

Audit Quality: A Globally Sustainable Approach



EY

Building a better
working world

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Strengthen people capabilities

By strengthening the capabilities of all our people, we are able to better equip them with the tools to provide high-quality audits, and by showing how much we value them, we are in a better position to attract high-quality new recruits.

18

Simplification

The simplification of our Global Audit Methodology tools, processes and enablers is an ongoing process that is continually updated and refined so that all our audits worldwide benefit from consistency of approach, while also being tailored to individual requirements.

22

Audit technology and digital

Our enhanced global audit platform, encompassing EY Canvas, EY Helix and EY Atlas, provides our auditors with a suite of technology tools to aid them in their work, which increasingly adopts an analytics-driven approach.

28

Accountability, enablement and quality support

The system of reviews and rewards we have established encourages our auditors to take personal and professional pride in producing their best work, which we support and monitor so that all our audits are of high quality.

Americas

10

Regions

31

Countries

EMEIA

11

Regions

98

Countries

Asia-Pacific

5

Regions

22

Countries

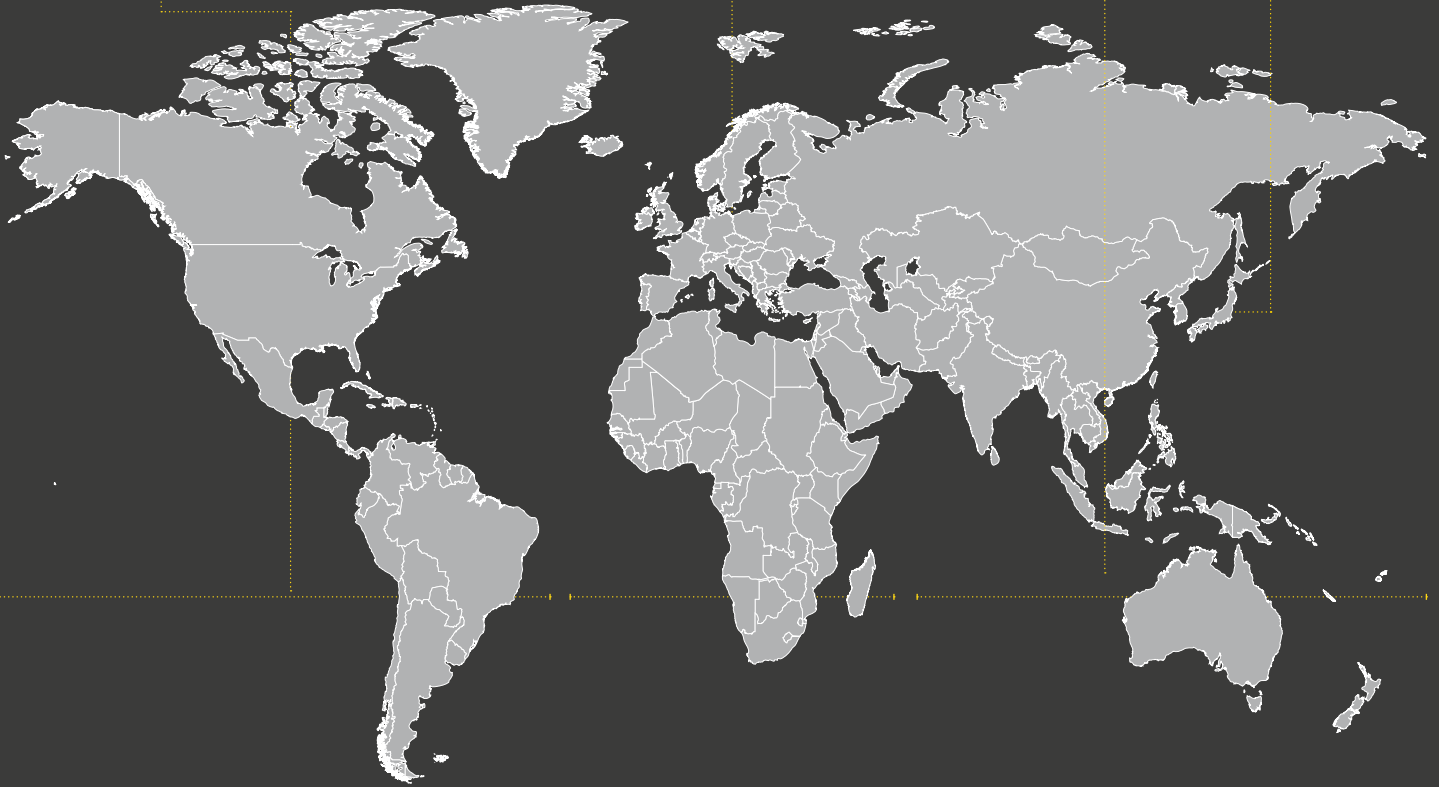
Japan

1

Region

1

Country



EY structure and governance

EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, around 250,000 people in member firms in more than 150 countries share a commitment to building a better working world, united by shared values and an unwavering commitment to quality, integrity and objectivity. In today's global market, EY's integrated approach is particularly important in the provision of high-quality, multinational audits.

EY refers to the global organization, and may refer to one or more of the member firms of Ernst & Young Global Limited (EYG), each of which is a separate legal entity. EYG, a UK company limited by guarantee, is the central entity of EY. It does not provide services to clients.

EYG coordinates the member firms and promotes cooperation among them. Its objectives include promoting the provision of exceptional, high-quality

client service by member firms worldwide. The member firms' obligations and responsibilities are governed by the regulations of EYG and various other agreements.

The Global Governance Council is the main oversight body of EYG. It comprises one or more representatives from each Region, other member firm partners as representatives and up to six independent non-executives.

The Executive layer of EY's operating model includes the Global Executive (GE), its committees and teams. The GE combines leadership from our four Areas – the Americas, EMEIA (Europe, the Middle East, India and Africa), Asia-Pacific and Japan – and four service lines – Advisory, Assurance, Tax and Transaction Advisory Services (TAS). This creates an accountability matrix, strengthening global while empowering local.

The streamlined structure allows EY member firms to further enhance their provision of consistent, exceptional client service worldwide, with the Executive coordinating a global approach to strategy, quality, risk management, business planning and priorities. It allows for greater stakeholder focus in the 27 Regions, permitting member firms to build stronger relationships with clients and others in each country and be more responsive to local needs.

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



Building a better working world with Sustainable Audit Quality

Mark A. Weinberger
Global Chairman and CEO, EY

High-quality audits create trust and confidence in the capital markets and facilitate economic growth. Providing high-quality audits helps us at EY to fulfill our purpose of *Building a better working world*.

The Sustainable Audit Quality (SAQ) program, our commitment to conducting globally consistent, high-quality audits sustained over time, is making a difference. It ensures that we have the right tone from the top and clear accountability across EY. Through the six components of SAQ, we have introduced common technology, methodologies and approaches to training and evaluating our people.

Since we introduced SAQ, there is greater consistency in our audit execution, and our internal and external inspection results are improving. While we are proud of the progress that has been made, we will always have more to do to improve our work.

At EY, we want to be known for audits that consistently exceed regulatory benchmarks. By doing so, we provide greater transparency to investors and the markets. We also embrace innovation to evolve the audit and offer more insights to audit committees and company boards.

Audit Quality: A Globally Sustainable Approach demonstrates our commitment to this cause. I hope you enjoy reading about the improvements we have made and our plans for the years ahead.

“We want to be known for audits that consistently exceed regulatory benchmarks.”



Our mission: to be the highest-quality audit organization in the profession

Felice Persico
Global Vice Chair, Assurance, EY

A lot has been accomplished since EY launched SAQ in 2015 as a strategic program focused on improving audit quality. The changes introduced through SAQ have required significant investment and created a positive change for our people and the companies we audit.

Over this period, we have globally deployed EY Canvas, our online audit platform; introduced the EY Canvas Client Portal; established our Global Audit Quality Committee; developed a network of seasoned professionals as our Quality Enablement Leaders (QELs); implemented the Milestones project management program; transformed our root-cause analysis program; and launched a number of other global initiatives.

SAQ demonstrates our commitment to keeping audit quality as our primary focus. It is the single most important factor in our decision-making, and the key measure on which our professional reputation stands.

SAQ is making an impact, and we are already seeing improvements in our audit quality results. Our mission is to be the highest-quality audit organization in the profession. We are proud of the progress that has been made and know that our efforts are ongoing.

This publication details the approach we have taken on each of the six components of the SAQ agenda: tone at the top, strengthen people capabilities, audit technology and digital, enablement and quality support, simplification, and accountability. It shows the extent of the culture change program on which we have embarked.

All our people are having to learn new ways of working. They are embracing innovation and harnessing the power of new technologies such as data analytics, robotic process automation (RPA), blockchain, artificial intelligence and machine learning.

We cannot stand still. As this publication demonstrates, continuous improvement is fundamental to the way we operate and quality is key to our culture.

