

The Dutch Authority for the Financial Markets

Attn. The Board

Postbus 11723

1001 GS AMSTERDAM

Rotterdam, 13 October 2017

CS/170139-3

Re: Reflection on the correlation between the outcomes of the review of the implementation and embedding of change processes and the quality of statutory audits

Dear Board,

Your review concerned the implementation and embedding of the ongoing change process, focused on a sustainable increase in the quality level of statutory audits. We fully endorse the need for this change process and as an organisation we have addressed this with a large amount of energy and effort. First of all in setting up this process, as recorded internally in our quality vision documents, and now in its implementation and the incumbent structures, guidelines, measures and reports. You limited the scope of this review to the pillars “Control”, “Behaviour and Culture” and “Internal Supervision”.

We believe that a clear policy, based on an unambiguous vision and mission, encompassed by healthy governance to create a culture that encourages quality-driven behaviour of all our partners and employees, forms the foundation for achieving technically good audits that prioritise and safeguard the public interest in respect of an auditor's statement. Earning, repairing and retaining trust and confidence in the accountancy sector and its professionals is a priority for all those who work for our organisation both in the short term and the long term.

You tested the expectations, which you designate as ambitious, for the components of these pillars against the findings of your review. By linking these ambitious expectations to a ‘qualification in words’, as you describe it, you arrive at an assessment, weighing and total picture as set out in your draft report. A new, complicated and difficult process, as you suggested at a meeting.

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We appreciate the way in which you have arrived at this clear and accessible report for a process that is complicated indeed. In respect of some important components, we fully recognise and accept the observations and conclusions. However, we are unable to recognise ourselves in other points or even disagree with your findings. We are evidently disappointed with your overall opinion that Mazars does not comply with the larger part of the expectations for 2016. It is a finding that appears to be in sharp contrast with the efforts of our employees, partners and from us, the Executive Board. Therefore we feel the need for thank our employees for all the efforts they have put into the Mazars of the future over the past period. We will continue on the road we started together with them and our partners and we shall take your recommendation to heart, work on those, and implement them in detail. We note from the presented overviews that the sector as a whole does not yet achieve the best marks. Given the effort the sector has undeniably made to repair the trust and confidence in the quality provided by the sector, this is even more reason to be dissatisfied.

When we assessed the outcomes of the report, we realised that the results we achieved are still not at the required level, despite all the energy the organisation has invested in the change process. On the one hand it should be noted that behaviour and culture changes in particular require a longer period of time to reach maturity, and that there was a relatively short period of time between designing our policy and systems and the start of their actual implementation and your review. Our change process is a continuous process in which we have meanwhile taken further demonstrable steps. On the other hand, we take a serious view of your observations that the interviewed persons' awareness of the 'dot on the horizon' for Mazars and the 'in control cycle for quality' to achieving the milestones en route to that dot requires improvement. The organisation seemingly needs time for its quality policy to adjust to the change from a more technical compliance-based approach to an approach based on directing behaviour and the resulting culture elements.

As an organisation, and as the Executive Board in particular, we remain committed to making maximum efforts to achieve our improvement objectives. Obviously, we will take your observations and statements to heart and include those in follow-up actions and phased plans.

Some of the change processes that were started will be continued unabated, and they will be carried out in accordance with our strategy, policy and actions plans. An important process is continuing the organisation's shift from a more branch-based structure to a structure dominated by service lines. On the basis of your findings, we will tighten up and initiate policy and action plans for a number of other points. In that context, it is important to note the following issues.

- § Our annual Board review of strategy and policy paid explicit attention to translating the existing quality vision document into more recognisable elements of quality, required change points and the corresponding behaviour and roles, and the monitoring tools that are available to the Executive Board and the professionals. The aim is to make the 'dot on the horizon' clear to everyone.
- § We have also prepared an HR annual calendar that identifies and schedules culture measurements and actions that remind people of the code of conduct. This is to make

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awareness of the adopted values and the corresponding conduct top of mind. The aim is for this produce more recognisable change points and measures.

- § Focus more strongly on explaining the behaviour of professionals and teams in root cause analyses. Over the coming period, we will create more cohesion between the process-based, content-based and behavioural elements of being 'in control'. In this framework, a behaviour expert is used in situations where this is required.
- § Further time investment in sharing best practices with the external auditors and teams to promote quality and to strengthen the organisation's learning ability. By sharing experiences, both positive and negative, and reports regarding quality, including your report, we emphasise a quality-driven culture and work directly on the quality of the files.
- § To strengthen and clarify the coherence between appraisal, remuneration and sanctions in respect of quality, particularly for the external auditors. This applies to the tone at the top, actual decision making and recording in suitable frameworks.
- § To improve and intensify communication from the Executive Board, Supervisory Board and partners regarding our code of conduct, quality vision and other relevant procedures, standards, etc.

We believe that these steps will clarify the 'dot on the horizon' regarding the required quality and the corresponding changes for Mazars and its professionals. This clarity will facilitate monitoring our control of the required changes and their effects.

Unfortunately, we cannot endorse your conclusions in respect of the appraisal and remuneration of partners (pillar HR partners).

- § Implicitly you work out a theory that higher remuneration and awarding bonuses have a direct and positive correlation with improving quality. We believe that this is not decisive in the pursued and required quality behaviour.
- § Within Mazars we operate a parity profit-sharing system that prevents perverse remuneration incentives based on short-term commercial successes, the size of a practice or profitability of the practice. Furthermore, if quality falls short on an annual basis, we operate a penalty system, and where quality falls short on a structural basis we apply an active exit policy. We believe this to be a suitable system that contributes to quality.

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§ Employees only move up the ladder when quality is in order, as you observed quite correctly. Without proven good quality it is equally not possible to become a partner. This means that quality is most certainly decisive in the appraisal.

The aforementioned remuneration policy with a penalty system and an active exit policy also guarantees that the remuneration based on quality is a full part of the total remuneration system and that it is decisive for the ultimate remuneration within the overall parity system without perverse incentives.

The Mazars Supervisory Board (RvC) has taken cognisance of the AFM 2016 Dashboard in respect of Mazars. This is recognisable in broad outlines and they understand the conclusions you have drawn. At the same time, the Supervisory Board endorses the caveats placed by Mazars' Executive Board (RvB) in respect of the dashboard. In this context, the RvC held in-depth discussions with the RvB and the partners regarding the dashboard, and with the partners at two meetings on 13 April 2017 and more recently on 20 June 2017. The main theme of those meetings was an even more profound implementation of quality.

All in all, we believe that for many elements we have moved further than you argue in your report. Your report quite rightly puts its finger on the spot in respect of some elements and encourages us to achieve more than the measures taken already.

It goes without saying that we are always available for any explanations of this letter.

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Ton Tuinier

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