values-driven organisation. This transformation needs to continue with undiminished urgency.

In line with the rotation schedule set by the Supervisory Board, the Chair of the PIC (Nout Wellink) stepped down from both the Supervisory Board and the PIC at the end of 2017-2018. We are very grateful for the way he has discharged his duties as Chair and the way in which he has consistently been able to contribute to increasing trust in PwC through his keen outside-in vision. While searching for a suitable replacement with the help of external advisers, the Supervisory Board has appointed Yvonne van Rooy as Interim Chair of the PIC.

Transparency Report

The policymakers of PricewaterhouseCoopers Accountants N.V. have discussed this Transparency Report 2017-2018 with us. We believe that the tone of the Report is consistent with our understanding of the approach taken by PricewaterhouseCoopers Accountants N.V. this year in ensuring that the public interest is safeguarded and of the status of its quality management system.

The Public Interest Committee,
Yvonne van Rooy (Interim Chair)
Naomi Ellemers
Jan Maarten de Jong
Annemarie Jorritsma
Frits Oldenburg
Cees van Rijn

Monitoring quality

In this chapter we describe our definition of quality, our quality management system and the process of quality improvement and development of quality indicators (KPIs) this year.

Our definition of quality

For an audit firm, service quality begins with compliance with legislation and regulation, in particular acting with integrity, objectivity, independence and professional scepticism. But more is needed for us to live up to our purpose. For this, we need to create value for our stakeholders that goes beyond compliance and that differentiates us as a firm, for instance by providing insight through public benchmarks, participating in the public debate, contributing to the development of our people, and contributing to our clients' business processes through, for instance, management letters and improved financial statements and reporting.

So, in this context, we define quality as follows:
1. Compliance with legislation and regulation and thereafter.
2. Delivering added value to society, our people and our clients.

The objective of a quality management system is to ensure compliance with all applicable legislation and regulation. Our Quality Management System (QMS) is the framework that PwC has developed to manage quality and assure continuous delivery and improvement in the quality of our assurance services.

Our quality management system

As a member firm of the worldwide PwC network, we are required to comply with the PwC network standards and the PwC Network Risk Management Policies. These are designed to assure consistency of service quality across the PwC network. Our Assurance Risk Management Database (Matrisk) sets out our internal requirements in the area of risk management. This database is accessible to all our professionals, for instance via Inform, our central system for professional technical information.

Our policies and procedures for quality are consistent with these international frameworks and are naturally focussed also on compliance with the applicable legislation and regulation in the Netherlands. The standards framework in the Netherlands for statutory audit fall into different levels:

The audit firm

The Audit Firms Supervision Act (Wet toezicht accountantsorganisaties (Wta)), the Decree on the Supervision of Audit Firms (Besluit toezicht accountantsorganisaties (Bta)), the Law on Supplementary Measures for Audit Firms (Wet aanvullende maatregelen accountantsorganisaties (Wama)), and EU Regulations set out requirements applicable to the operating structures of audit firms that are licensed to perform statutory audits. An audit firm is required to have a system of quality management and safeguards to ensure that work is performed in a managed environment and with integrity.

The external accountant

All external auditors are required to comply with the Code of Ethics regarding professional competence (including continuing professional development training), objectivity, integrity and professional scepticism. The Audit Profession Act (Wet op het accountantsberoep (Wab)) gives the NBA the authority to prescribe professional requirements for auditors in the practice of their profession, and the NBA has issued instructions regulating the auditing profession in the form of so-called Regulations and Supplementary Requirements (Verordeningen of Nadere Voorschriften) and, in particular the Regulation Code of Ethics for Professional Accountants (Verordening gedrags- en beroepsregels accountants (VGBA)), the Regulation concerning the Independence of Auditors in Assurance Engagements (Verordening inzake de Onafhankelijkheid van accountants bij assurance-opdrachten (ViO)), the Regulation Audit Firms (Verordening accountantsorganisaties), and the Supplementary Requirements regarding Auditing and Other Standards (Nadere Voorschriften controle- en overige standaarden (NV COS)). The scope of these regulations extends beyond the statutory audit and applies also to other services provided by auditors.

Regulartory framework for the statutory audit in the Netherlands

Who	*What*	*Standard framework in general*	*Legislation and regulations*
Audit firm	Operating structures	- Quality management system - Work performed in a managed environment and with intregity	Wta, Bta, Wama, EU regulation
External auditor	Professional practice	- Code of Ethics - Independence rules - National and international audit standards (such as ISA's)	Wta, Bta, Wab (VGBA, ViO), EU regulation

A cohesive quality management system needs to comply not only with this framework of standards but also with the international framework ISQC1 (International Standards on Quality Control for firms that perform audits and reviews of financial statements, and other assurance and related services engagements) issued by the International Auditing and Assurance Standards Board (IAASB). This standard defines the objective of the quality management system as follows:

For the complete description of our quality management system we refer to the *"Transparency Report Appendices"*.

Pillar	Most important elements
Leadership	- PwC purpose and values - Stakeholder dialogue - Enterprise risk management - Audit Quality Risk Assessment - Partner/director involvement
Ethics	- Code of Conduct - Complaints procedure - Notification and whistleblower procedure - ICT Code of Conduct
Independence	- Firm independence - Authorisation for Services - Personal independence - Personal Independence Compliance Testing - Additional function database - Annual compliance confirmation - Independence training and communication
Client and engagement acceptance	- Client and engagement acceptance - Selectivity - Partner/director and QRP allocation - Acceptance and risk panels

Pillar	Most important elements
Human capital	- Follow-up Global People Survey results - L&D curriculum - Appointment of partners and directors - Talent and workforce management - Evaluation process staff (evaluation and promotion) - Evaluation process partners/directors (BMG&D)
Engagement performance	- PwC Audit Guide - Aura and other tools - QRP involvement - National Office consultations (fraud, continuity, other) - Notifications (AFM, Wwft, other) - Specialist involvement - Audit support - Real Time Reviews - Legal proceedings
Monitoring	- Engagement compliance reviews - Quality indicators - Quality Council - Compliance Office - Internal Audit Department - Reviews by PwC Global - Root cause analysis

The objective of the firm is to establish and maintain a system of quality control to provide it with reasonable assurance that:

a) the firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and

b) reports issued by the firm or engagement partners are appropriate in the circumstances.

The quality management system for our audit firm, as set out in our QMS, is focussed on this objective. QMS consists of seven pillars:

1) Leadership
2) Ethics
3) Independence
4) Client and engagement acceptance
5) Human capital
6) Engagement performance
7) Monitoring

The table above sets out the most important elements of the QMS for each of the seven pillars. Pages 5-23 of the appendices to this Transparency Report 2017-2018 describe these seven interconnected pillars and a number of elements in further detail, and pages 22-38 of this Transparency Report address the most important quality indicators related to the various pillars.

The culture and behaviour within our organisation and the diversity and vitality of our people play a role in how our QMS operates, but they are not independent elements as such. More information regarding diversity and vitality are included in the PwC NL Annual Report 2017-2018.