“SAQ is the single most important factor in our decision-making, and the key measure on which our professional reputation stands.”



Serving the public interest

David Thorburn

on behalf of the EY Independent Non-Executives

At its heart, auditing exists to serve the public interest. The expectations of all our stakeholders, as to the quality of our work and the consistency of our execution, have never been higher. So, in our role as Independent Non-Executives (INEs), we want to be certain that quality is EY's first priority.

Since June 2016, I have been an INE on the Global Governance Council (GGC), EY's main oversight body. There are up to six individuals who are INEs. Sir Richard Lambert stood down in April 2017, due to expiring terms, and I have taken over his role as chair of the Public Interest Committee (PIC), which is a subcommittee of the GGC. I also chair the UK member firm's INE Oversight Committee, which focuses on the implementation of the FRC's Audit Firm Governance Code.

The PIC is primarily concerned with overseeing audit quality in the global organization. Of course, serving the public interest extends beyond audit quality – incorporating ethics and whistleblowing, for example – but quality is first among equals. EY's SAQ program is its vehicle for confirming that there is a globally consistent approach to delivering high-quality audits and it is the principal focus of the PIC.

SAQ is a tremendously important initiative for EY and the INEs have a responsibility to

challenge management and make sure that this well-intentioned initiative stands up to scrutiny. We are pleased to say that there is clear evidence of a strong tone from the top, good commitment at all levels and substantial resources being devoted to the initiative.

We also welcome the global approach, which allows the use of standardized processes, language, systems and internal reporting. Therefore, continuing to strengthen consistency of execution across the network is critical to achieve its objectives.

Audit quality, of course, is not just a priority for EY. There is pressure on this issue from a variety of important stakeholders, including investors, politicians, the public and the media. It is the primary focus of attention in the regulatory environment, with bodies such as the International Forum of Independent Audit Regulators (IFIAR) setting challenging targets for improved inspection results.

It is pleasing that EY's internal targets on audit quality go beyond the goals set by IFIAR and other regulators. Organizations such as EY should have their own risk appetite, their own quality standards, and should draw the line where they think appropriate.

The INEs will be examining EY's performance closely. If there are recurrent

audit failings or if problems arise in a particular location, we will dig deeper. Where there are failings, we will seek assurances on the root-cause analysis, remedial action taking place, and learnings being transferred across the global network.

We meet regularly with leadership and discuss these key topics, which include the progress against the IFIAR goals. The INEs' priority in the coming year will be to monitor the execution of SAQ and the organization's progress with audit quality results across its international network.

We have been pleased to see EY's commitment to SAQ as a foundational element of its culture and its push to develop a market-leading global digital audit. This is vital for EY's long-term success and its ability to meet the expectations of the public, politicians and regulators in relation to audit quality.

David Thorburn is a member of the EY GGC and chairs its Public Interest Committee and the UK member firm's INE Oversight Committee. He is also an External Member on the Bank of England's Prudential Regulation Committee, and was previously the Chief Executive of Clydesdale Bank and Yorkshire Bank.

Driving a culture of audit quality

Steve Konenkamp
EY Global Deputy Vice Chair, Assurance

In no other time in my 36-year career have I seen EY as focused on providing high-quality audits. Our organization has embraced the EY SAQ program and is fulfilling our commitments to the companies we audit, the investing community, regulators and society.

SAQ was launched in 2015 and is our globally consistent approach to implementing a high level of audit quality. As outlined elsewhere in this document, a number of changes have been made and initiatives launched as part of SAQ. The launch of our suite of technology tools has been fully embraced by our audit teams across the world and provides a platform for significant change in the years ahead. This leading-edge technology is allowing us to better execute and monitor our audits.

Our goal is to have a culture where quality is always the most important focus area for our auditors. SAQ is the highest priority for our Assurance service line – above any other program that we have launched – and it is driving the ongoing focus on our culture and how we better execute to deliver the highest quality audits in the profession.

SAQ has been important in improving our results in both internal and external inspections. We are on course to do our part in achieving the target set by IFIAR of a 25% reduction in “deficient audits” – audits with at least one significant inspection finding – by 2019.

Our long-term internal goal is for the percentage of audits globally that are classified as less than satisfactory to be in the single digits. We need to improve further the consistency of our execution and continue to raise performance. As the name SAQ suggests, long-term “sustainable” improvement is our ambition.

We are making progress on each of the six components of SAQ and overall it is driving enhancements to our culture. Each component is briefly summarized here and

explained in more detail in the later chapters of this publication:

Tone at the top: the internal and external messages on quality that the EY leadership team send, including from our audit partners. This is the most important element of continuously building our culture of audit quality.

Strengthen people capabilities: specific initiatives that support our auditors in devoting time to performing quality work. This covers recruitment, retention, learning and workload management. It also includes consideration of the type of skills and capabilities we need now and into the future.

Simplification: how we are simplifying and standardizing our methodology, forms, templates and checklists to improve the quality, consistency and efficiency of our audits.

Audit technology and digital: our investment to improve the audit process through the use of the latest technology. In addition to our online audit tools, this involves evaluating emerging technologies such as drones, artificial intelligence, robotic process automation and blockchain.

Enablement and quality support: how we are helping teams to manage their responsibility to provide quality. This includes efforts to support them through coaching, root-cause analysis, the Milestones project management program, the network of Area and Regional QELs and the Global Audit Quality Committee (GAQC) and its Area equivalents.

Accountability: each of our partners involved in executing audits is accountable for the provision of high-quality work, and our Assurance leadership is accountable as well. We have reviewed our reward and recognition initiatives and enhanced our accountability framework.

Quality is and will continue to be our priority. We will build on the progress made so far and report back in future issues of this publication.



“Our goal is to have a culture where quality is always the most important focus area for our auditors.”

Tone at the top

We believe it is important to set the right tone from the top by establishing and maintaining a culture that is underpinned by high-quality, effective risk management and continuous improvement. Such a culture fosters an environment of confidence, trust and pride which, in turn, enhances mutual accountability and develops high-performing teams.

This is the reason that “tone at the top” is the first component of SAQ and why we place great emphasis on culture, consultation and communications.

By “the top,” we do not just mean the Global Chairman and Chief Executive or the Global Vice Chair for Assurance. The messages sent by almost 4,000 audit partners across the globe are equally essential to maintaining a culture that is focused on quality.

Cascading this tone from the top will help our people understand that shared values and commitment to quality are central to everything that we do at all levels of the organization.

Using root-cause analysis, we have identified the key behaviors necessary to carry out a quality audit and have

established a global Culture and Behaviors task force, to drive change management and instill expected behaviors. It is critical that our stakeholders view EY as the leading audit organization in terms of a quality culture, and we are developing a number of initiatives to make this happen.

The task force meets regularly and includes representatives from Assurance leadership, talent, communications and internal and external behavioral change professionals. It is currently developing a mentorship scheme, to be led by our QELs, and a communications program building on our existing “What we do matters” campaign.

We believe that by asking the right questions, our auditors can serve the public interest, and thereby help build businesses, boost local economies and support communities.

EY’s approach to business ethics and integrity is embedded in our culture of consultation and our internal communications. Senior management regularly reinforces the importance of performing quality work, complying with professional standards, reviewing audit evidence skeptically, adhering to policies and leading by example.

Our culture supports a strong need for collaboration and places special emphasis on consultation when dealing with complex or subjective accounting, auditing, reporting, regulatory and independence matters.

To reinforce the importance of quality, we have also produced an internal publication outlining the governance structure for quality at EY, which includes biographies of more than 100 key people. The second edition of *Audit Quality at EY: Governance Structure* was published in August 2017. Our governance structure promotes consistency, accountability and transparency.

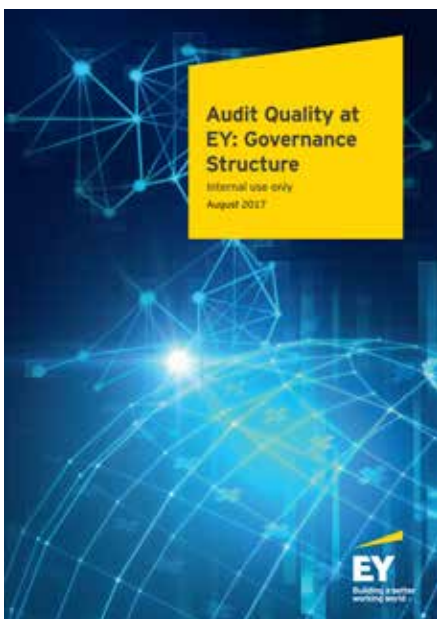
Our guiding principle is that no client is more important than professional reputation – the reputation of EY and that of each of our auditors.

“We believe that by asking the right questions, our auditors can serve the public interest.”

Our leaders say...

“We have more than 100,000 engagements worldwide and more than 70,000 auditors. Our people are continually learning new ways of working.”