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

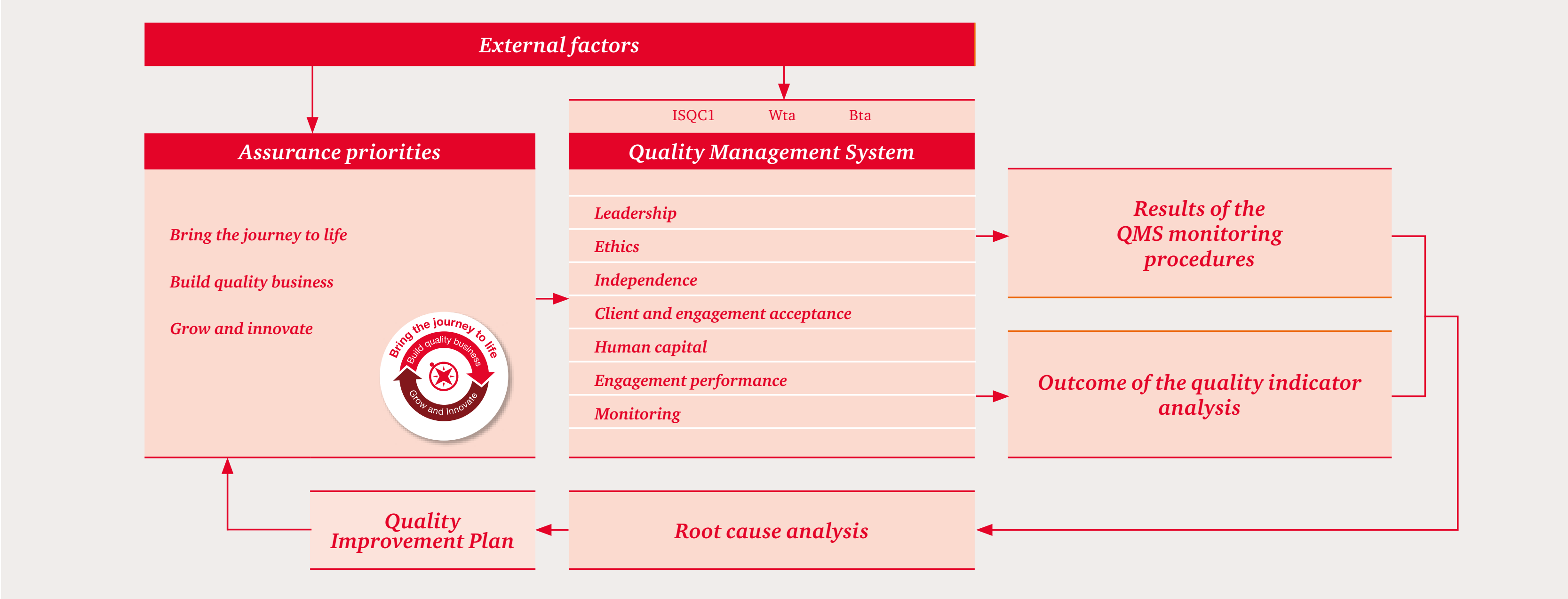
The Business Unit Leaders, along with their management teams (consisting of a quality assurance partner, change partner, human capital partner and operations partner) are responsible for implementing the policies for quality within their respective business units. The Business Unit Leaders acknowledge this by annually confirming their commitment to and implementation of all of PwC's policies for quality.

Our process of quality improvement

Quality improvement is a continuous process within our quality management system. External and internal factors, not only changes in legislation and regulation and internal PwC standards but also technological change and innovation, result in updates to our quality management system and therefore impact our strategic priorities in Assurance and our QMS.

To monitor the operating effectiveness of the QMS and process of quality improvement, we use the results of the monitoring procedures included in QMS itself as well as the results of the analysis of progress made in achieving objectives as measured by the quality indicators. The reports on the quality indicators are incorporated into the annual cycle of root cause analyses. A Quality Improvement Plan is then put together based on the outcome of this root cause analysis process, and this in turn sets the agenda for measures and action plans for quality improvement. The quality improvement process is set out in the schematic below.

Framework for the pillars of our quality management system



One reporting vehicle for quality

It was decided last year to combine, into one integrated report (the Integrated Dashboard), the quality indicators from various different reporting sources (for instance National office reports, reports about change initiatives and human capital matters). Our firm's quality indicators were incorporated into our Integrated Dashboard at the beginning of 2018, allowing us to manage our quality and quality improvement processes more effectively. The Integrated Dashboard also includes the quality indicators referred to in the NBA Guideline 1135 'Publication of quality factors'.

The set of indicators for culture and behaviour within our audit firm is not only reported in the Integrated Dashboard, but are also reported separately. Page 21 of the appendix to this Transparency Report provides a description of our Culture and Behaviour Monitor.

The assessment of the operating effectiveness of the quality management system and of the measures and steps taken includes a comparison of the quality indicators with the goals set. More quality indicator goals were set this year to enable us determine more explicitly whether we are achieving our ambition and also provide more insight and input into the root cause analysis process and the quality improvement plan. ■

For more information on the pillar 'Leadership' from our quality management system we refer to the *"Transparency Report Appendices"*.

Quality indicators in relation to 'Leadership'

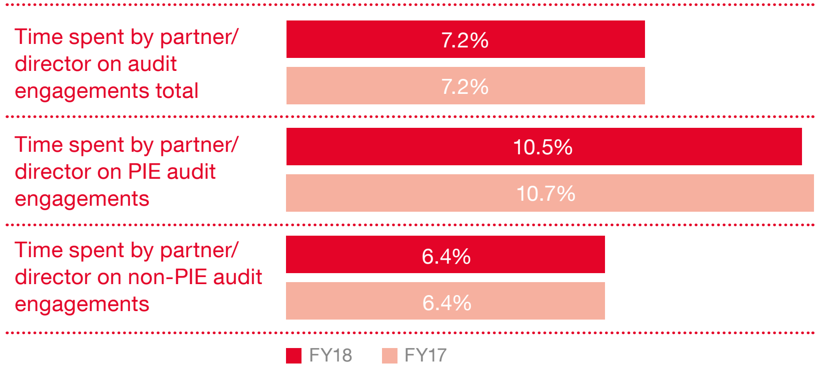
1.1 Productivity constant, workload still an area of attention

We achieved 50,000 more hours on direct client work this year with our permanent Assurance workforce, an increase of 2.2%. This was achieved with an average of 46 more FTEs (up 2.6%). With one less working day in FY18, our permanent workforce has spent an average of 1,270 hours on client work (down 0.4%). The average hours spent on non-client related work also went down slightly (by 1%). We are pleased that, despite the increase in total direct hours, we managed to keep the workload stable this year for our permanent workforce. We plan to reduce the workload further in the coming years in terms of average hours spent.

Average number of direct hours per FTE	FY18	FY17
Partner/director	902	900
(Senior) manager	1,161	1,180
(Senior) associate	1,370	1,370
Total	**1,270**	**1,275**

1.2 Time spent by partners/directors on audit engagement unchanged

The percentage of time spent on audit engagements by partners and directors (7.2% of total direct hours) is unchanged from prior year. The slight reduction in involvement on PIE audit engagements can primarily be explained by fewer first year audits in FY18. The audit teams on first year audits spend more time during the transition phase and the involvement of partners and directors is proportionately higher.



Quality indicators in relation to 'Ethics'

2.1 **Eleven approaches to Confidential Counsellors, no formal complaints or notifications**

As required by our Code of Conduct, we have a network of Confidential Counsellors to whom staff can turn to discuss confidential matters, for instance personal issues, such as improper behaviour or contact, or suspicions of professional misconduct. These discussions do not necessarily lead to a formal complaint or notification being submitted to the Complaints Committee or Business Conduct Committee (BCC). In most instances, resolutions are worked out in the workplace with the Confidential Counsellor sometimes acting as sounding board or mediator. It is crucial that our people know who the Confidential Counsellors are, which is why we have put them in the spotlight this year.

Our Confidential Counsellors were approached eleven times this year (FY17: four times) in the Assurance practice. We are pleased to note that our people are finding it more easy to approach our Confidential Counsellors. This is in line with the culture we aspire to, i.e. daring to be vulnerable, raising issues, encouraging the use of sounding boards and speaking out. No complaints with regards to Assurance were received by the Complaints Committee this year. Neither did the BCC receive any notifications of suspicious professional misconduct.

	FY18	FY17
Number of approaches to confidential counsellors	11	4
Number of complaints handled by the Complaints Committee	0	0
Number of internal and external notifications to the Business Conduct Committee	0	0

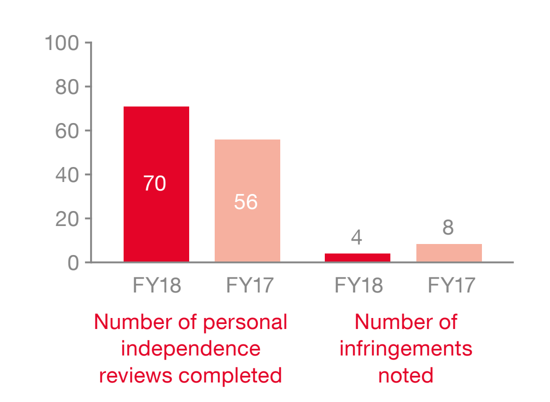
For more information on the pillar 'Ethics' from our quality management system we refer to the *"Transparency Report Appendices"*.

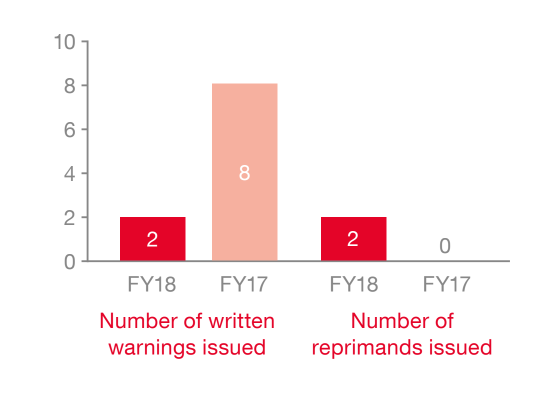
For more information on the pillar ‘Independence’ from our quality management system we refer to the *“Transparency Report Appendices”*.

Quality indicators in relation to ‘Independence’

3.1 **Fewer personal independence infringements**

Of the seventy personal independence reviews carried out regarding partners, directors and director candidates, two resulted in written warnings and two in reprimands being issued for the lack of, or late, registration/ deregistration of purchases and sales of permitted securities. None of these constituted infringements of external independence requirements. One of the reprimand incidences was a repeat infringement. Neither of the reprimands led to a financial sanction. The personal independence review of one director candidate with PwC Belastingadviseurs N.V. revealed a violation of the independence requirements in relation to one of our audit clients. Our independence as a firm was not compromised.





For more information on the pillar 'Client and engagement acceptance' from our quality management system we refer to the *"Transparency Report Appendices"*.

Quality indicators in relation to 'Client and engagement acceptance'

4.1

Composition of turnover PwC Netherlands 2017-2018 [1]
(€ millions)

	Statutory annual financial statement audits	Other annual financial statement audits	Other reports and assurance reporting	Assurance-related services	Other services	**Total**	**% of total**
Statutory annual financial statement audits (PIE clients)	i 42	iii 9	5	-	-	**56**	7%
Statutory annual financial statement audits (subsidiaries of EU PIE clients)	30	1	1	-	1	**33**	4%
Statutory annual financial statement audits (non-PIE clients)	ii 140	4	4	1	34	**183**	22%
Other annual financial statement audits		iv 18	1	-	3	**22**	3%
Other reports and assurance reporting			65	1	114	**180**	21%
Assurance-related services				-	3	**3**	1%
Other					356	**356**	42%
Total	**212**	**32**	**76**	**2**	**511**	**833**	100%

Composition of turnover PwC Netherlands 2016-2017 [1]
(€ millions)

	Statutory annual financial statement audits	Other annual financial statement audits	Other reports and assurance reporting	Assurance-related services	Other services	**Total**	**% of total**
Statutory annual financial statement audits (PIE clients)	i 42	iii 1	4	1	-	**48**	6%
Statutory annual financial statement audits (subsidiaries of EU PIE clients)	22	1	2	-	1	**26**	3%
Statutory annual financial statement audits (non-PIE clients)	ii 139	3	5	1	36	**184**	24%
Other annual financial statement audits		iv 20	1	-	4	**25**	3%
Other reports and assurance reporting			37	1	114	**152**	20%
Assurance-related services				-	1	**1**	1%
Other					331	**331**	43%
Total	**203**	**25**	**49**	**3**	**487**	**767**	100%

1 Turnover represents the amounts charged for engagements by all entities of the PwC Netherlands member firm. Amounts charged directly by other international PwC member firms to our multinational clients, including audit clients, are excluded from this table.

The allocation of revenue is in line with Article 13, paragraph 2, sub. K (i-iv) of EU Regulation 537/2014:

i) revenues from statutory audits of annual and consolidated financial statements of public interest entities and of entities belonging to a group of undertakings whose parent undertaking is a public interest entity;
ii) revenues from the statutory audits of annual and consolidated financial statements of other entities;
iii) revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and
iv) revenues from non-audit services to other entities.

Re i) and ii) The summary sets out the revenue earned from statutory audits as defined in Article 1, first paragraph, sub. p of the Law on the Supervision of Audit Firms (including the annex). This definition differs from that included in Article 13, paragraph 2, sub. k of EU Regulation 537/2014.

Re i) In the summary, the revenue earned from statutory audits at entities that are part of a group of companies of which the parent company is a public interest entity is limited to those entities that are part of a group of companies of which the parent company is an EU PIE audited by PwC or an international PwC network member firm.

The consolidated revenue reported in the annual financial statements of PricewaterhouseCoopers Accountants N.V. for 2017-2018 amounted to € 334 million (2016-2017: € 301 million), of which € 197 million (2016-2017: € 190 million) related to statutory audit work and € 137 million (2017-2017: € 111 million) to other services.

PricewaterhouseCoopers Accountants N.V. is part of an international network of independent member firms. Total revenue earned from the statutory audits of annual financial statements and consolidated financial statements by all audit firms (established in EU/EEA member states) that are part of this network of independent member firms (see appendix) amounted to € 3 billion in 2017-2018 (2016-2017: € 3 billion).