Don Zimmerman, EY Global Vice Chair, Professional Practice



It's all in the detail



Don Zimmerman,
EY Global Vice Chair,
Professional Practice

Details matter. The way we carry out our audit work, the way we document it and the way we check it matter.

EY is in the detail business.

As such, our commitment to quality is unwavering.

SAQ is the means by which we achieve excellence. Since launching SAQ in 2015, we have experienced significant progress. EY's internal and external inspection findings globally are showing improvement, and we are producing greater consistency in execution.

Our ability to provide consistency is based in part on the use of EY Canvas, our online platform. EY Canvas was deployed broadly in 2015 and is now used globally on our audits. It streamlines our communications through an integrated portal and enables us to provide a seamless audit.

EY Canvas incorporates our Milestones project management program, which has been broadly deployed since 2016 and helps improve timeliness and efficiency.

Root-cause analysis shows that poor project management is associated with quality deficiencies. Milestones addresses this head-on, and introduces greater discipline into the audit.

Embedding EY Canvas and Milestones globally has been a major undertaking. We have more than 100,000 engagements worldwide and more than 70,000 auditors. Our people are continually learning new ways of working.

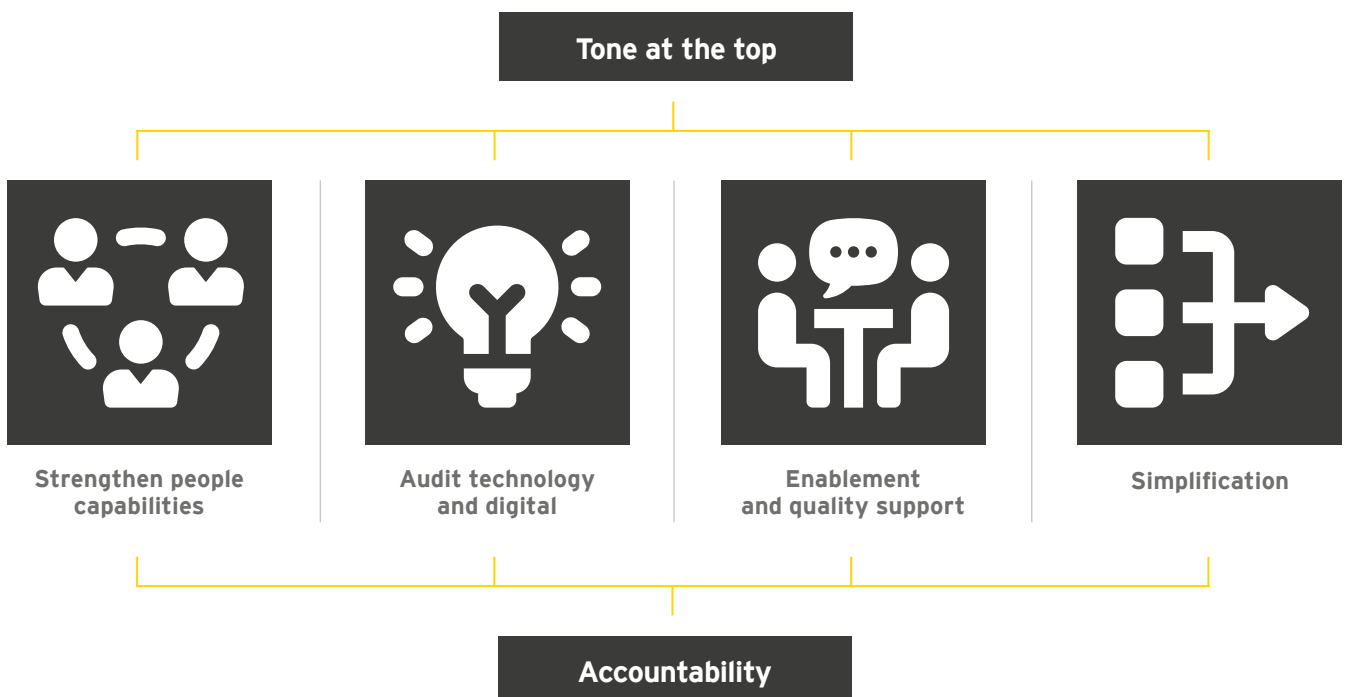
This is where our network of QELs has been so important. The QELs are senior Assurance leaders who provide on-the-ground support to our engagement teams.

In the past 18 months, we have established QELs in every EY Region and have created the GAQC to consider strategy and policy decisions.

EY Canvas, Milestones, the QELs and the GAQC are all crucial elements in driving improvements to our audit quality. They have been a big part of our SAQ efforts, and continue to keep us on top of the detail.

Sustainable Audit Quality

A series of initiatives across six components





Strengthen people capabilities

“We invest in our people by offering them opportunities to enhance their professional skills and personal development.”

To provide high-quality audits, we need high-quality people. As a result, EY is committed to attracting, recruiting, developing and retaining outstanding audit professionals.

These audit professionals must be knowledgeable and skilled at what they do. In addition, we need them to act with integrity and to demonstrate appropriate behaviors, such as curiosity, good judgment and professional skepticism. We place a lot of emphasis on supporting our people to develop these skills and make the most of their abilities throughout their career journey.

We understand that not everyone who joins EY does so with the intention of staying with us for their entire career. Nevertheless, whether they stay with us for a few years or a few decades, whether they leave us

forever or return to us at a later date, our aim is to ensure that they are constantly developing during their time with us.

We invest in our people by offering them a broad range of opportunities to enhance their professional skills and personal development. Alongside this, they benefit from award-winning learning, as well as coaching and mentoring designed to help them achieve their full potential and enjoy enriching career experiences. Our approach is summed up in EY’s people value proposition: “Whenever you join, however long you stay, the exceptional EY experience lasts a lifetime.”

Attracting and recruiting

Recruitment is the first step in the process of developing high-quality auditors. All around the world, we have rigorous selection processes in place so that we



recruit bright people, with the right attitudes and behaviors, who will excel in the audit profession and drive our organization forward.

We are looking to recruit people who have broader skills and backgrounds. In addition to the core accounting graduates we have recruited in the past, we are looking for people who can interrogate data and competently handle technology. Regardless of their subject background, we expect the same high standards of all our recruits, including integrity, strong business acumen and leadership potential.

As audit becomes more analytics-driven, we are recruiting from an increasingly diverse talent pool. We now seek out more individuals with a background in science, technology, engineering and mathematics (STEM) for our audit teams, as well as those who graduated with an accounting degree. Students from STEM disciplines have not traditionally been aware of career opportunities in audit, so we need to make sure they see us as an attractive employer. We are working hard on campuses to raise awareness of our brand, and the roles and opportunities available within Assurance.

For example, we recently launched the @eystaycurious campaign on Instagram, highlighting where STEM skills fit into the audit. In 2017, we made Universum's top 50 employers for engineering students for the first time, so our efforts are starting to have the desired impact.

We believe that the increasing complexity of businesses will mean that the audit

team will include more professionals who have, for example, deep sector knowledge and data analytics experience. There will continue to be a focus on all auditors acquiring and improving analytical skills, while the need for business acumen, strong communication and project management skills will increase.

The learning and development that our people receive is delivered to a consistently high standard so that we produce auditors of equally high caliber in every market in which we operate. We focus on equipping them with the skills and technical knowledge they will need to become effective auditors who are recognized for their sound judgment and professional skepticism.

The Audit Academy

EY has invested significantly in developing the Audit Academy, which offers a consistent audit-training program for all of our people across the world.

We take the learning and development of our people very seriously and delivered more than 6.4 million hours of learning across Assurance services during 2016. Thanks to the Audit Academy, everyone across the practice has access to a consistently high standard of training.

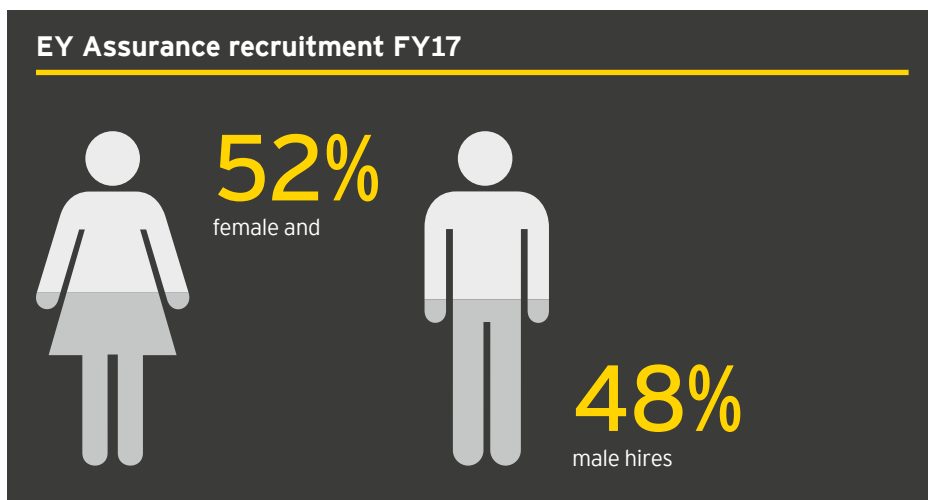
We have been reviewing and modernizing our audit curriculum by reducing traditional, lecture-based classroom education that involves the transfer of knowledge from a facilitator to participants. Our learning now incorporates a blend of on-demand

Our leaders say...