For more information on the pillar 'Human Capital' from our quality management system we refer to the *"Transparency Report Appendices".*

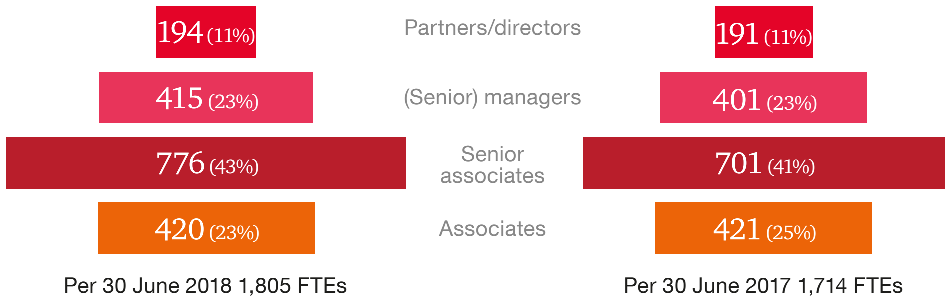
Quality indicators in relation to 'Human capital'

5.1 More people in our permanent workforce

Our permanent workforce grew by 5.3% to 1,805 FTEs as at 30 June 2018, an increase of 91 FTEs. In FY18, the average headcount was 1,809 FTEs (FY17: 1,763 FTEs). In addition to this increase in our permanent workforce, we have also used more temporary, external staff (up to and including the senior associate staff level). These temporary colleagues – partly from our worldwide network of member firms – spent over 63,000 hours (FY17: over 27,000 hours), mostly during our busy season and on once off larger engagements. In addition, our specialist project managers (PMO) have worked more than 15,000 hours (FY16: 6,100 hours) to support the Assurance practice (see also KPI 6.1).

The growth of our permanent workforce and the level of the temporary workforce are in line with our aim of retaining more experienced staff and managing temporary peaks with temporary staff. This larger group of experienced staff has enabled us to spend over 50,000 hours more while maintaining the workload at constant levels (see also KPI 1.1), and thereby also to invest in continuity within our teams, an important driver of (audit) quality.

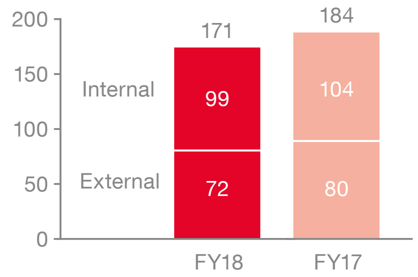
In the coming year, we will be focussing on attracting staff for the Audit Support department (through our Bachelor Traineeship) and for the Risk Assurance business unit (through the Digital Assurance Traineeship). In addition, we aim to double the number of project managers from twenty to forty FTEs in the coming two years.



5.2 Slight fall in the average number of educational hours per staff member

We invest in the development of our staff through training on the job and internal and external education. The total number of hours spent by staff on training and education decreased by 4% to 310,000 hours (FY17: 324,000 hours), while the average number of hours per person fell 7% from 184 hours to 171 hours. This decrease in training hours is a result of recruiting relatively more experienced associates who have often completed their accountancy qualification study, which has reduced the average number of hours spent on external education from eighty to 72 hours. The average number of hours spent on (the development of) internal education fell by five hours, which coincided with the start of our multi-day Summer School programme.

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



5.3 Positive trend in turnover among female staff and among staff from non. western backgrounds

Staff turnover has decreased from 15% to 14.1% this year. We are in a competitive market and this is reflected in the turnover of highly rated staff (with 1 and 2 ratings), which has increased from 9.5% to 13.2%. Clearly, our talented people are very popular in the current job market. Even so, we can see that we are becoming better able than last year to retain the more experienced people (those with 6+ years of experience). This is important in maintaining cumulative audit knowledge and experience within the teams and in assuring proper coaching and guidance for the more junior staff.

Turnover among female staff (11.9%) is significantly lower than prior year (16.8%), as is turnover among staff from non-western backgrounds. We are pleased with these developments from a diversity standpoint and in the context of our aim for an inclusive culture – a culture in which everyone feels welcome and appreciated. Nevertheless, career progression of female staff and staff with a non-western background will continue to be an area of attention.

Turnover	FY18	FY17
Total	**14.1%**	**15.0%**

Turnover staff with above average evaluation	FY18	FY17
Total	13.2%	9.5%

Turnover years of experience	FY18	FY17
0-3 years	9.9%	10.8%
3-6 years	14.8%	12.6%
> 6 years	21.8%	25.2%

Turnover male/female	FY18	FY17
Male	15.3%	13.9%
Female	11.9%	16.8%

Turnover (migrant background)	FY18	FY17
Dutch origin	12.9%	12.4%
Western migration origin	15.6%	15.1%
Non-western migration origin	13.6%	16.0%

5.4 Increased international mobility

The number of overseas colleagues who joined us in the Netherlands (for both short-term and long-term stays) has increased significantly in comparison to prior year. These are primarily senior associates (from South Africa) who come to the Netherlands for a short period to support us during our busy season.

In comparison to prior year, we have also had more staff members working abroad for short or longer periods. Particularly STEP (our short term exchange programme within the European member firms within the network) is a factor contributing to this growth. In addition to the 'out of comfort' experience that helps staff development on a personal level, this programme also helps bring staff of different European member firms together on the work floor.

From abroad to the Netherlands	FY18	FY17
Shorter than one year	71	31
Longer than one year	37	36

From the Netherlands to abroad	FY18	FY17
Shorter than one year	19	11
Longer than one year	13	12

5.5 Increasingly higher levels of staff satisfaction

83% (FY17: 83%) of our Assurance people participated in our staff satisfaction survey (the People Survey) this year. Staff satisfaction (expressed in the so-called people engagement index) is at 85%, two percent points higher than prior year, contributing to the high satisfaction rating achieved by PwC the Netherlands, one of the highest ratings within the Global PwC network of member firms.

While these results underscore our belief that we are on the right track with our programme for change, we do recognise that we still need to keep working on the areas of improvement that the practice feeds back to us.

The conclusions of the People Survey are that our people are proud to be with PwC, they believe that their colleagues act with integrity and that within PwC they are being well prepared for the job that they do.

	FY18	FY17
The people engagement index - which indicates the attractiveness of PwC as an employer.	85%	83%
Questions concerning purpose and integrity		
I have had a discussion about PwC's Purpose and Values and how they should influence my work.	83%	80%
I am encouraged to try new things and learn from failure.	74%	74%
The people I work for support and demonstrate high standards of ethical conduct.	86%	84%
At PwC, I feel comfortable discussing or reporting ethical issues and concerns without fear of negative consequences.	79%	79%
At PwC I can speak openly, even if my ideas are in disagreement with others.	77%	79%
Questions concerning quality		
The leaders I work with discuss with my team the ways in which we can build better trust and solve important problems.	59%	60%
The people on my team take accountability for the outcomes of their work.	74%	75%
Questions concerning coaching and supervision		
The learning and development I have received at PwC (including on the job development, self study and e-learns) has prepared me for the work I do.	86%	84%
The people I work with support me through regular on the job feedback and coaching.	72%	73%

The People Survey includes a number of propositions and participants indicate the extent to which they agree with each proposition (agree, neutral or disgree). The table indicates the percentage of our staff that agrees with each proposition.

They are also pleased with the opportunities offered within PwC to grow and develop professionally and personally. We see that our people are becoming more and more familiar with our purpose and values and how these influence their own job, which is a critical element of our programme for change. They have also indicated that the quality of our technology is improving (a 9% increase on prior year).

Our people feel – as they did last year – that talent management needs further attention, they are seeing less and less linkage between performance and reward, and they have requested greater transparency. We are aware of how they feel and we are encouraging substantive dialogue, both during evaluations and, more especially, in the intervening periods and on the job.

Our people have also indicated that effective information sharing between the different lines of Service could be improved and a majority of our people are still not entirely clear on what the PwC Europe collaborative arrangement can do for their careers. Despite the fact that as many as 74% feel they are encouraged to learn from their mistakes, we still consider this behaviour to be a key area of focus if we are to further develop our quality driven culture.
Our staff satisfaction survey shows a consistently positive picture regarding the issue of flexibility in day-to-day practice. However, partly at the request of our younger colleagues, it remains an area of ongoing focus for us. We have this past year addressed the issue of flexibility with a group of our younger staff and agreed on a plan of action. This plan of action consists of three elements: 'Make it possible' (fine-tuning our system to facilitate flexible working hours), 'Make it known' (leadership leading by example), and 'Make it work' (facilitating open and frank dialogue within the teams). In September 2018, we initiated a pilot, allowing more flexibility in working hours within certain pre-determined ground-rules.

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

Evaluation elements	Test reference	Internal assessment	Evaluation[4]	Impact on total remuneration[1,2]	Financial sanctions	
					FY18	FY17
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	Up to +16,66% mpact on total remuneration	11 positive	6 positive
			Compliant: No effect on evaluation	No effect on remuneration	-	-
			CWRM: No effect on evaluation, unless there are other negative quality indicators or if caused by repeat situations	No effect on remuneration unless in combination with other quality indicators or if caused by repeat situations: up to -50% impact on total remuneration	0	0
			NC: Negative effect on evaluation, increasing if the negative situation is repeated	Up to -50% impact on total remuneration	4 negative	11 negative
Quality management system PwC (QMS)	• External reviews • Internal reviews • Internal audits	Results of QMS reviews and audits	Distinctive contribution: Positive effect on evaluation	Up to +8,33% impact on total remuneration	22 positive	7 positive
		Individual contribution to PwC quality (in terms of roles, projects etc.)	Effects the evaluation of management	Up to -16,66% impact on total remuneration	1 negative	0
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: up to -50% impact op totale beloning.	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: up to -50% impact on total remuneration	0	0
Compliance with requirements 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	0	0
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 evaluation	Up to +8,33% impact on total remuneration	25 positive	18 positive
			Unsatisfactory: Negative effect on evaluation	Up to -12,5% impact on total remuneration	2 negative	5 negative

1 For a 'regular' good evaluation. 2 There is also a clawback arrangement; this did not need to be applied in FY18. 3 Partners and directors evaluated colletively per business unit.
4 In addition, a partner or director can receive both a positive and a negative remark regarding quality on one of the areas of evaluation Clients, People, Firm (in common parlance 'on the line'). This remark has no direct effect on the performance rating, but influecens the evaluation of the partner or director concerned and is included in the BMG&D form. Last year, this concerned twelve partners and directors.

For more information on the pillar 'Engagement Performance' from our quality management system we refer to the *"Transparency Report Appendices"*.

Quality indicators in relation to 'Engagement performance'

6.1
6.2
6.3

Different disciplines work together on our audit engagements

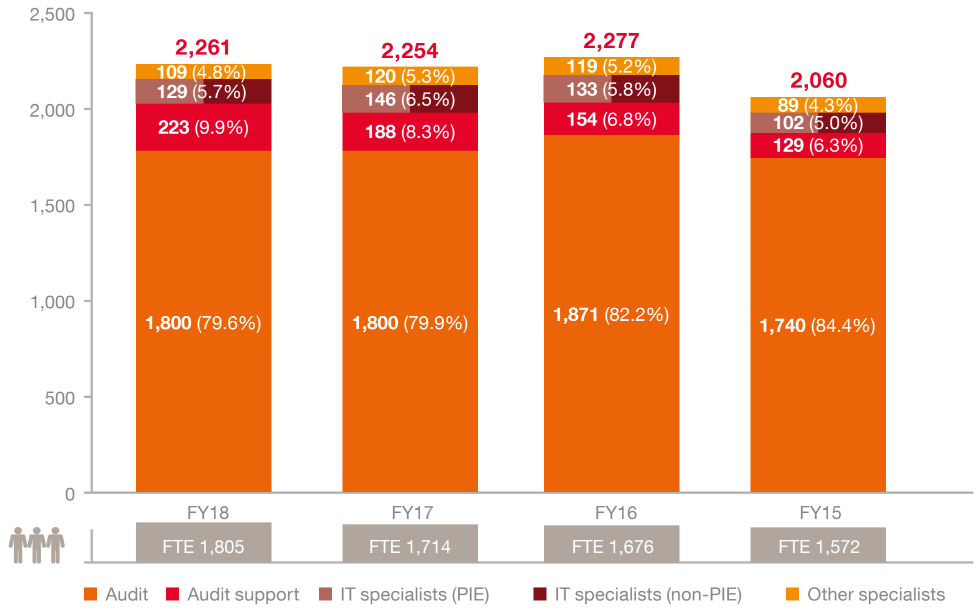
To increase the quality of, and to contribute to the efficacy of, our audits, we have in recent years increasingly outsourced standardised work to specialist delivery centres and competence centres (in The Netherlands, Germany, Poland, India and South-Africa). We have also established a Project Management Office (PMO). In FY 18, 9.9% of the total audit hours spent was outsourced to these centres and the PMO (FY 17: 8.3%).

In addition, the involvement of specialists in our audits (including reporting, valuation, taxation and pensions specialists) contributes to audit quality. Time spent by specialists, from both inside and outside the Line of Service, increased by 0.5%age points this year. This is due to several first year bank and insurance company audits in FY 17, which involved the need for more tax and actuarial specialists in prior year. The extent and nature of the involvement of these specialists depends partly on the mix of our client portfolio and partly on whether clients are involved in non-routine situations like mergers and acquisitions, investments, divestments and reorganisations.

IT specialists from our Risk Assurance business unit have spent 5.7% of the total hours on audits this year (FY 17: 6.5%). This decrease was caused mainly by a number of first year audits in FY 17 that needed to have their IT environments mapped out.

For PIE clients, IT specialist involvement is 12% (FY17: 13.7%) and for non-PIE clients 5.2% (FY17: 5.8%). With non-PIE clients our work is proportionately more substantive-based and we are less dependent on the IT environment of the client.

Hours spend on audit engagements (x1.000) and permanent staff (FTEs) in the period FY15-FY18



6.4 More time spent by professional practice support functions

Our investments in quality were channelled into a further increase in time spent by our National Office (to 63,251 hours), an increase of more than 11% on prior year. National Office had 229 staff last year (either full-time or on a project basis) providing professional technical support to the practice, excluding the time spent on financial statement reviews and consultations charged directly to client codes.

	FY18	FY17
Number of hours spent on the provision or development of professional technical support	63,251	56,797

6.5 Decreasing number of consultations on financial reporting and auditing

Our consultation procedures provide the audit teams with access to specialists in a variety of professional areas. In addition to voluntary consultations initiated by audit teams, we also prescribe certain situations where consultation is mandatory. The number of completed consultations on financial reporting and auditing decreased this year with fewer consultations on going concern matters, even though most consultations are on this particular subject. Consultations on subjects other than unqualified audit opinions have also decreased.