“Our work with different sectors helps EY professionals to develop deep industry knowledge and ensure that we have the right people on the right engagements.”

Alison Kay, EY Global Vice Chair, Industry

“Whenever you join, however long you stay, the exceptional EY experience lasts a lifetime.”





video- or web-based learning, classroom-based activities focused on the application of concepts and principles, and reinforcement material that can be used in the field.

In the classroom, people are given technology-enabled simulations and case studies, and work on them in small groups, in the same way as they would in an audit. This blend of learning is intended to teach our auditors not just *what* to think, but also *how* to think, since they will be developing the deep, critical thinking skills, professional skepticism and business acumen that are essential to providing high-quality audits.

The Audit Academy has now been deployed to our managers and seniors, with a new program for the rest of our people being deployed in 2017.

In order to understand the impact of the Audit Academy on audit quality and other criteria, EY has measured the effectiveness of the programs by interviewing more than 340 participants, and a selection of their managers and class facilitators.

Overall, 86% of those who attended the training said it was highly relevant to their work, and 91% said they had, or intended to, put the learning into practice. Of those, 92% could demonstrate how this had a positive impact on their engagement. These results generally fall within the top quartile of results for learning programs at comparable organizations.

To date, the Audit Academy has won six industry awards in recognition of its success. However, we will invest further in enhancing our curriculum as part of our continuing commitment to audit quality.

Engagement

Research carried out by EY has found that there is a strong correlation between engagement and retention. Those Regions that engage with their people effectively do benefit from higher retention. So we monitor engagement closely. Every year, we conduct a Global People Survey, which allows us to assess the engagement levels of our people.

Our most recent survey, conducted in 2017, found that nearly three-quarters (72%) of people in the Assurance service line had a

Number of audit professionals

	FY17	FY16	FY15
Audit partners	3,916	3,880	3,739
Executive directors, senior managers and managers	12,519	12,081	11,564
Seniors and staff	54,904	51,223	48,624
Total	71,339	67,184	63,927
Ratios of partners to other audit professionals	17.22	16.32	16.10

Retention of audit professionals

	FY17	FY16	FY15
Total	79.1%	78.4%	76.8%

Source: EY



favorable attitude in terms of engagement, the same proportion as in 2015.

In addition, the survey highlighted that our people feel overwhelmingly proud to work for EY. We consider these results to be a significant achievement given that the expectations of new joiners to the workforce are rising all the time.

One of the ways we engage with our people is through EY's purpose, which is to build a better working world. We translate this overall purpose into an audit context by explaining that what our people do helps to increase confidence in the capital markets. We want them to be proud to be auditors, which is why we participate globally in the #AuditorProud social media campaign. In 2016, we had the largest voice globally, with a 41% share.

We also engage with our people in many other ways. One example is through "Counseling Families": small groups of around 25 people who meet on a quarterly basis. These meetings are an opportunity for leaders and teams to connect and drive two-way communication, as well as an opportunity to recognize and celebrate achievements. It is through these teams, and our audit teams, that we engage our people in our purpose and their role in protecting the interests of investors. Our Global People Survey (GPS) proved the effectiveness of our Counseling Families, since people who belonged to a working Counseling Family were between 4% and 7% more engaged.

In addition, we realize that clarifying people's career paths has an impact on engagement, so we have created career framework documents for every rank. These explain what the organization expects at each level and what learning and experiences people can undertake to develop themselves.

As part of this commitment to clarifying career paths, we also focus on "experience management" across the world. We have changed the emphasis of our teams that assign people to audits so that it is less about assignment and more about experience management. It is their responsibility to confirm that our people are scheduled onto engagements where they can use their skills and competencies, and which help them to develop new skills while supporting the needs of EY.

Viewpoint

The future of Talent



Karen Hochrein, EY Global Assurance Talent Leader

Technology presents us with a unique opportunity to raise the attractiveness of the auditing profession to a broader talent pool. Advances in analytics, artificial intelligence and robotic process automation mean that certain tasks traditionally associated with auditing will be reduced. Instead, auditors will increasingly be engaged in activities that provide value-adding insight, innovation and challenge, resulting in better-quality audits and enhanced career experiences for our people.

EY has invested considerable time and resources in evaluating the skills that the audit professional of the future will need, taking account of a variety of factors that are impacting our workplace. These include digitalization, regulators' changing demands, clients' expectations for auditors to have increased sector knowledge and the fact that the number of complex, multi-location global audits will continue to rise.

We concluded that the audit professionals of the future will be creative and curious individuals who are confident using both established and emerging technologies. They will be great communicators and have strong interpersonal skills so that they can easily build trust-based relationships with stakeholders. Business acumen, professional skepticism, an analytical mindset and the ability to interrogate large data sets will also be critical to their success.

Finding individuals who fit this profile is no easy task. That's why we will need to diversify our recruitment to attract different skillsets, such as individuals from science, technology, engineering and mathematics disciplines. Less routine tasks will result in more valuable experiences for our people, enabling them to accelerate their career. In parallel, we will continue our focus on improving engagement and retention by providing exceptional experiences, learning and coaching. We are also ready to bring in contingent workers with specialist expertise as and when the need arises.

This is a very exciting time to be the EY Global Assurance Talent Leader. Our profession is currently undergoing a transformation that I have not seen in my professional lifetime, enabling us to provide even higher-quality audits while providing our people with more opportunities to grow and develop in ways never previously imagined. The audit profession of the future will certainly be quite different from the audit profession of today. I, for one, can't wait to play my part in it.



Managers and above in audit have identified a primary and secondary industry sector to gain experience in. By developing in-depth knowledge of their clients' sectors, they are better able to understand the risks involved in the entities we audit.

Another important way in which we will be engaging with our people is through LEAD, our new leadership, evaluation and development system designed for all EY professionals. This system, which supports performance development and encourages frequent feedback, received very positive responses during the pilot and led to higher engagement levels. It is being rolled out globally in 2017.

Retention

Annual turnover in audit for EY is around 21% globally. Since we know that retaining good people is critical to maintaining audit quality, we have made retention a priority, particularly in our "attrition hotspots" (areas of the world where the turnover rate is higher than we would expect). We work with local teams to agree action plans and engage with our people to improve retention; for example, by running focus groups to

discuss what we can do to improve their day-to-day experience.

We have introduced a retention database that provides sophisticated reporting on how we are retaining high performers and new hires, and what the push/pull factors for leavers are, at both a country and a regional level. We also have a globally aligned retention taskforce and regional retention goals, and we advise our leaders on how they can personally help to retain talented individuals within EY's audit practices. This may mean encouraging their people to strive to become senior managers, recognizing them for the contributions that they make, helping them to better understand the link between their

"Flexibility is prized by the Millennial generation that forms a key part of our workforce."

performance and their pay, or fostering an environment where they have the flexibility they need to succeed.

Flexibility is more important today than it was in the past, since it is especially prized by the Millennial generation that forms a key part of our workforce. It is also critical to retaining audit professionals with parental or other caring responsibilities.

In our messages to our people, we highlight the huge variety that comes with a career in audit – they get to work with a variety of enterprises, carrying out different roles, in different locations, within different teams and for different managers – this variety helps them to rapidly build a set of invaluable skills that would be significantly harder to acquire in another environment.

Mobility and workload management

Our resourcing strategy supports audit quality by ensuring that we have the right people, with the right skills, in the right place, at the right time. At one end of the spectrum, this may entail relocating a leader with in-depth financial services



knowledge to a member firm across the world in order to support a banking audit. At the other end, we may support audit teams by arranging for one of our Global Talent Hubs (support centers in India, the Philippines and other locations) to handle some of the work associated with an audit.

We also have dedicated mobility programs in place for our high-potential people, which help them to become better auditors of international clients. Our New Horizons program offers placements that are three to six months long, while our Global Exchange Program offers placements of between 18 months and two years.

Although audit is gradually becoming less seasonal, our auditors still have peaks in their workloads. We recognize that a flexible approach works for both EY and our people. We encourage teams to discuss individuals' flexibility needs at the start of every engagement and to support one another in ensuring that these needs are met. In the Americas, for instance, we have a program for some professionals who only want to work at certain times of the year. We have also instigated programs to better phase the annual audit cycle to improve workload and quality.