Formal National Office consultations completed

FY18 531

FY17 687

6.6 Fewer National Office financial statement reviews

As support to the engagement teams, National Office financial reporting specialists carry out reviews of selected client financial statements prior to the issue of the audit opinion. Fewer reviews were carried out this year. It is no longer mandatory for National Office specialists to review IFRS financial statements for second year audits, because experience has taught us that the greatest added value is in first year audits. In addition, fewer voluntary reviews have been performed.

Number of financial statement reviews

FY18 92

FY17 117

6.7 More frequent consultations with the Fraud Panel

More discussion on fraud within the audit team has been required this year, and these, equally importantly, have been taking place also with clients. More on this can be found on page 8-9. The existing consultation guidelines have also been further reinforced. One of the results of these initiatives is that the number of fraud panel consultations has increased from 104 to 133 this year.

	FY18	FY17
Consultations Fraud Panel	133	104

6.8 Increased notifications of unusual transactions

This year we submitted 36 mandatory notifications to the Netherlands Financial Intelligence Unit under the Wwft (Money Laundering and Prevention of Terrorism Financing Act) (FY17: 25 notifications). The law does not allow us to provide specific information about the notifications.

	FY18	FY17
Notifications of unusual transactions	36	25

6.9 Consistent number of statutory audit reports issued

We issued more than 2,600 statutory audit reports, of which 196 related to PIE audit clients.

	FY18	FY17
Number of statutory audit reports issued	Over 2,600	Over 2,600
of which PIEs	196	194

6.10
6.11

More real time reviews performed

The number of statutory audits subject to a regular engagement-specific quality review (EQR), as required by Bta or EU Regulation 537/2014, fell slightly to 305 (FY17: 308), reflecting the composition of our client portfolio. A violation of procedures was noted in one of the audits reviewed by what we call a Quality Review Partner (QRP); remedial work was carried out in this instance.

In 52 of these 305 regular EQRs, the reviewer was supported by an RTR team, resulting in a greater level of depth than a regular EQR. The hours spent by the QRPs and the supporting RTR team amounted to 1.2% of total audit hours spent on the assignments reviewed. In previous years, the hours spent by the supporting RTR team was not included in the percentage of EQR hours reported.

In addition to these regular EQRs, there were 96 EQRs performed by a concurring review partner (CRP), with support from the RTR team. The RTR team provides support to the audit team in assuring the quality of the audit engagements and supports the QRPs and the CRPs. Where the RTR team determines that an audit or file documentation can or should be improved, it will provide coaching to the audit team. The RTR team not only highlights what needs to be improved but also what is going well. It shares these lessons with the audit practice, thereby improving the learning ability of our organisation. Their observations are also used in the root cause analysis process.

The QRPs and CRPs are part of a shared network headed by the Chief Auditor. Through this network, they receive substantive guidance and support in their EQR responsibilities, based also on input from the RTR team. This network is also a platform for sharing experience and best practices.

In total, we spent 11,950 hours on these 148 RTRs, a decrease of 4% (FY17: 12.500 hours). Aside from having to perform regular EQRs, an EQR guided by the RTR team was started. on at least one file for every external auditor (partners and directors). First year external auditors with an improvement plan are subject to at least two reviews/RTRs. Sector measure 5.3 from the 'In the Public Interest' Report requires that each partner and director be subject to at least two EQRs; this has not yet been fully implemented.

Number of RTRs completed

FY18
148

FY17
130

	FY18	FY17
The number of regular EQR completed by QRPs in the financial year	305	308
As a percentage of the total number of statutory audits	12%	12%

	FY18
Average number of hours spent by QRPs (and where relevant the supporting RTR team) on regular EQRs, as a percentage of the total hours spent on audits of financial statements of clients where a QRP has been appointed during the most recent closed financial year	1.2%

6.12 Continued investment in technology

The PwC network has invested again this past year in the development of new technologies, including tools like Aura, Halo and Connect. PwC Netherlands bore its share of these worldwide investments and has also invested locally, including investments to ensure compliance with the legal requirements surrounding Standard Business Reporting (SBR). The total amount invested by the Dutch Assurance practice in audit-related technology in FY18 amounted to € 5 million, excluding investments in back office systems and internal time.

	FY18	FY17
Investments in technology (in million euros)	5	5

6.14 No new incident notifications to the AFM

We have made no new incident notifications to the AFM last financial year. Based on one notification in FY17 and one in FY16 – that pertained to unauthorised service by a foreign member of the PwC network to a Dutch PIE client – we received one warning letter from the AFM.

	FY18	FY17
Number of incidents notified to the AFM	0	2

6.13 Number of identified financial statement with shortcomings decreased

Last financial year we identified six instances of financial statements we had audited in prior year (all of them at non-PIE clients) that were deemed to be seriously deficient under Article 362 para 6 of the Dutch Civil Code. These deficiencies arose in one set of financial statements for 2014 and five for 2015. Article 362.6 requires the client involved to file a notification with the Trade Registry. Five of the deficiencies involved incorrect application of the Article 2:408 Civil Code exemption from consolidation for intermediate holding companies and the other involved incorrect application of the exemption from consolidation by a Dutch BV under IFRS10p4. In FY18, no material errors were noted at PIE clients or at clients with a higher risk profile.

In mid-February 2018, we further tightened up the mandatory requirement to consult with National Office following changes in the rules and to meet our objective of becoming the learning organisation that we aspire to be. Following this further tightening, mandatory consultation now applies to all material mistakes, for both Dutch GAAP and IFRS financial statements. As a result, National Office was consulted twenty times on this subject in FY18.

	FY18	FY17
Number of errors under Article 362 para 6	6	9
Number of material errors noted (IFRS)	0	1
Total	**6**	**10**
As a percentage of the total number of statutory audit reports issued	0.2%	0.4%

6.15 Status of number of legal proceedings

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

Fairfield funds
These proceedings involve two civil cases lodged in Amsterdam. On 3 September 2014, the court dismissed one of the claims in its entirety – this after a complaint filed by the same party had earlier been declared unfounded on all counts by the Disciplinary Counsel of Accountants ('de Accountantskamer') in 2012 and against which no appeal was filed. The plaintiffs have appealed the ruling of the court and we await the court's decision. In the second civil case, the court dismissed the claim in its entirety on 26 September 2018.

Econcern
In 2014, the Disciplinary Counsel of Accountants issued two of our external auditors with temporary suspensions in connection with four virtually identical complaints. In 2015, PwC reached an out-of-court settlement in which the appeal against three of the complaints was withdrawn and the suspension ratified as definitive by the Disciplinary Counsel and implemented in early 2016. The appeal lodged by the external auditors with the Trade and Industry Appeals Tribunal (CBb) in connection with the fourth complaint of an investor is still ongoing, as is the civil proceeding brought by the investor.

Phanos
On 2 February 2018, the liquidator of Phanos filed a disciplinary complaint against the PwC external auditor responsible on the grounds of alleged errors in the annual financial statements. This external auditor is currently one of the policymakers of PwC. The verbal submissions in this case have not yet been made.

Legal proceedings relating to professional practice	Civil	Disciplinary
Number pending as of 1 July 2017	**6**	**4**
New cases	1	5
Cases adjudicated	2	1
Number pending as of 30 June 2018	**5**	**8**

Stichting Zonnehuizen
On 9 March 2018, the Disciplinary Counsel of Accountants ruled on a disciplinary complaint filed by the liquidator by issuing a reprimand to the external auditor. PwC reached a settlement with the liquidator that ended all legal procedures between the liquidator and PwC.

LCI Technology
This is a civil case brought by the VEB (a major Dutch investor advocacy association). PwC is in the advanced stages of agreeing a settlement with the VEB in this case.

In addition, we are involved in the following legal proceedings:

Brouwer group
A former shareholder of the Brouwer group brought a civil case against PwC, claiming errors in the determination of the value of the shares in 2001, as a result of which the former shareholder claims to have suffered damage.

SHV/Eriks
Negative publicity arose in February 2017 regarding an alleged bribery fraud at Econosto, an SHV/Eriks group company. A number of investigations ensued. In 2018 the Attorney General's office announced that it was investigating irregularities in this matter. The AFM is carrying out an investigation into how PwC handled this matter. This AFM investigation has resulted in two disciplinary complaints being filed in April 2018 against PwC's external auditors and a draft report of provisional findings being issued in July 2018 relating to the PwC audit firm. In addition to this, PwC was presented in April 2017 with a disciplinary complaint from SOBI (an independent foundation that investigates corporate financial reporting) directed at nine external auditors and board members of PwC.

On 18 July 2018, the Disciplinary Counsel of Accountants ruled the complaint filed by SOBI against seven of the PwC's external auditors and board members to be unfounded on all counts. SOBI has not filed an appeal against this ruling. The verbal submissions in the case against the two external auditors against whom both SOBI and the AFM have filed a complaint, have not yet been made. PwC will respond to the draft AFM report, and the AFM will then determine its definitive findings. It is unclear as to whether this will occur in 2018.

Continue on the next page

Boekel
On 27 October 2017, the Disciplinary Counsel of Accountants issued a ruling in connection with a complaint filed against an external auditor regarding an alleged error in a provision included in Boekel's financial statements. The Disciplinary Counsel of Accountants has issued a formal caution to the external auditor. This decision has not been appealed.

Software Improvement Group
On 1 December 2017, a former shareholder and supervisory director filed a disciplinary complaint against one of PwC's auditors and a partner of PricewaterhouseCoopers Advisory N.V. in connection with positions they had taken regarding the accounting for a number of items in the financial statements on which a non-PwC firm had issued an auditor's report. The allegation is that the work the auditor and his colleague partner carried out was inadequate in scope and depth. On 31 August 2018, the Disciplinary Counsel of Accountants issued the auditor with a formal caution and his colleague partner in PricewaterhouseCoopers Advisory N.V. with a reprimand. The parties involved have until 12 October 2018 to file an appeal against the ruling.

Mijwo Beheer
On 23 May 2018, Mijwo Beheer filed a disciplinary complaint against an external auditor in connection with an alleged breach of the rules of conduct and professional practice. The allegation is that he was prepared to carry out the audit of annual financial reporting for the purposes of an earn-out computation, while the audit would not have been professionally possible and would have been in violation of independence requirements. The external auditor contests the complaint.

PMLF
On 29 June 2018, the PMLF foundation filed a disciplinary complaint against an external auditor who declared invalid an unqualified audit report on a set of financial statements that had served to determine the legitimacy of costs incurred and the thereby related subsidy without there being any new facts or special circumstances arising. The external auditor contests the complaint.

Disciplinary complaints have also been filed against certain PwC's external auditors that do not relate to services provided by PwC.

- On 29 June 2018, the Disciplinary Counsel of Accountants declared as unfounded on all counts a disciplinary complaint filed by an audit firm against 26 auditors, including several former and current board members of the NBA (the Royal Netherlands Institute of Chartered Accountants). The audit firm claimed that the auditors, as representatives of the NBA, were involved in creating a negative view of the audit firm's quality procedures, which was disputed by the plaintiffs. One of the NBA board members against whom a complaint had been filed is a partner of PwC who transitioned to PricewaterhouseCoopers Advisory N.V. No appeal has been filed against this judgement.

- On 1 November 2017, the Wakkere Accountant foundation filed a disciplinary complaint against three board members of the NBA. The foundation believes, amongst other things, that firms and auditors serving the SME market are penalised more harshly by the courts than are the large firms and their associated auditors in situations where the internal systems of quality control are deemed to be inadequate. The foundation holds the three current and former board members of the NBA responsible. One of the NBA board members against whom a complaint had been filed is a partner of PwC who transitioned to PricewaterhouseCoopers Advisory N.V.

Finally, we are putting together a response regarding the appeal filed by the AFM against the decision by the court to overturn the AFM's decision to levy a fine, see page 11.

For more information on the pillar 'Monitoring' from our quality management system we refer to the *"Transparency Report Appendices"*.

Quality indicators in relation to 'Monitoring'

7.1 Learning from our internal reviews

37 (FY17:40) of our Assurance engagements were reviewed this year as part of the annual ECR process, of which 36 were audit engagements for financial year 2017 and one was an ISAE3402 engagement. Thirty six (FY17: 35) of the engagements reviewed were compliant with our requirements, though five (FY17: seven) were rated as compliant with review matters.

The one audit file that was non-compliant related to the audit of a subsidy report in the non-PIE segment. We performed follow up work on this audit engagement, remediated where necessary, and concluded that the audit opinion issued is still appropriate.

It was clear from our initial review of the ECR results that the improvements we have made to increase the quality of our work are beginning to bear fruit. The focus in recent years on the audit of revenue recognition, increased awareness of fraud and corruption risks, reliance on the work of other auditors, the impact of IT on the audit, and documentation of work done can all be seen in the results and findings of the ECR process. It was clear from the files reviewed that the use of memos and the linkage to work performed have improved, both in the audit of revenue and in the testing of journal entries (regarding the risk of fraud), and that the reviews of other auditors are being done more thoroughly.

However, we still see areas for improvement. The planning phase of the audit needs to be started and completed on a more timely and robust basis and with more involvement of the more senior members of the team, an improvement encouraged by the 'Flow' programme (see page 8) that was started last year. We also need to be more proactive and timely in opening up dialogue with clients regarding late delivery of key documents or changes in the team composition and the resultant impact on deadlines. Quality and a professionally sceptical attitude are paramount. Other areas of concern are keeping professional knowledge up-to-date, actively keeping up with job-related innovations, and addressing the workload balance.

All the findings and best practices from the process are input to PwC Assurance's root cause analysis, which identifies improvement measures that need to be integrated into the quality improvement plan.

In addition to these annual file reviews, performed by the international PwC network, ten reviews were also performed in our CMAAS practice and nine in our Risk Assurance practice. All of the nineteen engagements reviewed were compliant, though six of the CMAAS files were assessed as compliant with review matters.

Number of ECRs completed	*Compliant*	*Non-compliant*		Total
		PIE	Non-PIE	
FY18	36	0	1	37
FY17	35	0	5	40

7.2 Positive outcome of external supervisory file reviews

In 2017-2018 supervisory bodies, such as the Inspectorate of Education (de Inspectie van het Onderwijs), the Central Government Audit Service (ADR) and the Dutch Healthcare Authority (de Nederlandse Zorgauthoriteit (NZA), reviewed 24 files as part of their regular supervisory duties. In particular, the ADR reviewed the reporting included in SiSa annexes (Single Information Single Audit) and the WMT information (the WMT being the law regarding standardisation of top level incomes). All twenty four files were deemed to be compliant. In 2016-2017, one file reviewed by the ADR was compliant with review matters and one file reviewed by the Inspectorate of Education was deemed to be inadequate.