In every Region, the Assurance service line works closely with its talent leader, who is responsible for overseeing the talent agenda. Their overall objective is to develop first-class audit professionals and they focus on areas such as onboarding of new recruits and managing individual client portfolios, as well as ensuring attendance at learning events. The different Regions also work closely to develop the global talent agenda and contribute to projects such as the Assurance Professional of the Future.

Diversity and inclusiveness

Diversity is an important component of high-quality audit teams, since different people are attuned to different risks. We have focused on promoting gender diversity within our audit teams over recent years. In 2017, 31% of our new partners in Assurance around the world were female, compared with 30% in 2016. EY has a proactive strategy toward female audit professionals. We identify women at key transition points during their career at EY – for example, at manager and senior manager levels – and connect them with our senior leaders, both male and female.

We have also charged all our senior leaders with planning for their succession. There is a big emphasis on diversity as part of this succession planning – in terms of achieving the right balance between leaders from mature and emerging markets, as well as the right gender balance. We are focused on promoting more women into senior positions and on giving the right development opportunities to potential future leaders.

We promote an inclusive environment where difference is encouraged, enabling us to recruit and retain a diverse workforce. Whenever we are considering a proposal, we ask ourselves whether this is “preference, tradition or requirement” to help us promote an inclusive approach. In addition, considerable effort is undertaken by the Regions, including the establishment of network communities and the training of our leaders to highlight and counter unconscious bias. These activities are working – in the 2017 GPS survey, 72% of our people responded favorably to the statement: “EY provides a work environment where I feel free to be myself.”

Awards

At EY, we are committed to continually improving the working environment for all our people around the world. As a result of our efforts, the organization and member firms regularly feature on rankings of “best places to work” around the world.

Here are some examples of where we have featured:

- ▶ **DiversityInc Top 50 Companies for Diversity** (2017) – ranked 1
- ▶ **DiversityInc Top 15 Companies for Mentoring** (2017) – ranked 1
- ▶ **Universum's Most Attractive Employer rankings – Business** (2017) – ranked 4
- ▶ **Sunday Times 25 Best Big Companies to Work For** (2017) – ranked 17
- ▶ **The World's Best Multinational Workplaces** (2016) – ranked 21
- ▶ **Fortune 100 Best Companies to Work For** (2017) – ranked 29

As mentioned above, EY won six awards for the Audit Academy in the 2016 Brandon Hall Group Human Capital Management Awards, which recognize excellence in the learning industry. A further six Brandon Hall awards were given to learning programs in other parts of the organization.

“Our resourcing strategy ensures that we have the right people, with the right skills, in the right place, at the right time.”

Our leaders say...

“Our profession is currently undergoing a transformation that I have not seen in my professional lifetime, enabling us to provide even higher-quality audits while providing our people with more opportunities to grow and develop.”

Karen Hochrein, EY Global Assurance Talent Leader

World view



Frank Mahoney
EY Americas Assurance Leader



Jean-Yves Jégourel
EY EMEIA Assurance Leader



SAQ is part of our core culture at EY. It's how we operate, central to daily activity, and embedded in our people from the day they join us and throughout their careers.

We are automating, simplifying and freeing audit teams from administrative tasks, so they can concentrate on higher-risk or more complicated areas. With businesses evolving faster than ever before, our auditors need to be more nimble. We should be more focused on the future and on risk elements resulting from changes to the business model, the economy and the business environment.

Advances in technology, like the EY Canvas online audit tool, are not just supporting our engagement teams, they are helping us to drive and manage our activities. EY Canvas is an innovative tool that is used by audit teams around the world. It incorporates Milestones, our project management program; a Client Portal, allowing companies to provide data directly to audit

teams; and a number of mobile apps.

Our Statutory Audit Center of Excellence has also been an important technological innovation. This provides coordination and support for statutory audits, allowing us to track their status and spot trends and inconsistencies.

And, of course, we are supporting our people through the QEL network. They have evolved from a responsive network focused on inspection support and coaching to a proactive group engaged in front-end risk assessment.

All these developments have helped to boost audit quality. The impact can be seen in our improved internal and external inspection results and in the reduced number of restatements. We see a direct correlation between such metrics and the SAQ program.

SAQ has changed how we operate and the way our people function every day on an audit. Quality is, and always will be, our priority.

My goal is for EY to have the highest-quality audits in the profession. This is essential to support our ambition to be a market-leading brand and to respond to our purpose of building a better working world.

One of our strategic initiatives in EMEIA is to instill SAQ as a foundational element of the EY culture. To help us achieve this, we continue to work closely with our regulators. Overall, we are on track to improve our quality measures over previous years, but we acknowledge that we can always do better and will continue to strengthen our investment in quality.

We have now moved from concept to reality in our execution of SAQ. A common methodology has been established for root-cause analysis, the Milestones project management program has been fully implemented and we have supported the Simplification Task Force (see page 19), with two senior audit partners from EMEIA involved in the project.

The Audit Quality Committee has also been established at EMEIA level. This is chaired by the Area QEL and includes me and other senior Area Assurance leaders, plus representatives from operations, talent, technology and Professional Practice. We examine the trends and situations that might affect quality and discuss any operational activities that could be changed.

In some countries we have run quality days. These are one-day seminars bringing together the audit executives of the practices to discuss audit quality. We also invite the local regulator, so they can be involved in the discussion and witness the tone from the top.

Quality days have been an important innovation and I am encouraging other countries across EMEIA to run similar events. We won't achieve a step-change in quality by ourselves. There is a common objective between us and our regulators. The more we collaborate, the more we can find solutions to problems, and the more we can achieve.



Edward Ho
EY Asia-Pacific Assurance Leader

Hitoshi Matsuoka
EY Japan Assurance Leader

Audit quality is of the utmost importance. It sets EY apart, supports our reputation, and is my priority when I address both internal and external audiences.

One of the most significant SAQ initiatives in Asia-Pacific has been our audit quality summits. These are one-day events, attended by all the audit partners in a country. So far, we have run them in Malaysia, Indonesia, Thailand, Vietnam, Korea and the Philippines.

We carry out a survey of audit partners to discuss quality issues two weeks ahead of each summit. Then we use the results to determine the agenda for the event. On the day, action points are collated and an implementation plan developed. The Assurance Leader in the relevant country is then asked to monitor and execute the implementation plan, with support from the Area and regional QELs.

Every market is different, and the summits are a great opportunity to discuss particular ways to improve

audit quality. In many respects, they can be seen as an operational review as much as a quality summit.

The QELs have also been an important initiative in Asia-Pacific. If we have an audit quality issue, identified through a root-cause analysis, then we immediately have a network of partners who can cascade the appropriate message quickly. It is a powerful communications vehicle.

So is the Milestones project management program – both at a global and Area level. In Asia-Pacific, we have focused on our top 100 engagements, checking that each audit is on schedule. This is now being extended to the top 200 engagements, and could be extended still further in the future.

The summits, QEL network and Milestones program have all helped to maintain our focus on audit quality. We have established a strong tone from the top and a supportive culture, which we will continue to build on in the months and years ahead.

The foundation of an audit organization’s social mission has been, and always will be, protecting capital markets by providing confidence in companies’ financial statements. We have to be constantly mindful of what the public expects of us.

To keep meeting the public’s changing expectations, we need to embed a professional culture that encourages our people to be open and to exchange opinions, information and knowledge across the organization. We want change to be seen in a positive light.

To embed this culture, we have embraced SAQ, updated our organizational structure, improved our quality control system for audit work and strengthened our approach to talent development and evaluation.

We have established a professional Culture Improvement Committee, a Public Interest Committee and an Audit Quality Oversight Board (AQOB). Each of the seven divisions in Japan has also established an Audit Quality Control Committee

(AQCC), which monitors the status of audits.

To develop our people, we are providing external training sessions and other activities to help them understand the thinking of a wide range of stakeholders. We also transfer people between divisions and offices, and second them to other service lines and external organizations.

We have strengthened reviews of partner performance so that evaluations are conducted with a stricter assessment of audit quality. Evaluations for audit quality are discussed and decided at the AQOB after a primary evaluation is executed through the ongoing monitoring of the AQCCs.

We launched the Assurance Innovation Lab in November 2016, aimed at creating the “Smart Audit of the Future” by using technology such as data analytics, artificial intelligence and blockchain.

By capturing public expectations of us and adapting to change, we work to deliver our social mission as an audit organization.



➔ Simplification

As the world of accounting and auditing becomes more complex, the need for simplification becomes more pronounced. The pace of standard setting – both accounting and auditing – continues to accelerate and the scope of regulatory oversight is expanding. New accounting standards relating to financial instruments, leasing and revenue recognition are changing the way that certain assets and transactions are recognized,

which creates additional work not only for management, but also for auditors.

We are also in the middle of implementing new auditor reporting requirements and expect some significant auditing standards to be issued during the coming year.