We await the results of the AFM's review of the 'influence of partners on the implementation and the guarantee of a quality focussed culture', which started at the end of February 2018. The AFM did not perform any regular reviews of our statutory audit files or quality control system this year.

The US supervisor, the PCAOB, started its triennial regular review process in September 2018, reviewing three 2017 audit files and parts of our quality control system. We expect to hear the findings mid-2019.

Review by	Number of engagements reviewed		Number of engagements with reported findings	
	FY18	FY17	FY18	FY17
AFM	-	8	-	4
PCAOB	-	-	-	-
ADR (Central Government Audit Service)	11	14	0	0
Inspectorate of Education	6	9	0	1
NZa (Dutch Healthcare Authority)	4	3	0	0
NOREA (Dutch professional association for IT-auditors)	-	-	-	-
Other bodies (i.a. the National Health Care Institute and the Dutch Media Authority)	3	2	0	0
Total	**24**	**36**	**0**	**5**

7.3 No correction of material errors indicated by the AFM

No material errors were noted by the AFM that required correction to financial statements that we audited.

	FY18	FY17
Number of material errors corrected on the basis of notifications from the AFM	0	0

7.4 No fine levied by regulators

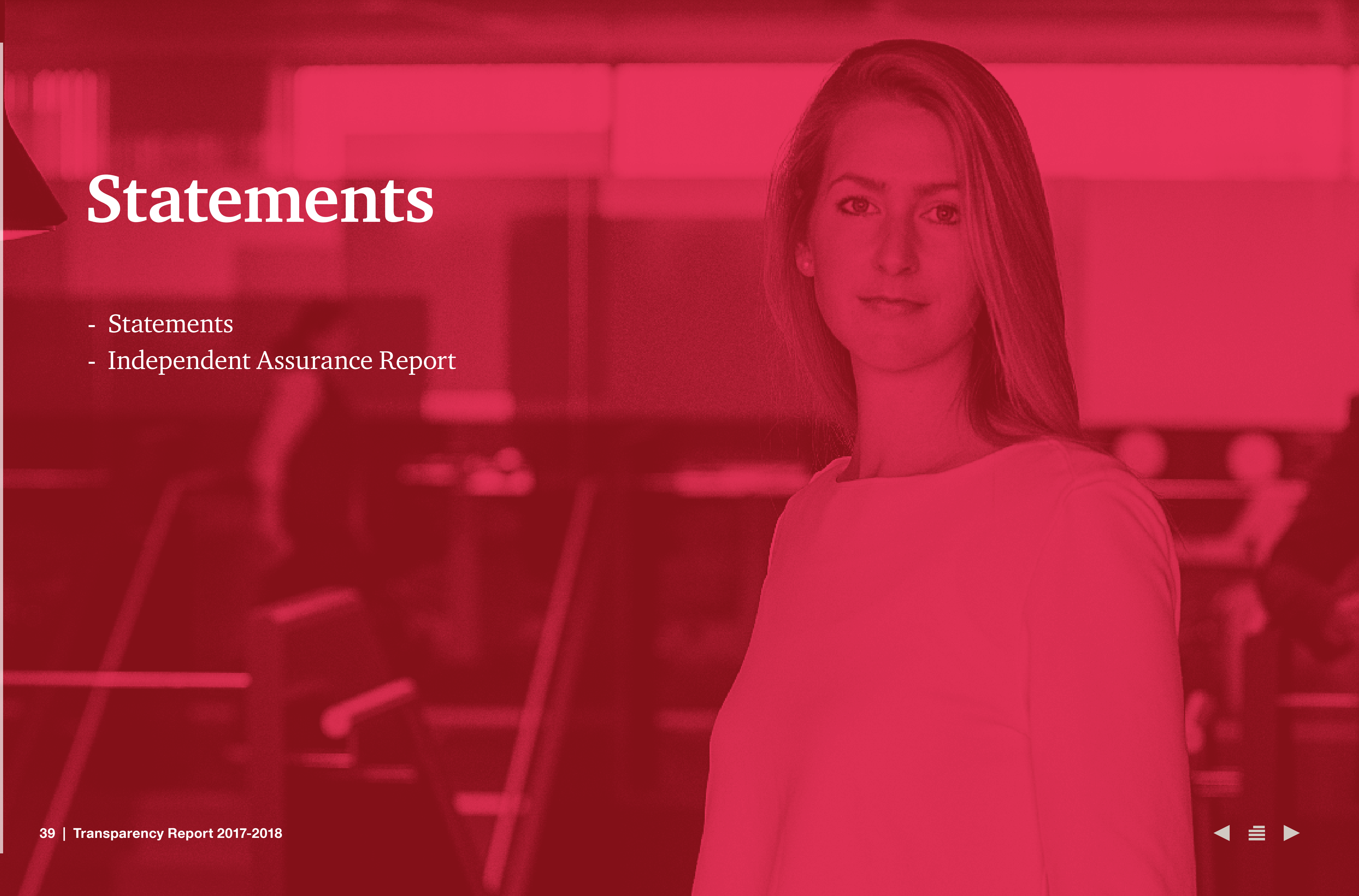
No fines were levied this year, though the appeal against the fine levied by the AFM on the basis of its 2013-2014 review of a number of 2011-2012 audit files is still pending (see page 11).

	FY18	FY17
Number of fines levied by external supervisory bodies	0	0
Monetary amount of the fines levied by external supervisory bodies (€)	0	0

Positive outcome of the quality management system review

The annual review of our Assurance quality management system (which included the Dutch delivery centre), carried out by our worldwide global network, did not result in any findings of a significant nature. There were three less significant findings and these will be followed up.

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. On this basis, we concluded that PwC Netherlands complies in all material respects with the PwC Network Standards.



Statements

- Statements
- Independent Assurance Report

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 management framework 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 operates effectively.

Amsterdam, 27 September 2018

Policymakers PricewaterhouseCoopers Accountants N.V.

Members of the Board of Management of Holding PricewaterhouseCoopers Nederland B.V.

Ad van Gils (Chair)
Agnes Koops-Aukes (also Chair of the board of directors of PricewaterhouseCoopers Accountants N.V.)
Marc Borggreven
Marc Diepstraten
Jolanda Lamse-Minderhoud
Renate de Lange
Maarten van de Pol

Members of the board of directors of PricewaterhouseCoopers Accountants N.V.

Michel Adriaansens
Joris van Meijel
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 that the policy regarding permanent education of our partners, directors and staff has been followed.

Amsterdam, 27 September 2018

PricewaterhouseCoopers Accountants N.V.

Agnes Koops-Aukes
Michel Adriaansens
Joris van Meijel
Wytse van der Molen

Acknowledgements

Transparency Report PricewaterhouseCoopers Accountants N.V. 2017-2018

Board of Directors, PricewaterhouseCoopers Accountants N.V.

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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 223,000 people in 157 countries share their ideas, experience and solutions in developing new perspectives and meaningful advice.