Since it takes many years to develop a senior member of an audit team, responding to this level of change

inevitably puts pressures on our resources. We need to find ways to save our people time so that they can be more productive in the workplace, while enhancing their knowledge and skills. By simplifying the complex as far as possible, we are supporting our teams to carry out better-quality work. The less time they spend on basic tasks, the more time they have to focus on higher-risk matters.

The simplification of our audit methodology and associated guidance is an important component of our strategy to deliver SAQ. Simplification underpins efficient and effective audit processes that are customized to the requirements of each individual engagement. It also supports consistency of processes on audits.

Where we have applied simplification comprehensively and vigorously within our network, we have already seen a measurable improvement in audit quality.

Simplification Taskforce

To maintain our focus on continuous simplification, we have established a Simplification Taskforce. This taskforce consists of practicing auditors from across the world – a mix of partners, executive directors and senior managers. It is responsible for exploring the processes, forms, RPA and project management approaches that we use in our audits globally to find better, faster and more efficient ways of working.

We recognize that the more we can standardize, the more we can free up our people to focus on the most important aspects of the audit and execute more consistently across different locations.

Global Audit Methodology

Our Global Audit Methodology (GAM) is what we use to interpret and apply both the international and domestic audit standards that exist in the jurisdictions in which we operate.

We simplified GAM in 2015, redesigning certain aspects of our methodology and changing the manner in which GAM is presented. We hired external editors to help us to write more clearly, concisely and consistently and we made greater use of interactive graphics to display the methodology.

GAM is configurable to bring together the requirements of the auditing standards and related guidance so that auditors can obtain a customized version of the methodology to apply to their audits; for example, different versions for a group audit or an individual non-complex entity audit. Our topic-based GAM includes all the requirements of the International Standards on Auditing (ISAs) and, when needed, the additional requirements of the Public Company Accounting Oversight Board (PCAOB) auditing standards.

Our auditors can use links in EY Canvas to access GAM, to take them to EY Atlas and directly to the part of the methodology that is relevant in the context of their work.

For example, if they are trying to document a client's revenue process in EY Canvas, they can click on a link that

“By converting complexity to simplicity, we are supporting our teams to carry out better quality work.”

Case study

How I am providing audit quality



Nadij Panday, Manager,
Johannesburg, South Africa

When it comes to delivering quality audits, effective project management is as important as technical competencies. Sound project management means that audit issues can be identified early in the process and addressed adequately. For this reason, it is essential to incorporate communication with the client into the project management plan. EY Canvas, our online audit platform, has excellent

project management capabilities. I depend on it to manage my audits effectively.

People are also essential to delivering high-quality audits. EY has a very good people culture. I find it a rewarding environment where my efforts are acknowledged and the partners take a keen interest in my career development. The partners also spend time with the managers, providing them with on-the-job coaching as well as holding career discussions with them every quarter.

Since EY is a global professional services organization, I am able to draw on the skills and experiences of people right across our international business. This enables me to deliver quality audit engagements that are of a high standard and meet the expectations of all stakeholders.

I believe that audit makes an important contribution to the business world and I value the experience that I have gained in the profession. I aspire to become a partner at EY one day.

“We have gathered feedback from our practitioner community and acted on it to refine and improve the user experience.”

takes them to the appropriate part of the methodology that will provide guidance on that activity.

Topic-based GAM is made even more dynamic by the existence of on-demand “tips” and “examples” that are only displayed once an interactive icon has been clicked. A tip is a helpful suggestion to auditors, whereas an example might be a practical explanation of how an audit requirement can be met. This means that auditors may first read the requirements and guidance in the methodology and then click on the tips and examples when they need more information.

We regularly update both GAM and our associated forms and templates to reflect new standards, emerging auditing issues and practical experience, as well as to respond to internal and external inspection results.

As we have developed GAM, we have gathered feedback from our practitioner community and acted on it to refine and improve the user experience – for example, by adding a new topic or better clarifying an existing one. Following its revision, GAM is more accessible and easier to understand, with the volume of

methodology a user typically experiences being reduced by more than 50%.

This is beneficial to all our auditors, but particularly those for whom English is a second language. Not only does our revised, topic-based GAM read very well, it also translates more easily into multiple languages.

We have also taken the approaches and methodology from topic-based GAM and applied them to our new *Assurance Reporting Manual*, which supports the new auditor reporting, and will soon do the same with our *Assurance Policy Manual*. Other than GAM, these two manuals are the biggest auditing knowledge tools that our auditors use and they are both contained within EY Atlas, along with GAM. They will contain tips and examples, in the same way that GAM does.

Customization

Our audit methodology includes profiling functionality that means that it can be customized according to the requirements of a particular audit.

For example, where appropriate, it can be customized according to whether an audit is of a complex or a non-complex

Case study

How I am providing audit quality



Rachel Morales, Manager,
Houston, US

I believe that audit quality is about understanding the why and how of what we are doing. We can follow procedures, but if we don't understand why we are following them, then we won't uncover the most important issues.

To gain that understanding, we need to know our clients' business, their industry and the standards they must abide by. It's not enough to look at individual transactions or documentation; we

must also appreciate the wider context behind it.

What I enjoy most about being an auditor with EY is that I am always learning – whether that's to do with a new client, a new audit or a new accounting requirement. There's always an opportunity for me to grow.

I can't think of another profession where, five years in, I would be meeting with CFOs and other directors and they would be listening to what I have to say because

of the knowledge I have. I also like being able to teach the people in my team and helping them to grow.

EY is a large organization that offers a wide variety of career experiences. I have found that EY leaders are always willing to listen to my interests and they support me to seek out new challenges. I find our new analytics tools particularly exciting and I am looking forward to making even more use of them in future.

entity, or whether it's a listed audit or a group audit. It can also be customized to display methodology relating to the PCAOB auditing standards, which apply to US listed companies. The result is that we have a number of different audit approaches that share a single methodology.

Application of methodology

It is not just the audit methodology itself that matters; equally important is how we apply it. That is why we have built smart forms directly into EY Canvas. These forms offer two-way interaction, bringing data from EY Canvas and guidance from GAM into the form on demand. They help our teams to complete the requirements stipulated by the methodology more quickly, more easily, or both.

The principal smart forms that are now built into EY Canvas were previously Excel forms containing programming features that could extract certain data from EY Canvas. These forms are:

- ▶ UTB, which is used to document our understanding of the business and identify risks of material misstatement
- ▶ SCOTS, which is used to document a significant class of transactions, e.g., the revenue process
- ▶ Estimates, which is used to document a process management uses to make accounting estimates – for example, fair value of financial instruments

Over time, we will build more of our forms into EY Canvas, with the aim of making our audit documentation as electronic and paperless as possible. This will mean that our auditors can more easily and effectively apply the requirements of the auditing standards and our methodology.

Coaching kits

We use coaching kits to further support the application of our audit methodology. A coaching kit is a guidance pack that is designed to help members of an audit team to coach themselves on a particular topic and transform knowledge into practice.

Normally, a team will meet for a few hours to upskill themselves using the content of the coaching kit. Within each kit is a series of exercises that help team members to use the facts and circumstances of their engagement to better understand and

apply audit concepts, along with related guidance and tools.

A significant advantage of using coaching kits is that the training is highly relevant to the specific audit that the team is working on, rather than simply being generic classroom education. Auditors at all levels participate in this coaching.

Coaching kit topics address issues that we have observed in our internal and external inspections. Current global kits include:

- ▶ Performing high-quality audits
- ▶ Identifying and responding to the risk of material misstatement due to fraud
- ▶ Auditing estimates: evaluating available information and applying professional skepticism
- ▶ Designing substantive procedures to extend interim audit conclusions to year-end
- ▶ Designing effective substantive analytical procedures
- ▶ Journal entry testing procedures

We are continually updating our coaching kits and expanding the topics that the kits cover. The next series includes:

- ▶ Testing and using IPE (information produced by the entity)
- ▶ IT integration
- ▶ Evaluating and testing management's review controls
- ▶ Scoping a group audit
- ▶ Assessing the completeness of our documentation and finalizing our work papers

Case for consistency

The more consistency we can achieve, and the more transportable our audit processes are, the easier the coaching and training of our people becomes, since they can work in a similar way on each audit that they are assigned to. This, in turn, helps them to do a better job because they will be able to immerse themselves in the most important areas of the audit more quickly.

Our leaders say...

"It is easy to design a process that is complex. To simplify a process with complex requirements takes a great deal of effort and skill."

Bob Landwehr, Deputy Director, Global Professional Practice, EY

"We will build more of our forms into EY Canvas, making our audit documentation as electronic and paperless as possible."



Audit technology and digital

EY's audits are powered by leading-edge digital technology. That's because we understand that by integrating the latest technologies into our audit processes, we are able to deliver high-quality audits that are agile, efficient and insightful, while meeting both our expectations and the evolving needs of everyone involved – businesses, regulators and investors.

We want to give our auditors the best possible tools to use in their work, which is why we are continually enhancing and upgrading our three foundational audit tools: EY Canvas, our global online audit platform; EY Helix, our suite of data analytics; and EY Atlas, our cloud-based knowledge platform that delivers the latest accounting and auditing content. We are also investing in emerging technologies such as advanced

data analytics, artificial intelligence (AI), blockchain, drones and robotic process automation (RPA).

For example, by embedding AI into our approach we have developed the EY Lease Reviewer, which extracts information from lease contracts using statistical and basic text analysis. The technology allows teams to start grouping contracts together based on words and phrases used, which can then be analyzed more effectively. This improves quality and efficiency by supporting smarter management of non-routine transactions and processes by our teams.

We have developed an analytics-driven audit approach. We believe in using technology to its fullest potential to deliver a high-quality audit that puts

greater emphasis on risk identification and gives our people the opportunity to demonstrate an increased level of professional skepticism. A recent survey found that EY Canvas and EY Helix help our audit teams to better understand their clients, better understand risk and deliver better audits overall.

Our Statutory Audit Center of Excellence helps us to develop tools that exploit digital technology – for example, the Group Scope Analyzer that is one of our EY Helix Analyzers. This center provides coordination and support for teams working on the statutory audits of large clients, or clients that have a considerable number of statutory entities. It presently serves 30 of our largest clients, but we plan to expand it to serve 500 clients by 2020.

Our enhanced global audit platform

EY Canvas

Our root-cause analysis shows us that the better the audit process, and the better the project management of an audit, the more the auditors can focus on the most important elements of an engagement, such as risk. We have developed our global audit platform, EY Canvas, to help our auditors focus on risks and our responses to those risks. Fundamentally, EY Canvas helps auditors spend less time on the administration of an audit and more time on the areas that matter most.

We commenced deployment of EY Canvas in May 2015 and have regularly upgraded it since, introducing new features and functionality. The platform is now being used on more than 140,000 engagements across 140 countries.

EY Canvas helps us to communicate a centralized plan to participating teams across the globe, as well as the day-to-day tracking and management of the execution of audit work. We better connect our teams with the companies we serve by providing real-time status updates on audit processes and issues, regardless of location. Greater transparency allows us to capture, flag and share global audit findings as they arise.

With color and visualization used to provide a clearer, more comprehensive overview of the audit plan, EY Canvas

enhances quality and performance by enabling our teams to better align the significant risks identified with the procedures that address those risks. This helps them to better tailor audit procedures to the specific characteristics of the entity being audited and, as the workflow is streamlined, it improves the overall project management.

Project management is further boosted by EY Canvas's Milestones program. Milestones are assigned to important tasks, allowing teams to track and report on progress in completing those tasks. At a high level, senior management can have visibility of how teams are delivering against their milestones right across the audit practice.

As the platform can be configured to the specific characteristics of any organization, our teams can quickly customize how they approach the audit, and can have the latest and most relevant information, such as industry-specific tasks, delivered directly to them.

EY Canvas is designed to allow us to adapt and evolve our software as we enhance the functionality and respond to changes in the accounting profession and regulatory environment. This means that, as the regulatory environment changes and new guidance becomes available, relevant updates will also be delivered to teams through EY Canvas in real time.

We have given careful thought to how we can best integrate mobile technology with EY Canvas. We have developed

Our leaders say...

"Our analytics-driven audit is designed from the bottom up to ensure our auditors derive the right audit conclusions and deliver a high-quality audit opinion."

Alan Young, EY Global Assurance Analytics Leader

three mobile apps that help to save our people and clients time and deliver a more efficient experience:

EY Canvas Engage helps us keep the audit moving and meet deadlines by displaying the actions required on an engagement. Its user-friendly display allows our people to instantly view their specific tasks and focus on those. For those team members who are traveling or in various locations, it is a great way for them to review documents on the move. It also saves our clients time in supporting the audit, since the camera feature allows our people to capture audit evidence and securely upload it into EY Canvas. This evidence is not stored on the camera rolls of smartphones.

EY Canvas Inventory allows our people to record their inventory counts on their mobile device and upload them directly into EY Canvas.

EY Canvas Pulse allows our people to provide real-time status updates to their clients on the go, thanks to the instant visibility of engagement status, timelines and team performance.

All these apps operate on mobile devices.

EY Canvas features a Client Portal, through which clients can communicate with audit teams and see what information the auditors have requested and whether that information has been provided. Not only does the portal reduce



The EY Canvas apps are available for computers and mobile devices

Viewpoint

Digital, analytics and technology



Hermann Sidhu, EY Global Assurance Digital leader

EY has invested over half a billion dollars in audit technology, and that investment isn't stopping. Our technology is evolving; it's growing exponentially every single day.

As a result, we have been able to bring a huge amount of digital innovation to the audit. We have effectively digitalized the end-to-end audit process. This enhances the way we look at risk, reduces client burden and delivers operational benefits.

Our technology – including the EY Canvas audit platform and the EY Helix analytics platform – enables us to take a broader look at risk and improve the quality of the audit. EY Canvas is the foundation of our technology, with companies able to receive real-time updates through our Client Portal.

Meanwhile, EY Helix allows analytics to be embedded in every significant aspect of the audit.

Rather than testing smaller samples, we can now capture, transform and analyze full populations of structured and unstructured data using our Hadoop platform. This helps us to explore both the detail and the bigger picture.

EY auditors can now deliver a truly analytics-driven audit. They can identify more easily where to focus their time, and concentrate on auditing rather than the collection of data. With information at their fingertips, auditors' inquisitiveness and skepticism are enhanced.

RPA also allows us to handle large volumes of data, while reducing disruption. It automates routine and non-judgmental audit procedures to streamline previously labor-intensive processes.

Our skilled auditors, using state-of-the-art technology, are able to bring a new level of insight and perspective to the audit and, in turn, to a company's business operation.

Audit and auditor have to constantly evolve to fit new circumstances. Our digital technology makes this possible, and brings out two of the key characteristics of an auditor – applying appropriate judgment and asking better questions.

the amount of email requests that clients receive, it also gives them on-demand visibility into the status of audit requests and greater confidence that their data has been securely delivered to EY. The audit teams, meanwhile, benefit from the portal because they spend less time chasing information and more time focusing on the important issues relating to the audit. This online portal is available in 10 languages.

Our audit teams tell us that EY Canvas is making the issues identified in the audit more visible and transparent, allowing faster communication to senior executives in the engagement. This allows them to address and resolve issues and findings earlier.

EY Helix

At EY, we take an analytics-driven approach to audit that allows us to deliver better-quality, more client-relevant audits and exercise a higher level of professional skepticism. EY Helix, which is our global suite of data analytics tools, is an integral part of our audit, from large engagements to small ones. There are more than 70,000 instances of our analytics being used across the globe, which gives our teams the ability to analyze larger volumes of audit-relevant data in order to derive insights and a more in-depth understanding of our clients' financial close and business operations.

EY Helix improves the quality of the audit and delivers extra value by revealing unseen patterns and trends in our clients' financial data and identifying trends and anomalies in business processes and controls. By analyzing larger data populations, we bring new discovery techniques and unique evidence into our audits, enabling our auditors to better identify financial reporting, fraud and operational business risks. It is a much better way of looking at information than traditional sampling techniques.

An example of where EY Helix provides extra value is in the analysis of settled and unsettled invoices. We can look at sales invoicing activity throughout the year, the impact of credit memos and, ultimately, how the invoices are settled. This gives us a better understanding of both revenue and trade receivables to help focus our audit procedures. We can also glean

insights about our clients' business or areas for process improvements that we can share.

EY Helix is at the heart of the EY audit and we've embedded analytics-driven audit programs, giving us end-to-end coverage of a business's operating cycles.

By using these tools and analyzing larger populations of data, our auditors can better understand the business, be better equipped to identify risk, ask better questions about the audit findings and, with their attitude of professional skepticism, appropriately challenge the outcome. Analytics can be applied from the scoping and planning of an audit through to assessing risks and details testing.

We are expanding our analytics platform to include additional analytics such as predictive analytics, as well as sector-based analytics and risk-based analytics – such as provision for warranties in the automotive sector and impairment analytics. We are also exploring how analytics can be used effectively with unstructured data, such as social media, to find ways of assessing risk in all its forms, not just the risks associated with financial information.

EY Atlas

EY Atlas is our state-of-the-art global accounting and financial reporting research platform. Enabled for use on smartphones and tablets, this tool provides our auditors with an integrated, consistent, easy-to-use way to find information while they are on the move. It helps us to deliver high-

quality audits, because our teams will have faster, better and more relevant research results.

Integrated with EY Canvas, EY Atlas provides our teams with the most relevant up-to-date accounting, auditing and industry information for a client's audit. We have also developed an EY Atlas Client Edition, which gives clients direct access to EY technical insights relating to accounting, financial reporting and regulatory filing, as well as thought leadership matters.

EY Atlas is a cloud-based solution that provides us with a platform that may incorporate artificial intelligence and speech recognition capability, bringing a leading research experience to our people and clients.

Emerging technologies

Audit quality lies at the heart of our innovation strategy, which is why we are committed to innovating and integrating new technologies into our audit process. The emerging technologies that we are exploring include:

1. Drones

Drones are unmanned aerial vehicles that are piloted remotely. We are assessing how they can be used to assist with inventory observations and how their findings can be integrated with our mobile applications. Drones will analyze inventory quantities in real time by reading quick response (QR), barcode or rack labels and then feeding this information directly into EY Canvas.

How our audit tools improve quality

EY Canvas (our audit platform)	<ul style="list-style-type: none"> ▶ Facilitates early and active involvement of audit team members ▶ Offers real-time validation checks ▶ Provides a platform for increased practice monitoring and better project management enabled by the Milestones functionality
EY Helix (our analytics platform)	<ul style="list-style-type: none"> ▶ Increases our ability to focus on areas of risk, rather than testing a smaller sample ▶ Enhances the ability to detect anomalies and unusual items ▶ Allows auditors to better understand clients' operations and risks
EY Atlas (our research platform)	<ul style="list-style-type: none"> ▶ Improves the relevancy of search results and ability to filter ▶ Improves access to desired content using enhanced browse functionality ▶ Provides a single source of technical accounting and auditing content

Case study

How I am providing audit quality



Nout van Es, Partner, Venlo, Netherlands

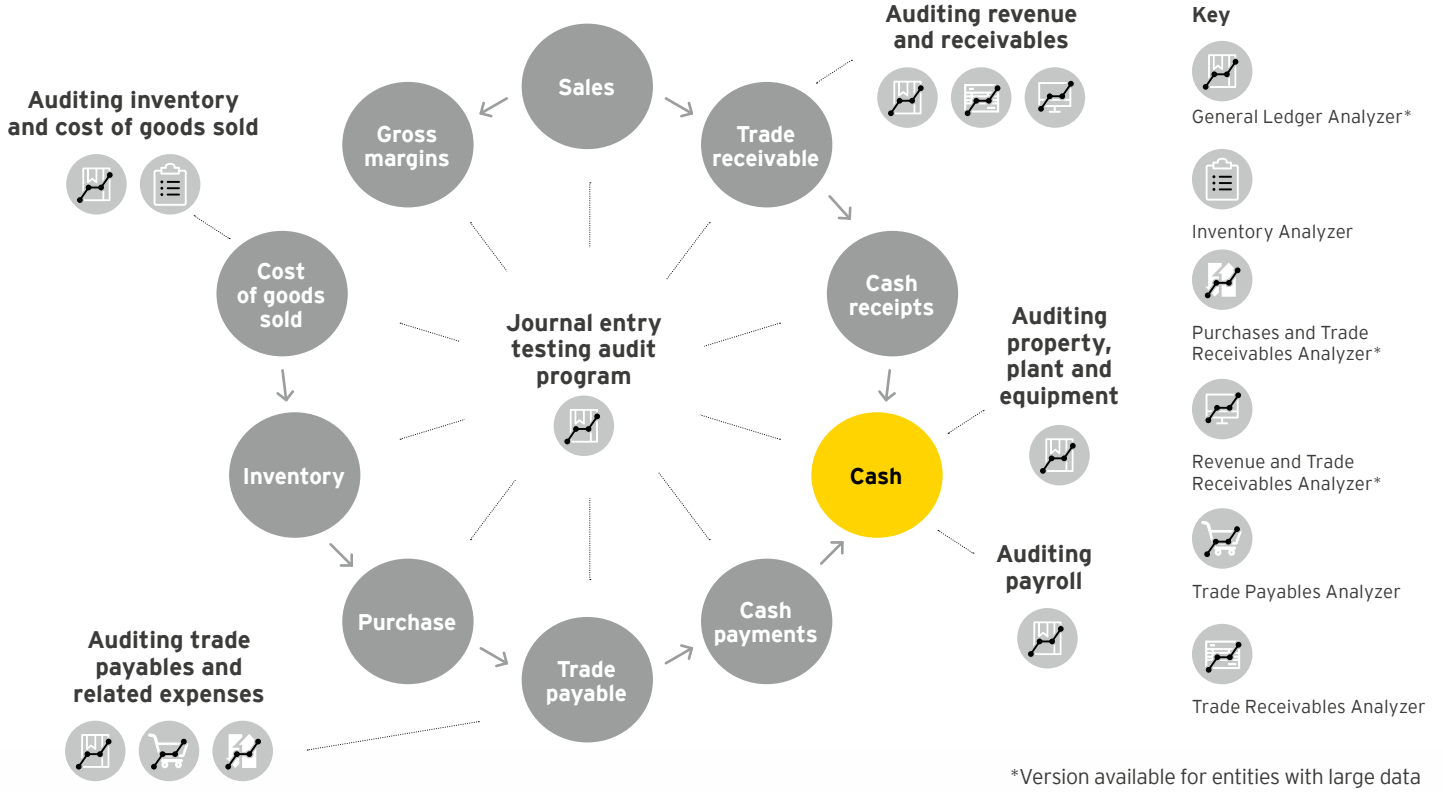
EY has been making great strides in providing us with tools for data analytics. On an audit of a large retail client, we were looking for a more effective approach to auditing revenue, given the large volume of individually small transactions that were occurring at numerous retail locations.

Historically, our revenue testing consisted of performing detail testing of individual transactions. We are now using EY Helix to perform a two-way correlation on revenue – this is specifically aimed at auditing most of the revenue transactions and the corresponding cash. Cash is collected within one month, based on understanding of the business and the review of credit card processor agreements.

Using EY Helix, we weighed the evidence from the correlation analysis with that from other procedures and from related accounts, and concluded that we had obtained persuasive audit evidence over the occurrence of revenue.

EY Helix Analytics

Covering the end-to-end business operating cycle



EY Helix delivers extra value by revealing hidden patterns and trends in our clients' financial data

2. AI and machine learning

AI involves the use of computing systems that exhibit some form of human intelligence. We are investigating how AI can be used in the audit process and within our research capability. We are also investigating the digitization of large volumes of unstructured contract data and, for example, incorporating machine learning to assist with revenue and lease contract reviews.

3. RPA

Enhanced automation has been a key component in the development of EY Canvas and EY Helix, allowing us to further improve audit efficiency through the incorporation of RPA. EY has formed an Automation Center of Excellence, a dedicated team of highly qualified automation engineers and process consultants, to enhance the RPA opportunity across the organization. We are currently introducing RPA across various platforms. Projects include:

- ▶ Transforming our audits of funds in the financial services sector through automation
- ▶ Automating the production of audit-ready work papers across the portfolio of statutory audits of our largest clients
- ▶ Developing discrete RPA objects to help automate routine and non-judgemental audit procedures, such as loading client data to our analytical tools and sampling
- ▶ Innovation workshops on our largest clients to identify routine audit procedures that can be automated

4. Blockchain

A blockchain is a distributed database that maintains a continuously growing list of data records (public and private) put together in encrypted blocks. We are working across the organization on helping our clients to understand the impact of blockchain, assessing the audit impact of blockchains and developing new techniques to audit a blockchain.

Viewpoint

A time of change



Jeanne Boillet, EY Global Assurance Innovation Leader

EY has made, and will continue to make, significant investment in technology and innovation. We see the development of new audit tools as just the start, and we are creating a culture based on sustained innovation. We believe innovation is key to quality and vice versa.

By harnessing new technology and innovative approaches, we provide higher-quality audits and a better service to our clients. These technologies, if applied thoughtfully and effectively, will improve quality, reduce risk and enhance confidence.

The direction of travel for Assurance professionals is clear. There will be greater automation, more use of analytics, a broader approach to risk and a different profile for the audit team (which

will include more data scientists and engineers). We see these as short- or medium-term developments.

Longer-term predictions are harder to make. There will be cases of “disruptive innovation” where new technologies lead to new business models, markets and solutions.

Over time, this will change the audit experience. It will enable audit teams to have access to data to perform reviews of full transactions rather than just samples, and to move to more continuous auditing, bringing greater insight and efficiency.

In fact, the biggest challenge goes beyond technology; it is about change management and allowing our teams to make the best use of what has already been developed.

That is why we have created work streams examining what is in store, covering advanced analytics, RPA, cognitive intelligence and blockchain. We reinforce the change management dimension through coaching sessions and the development of concepts such as client innovation workshops. These will all help to develop our future plans.

There is a long journey ahead. It may occasionally be bumpy, but it will be an exciting ride.



Accountability, enablement and quality support

At EY, we see accountability and enablement as critical drivers of audit quality. Accountability is about professional pride and individuals taking ownership of their work – as an auditor, you are accountable not just to yourself, but to your team, the organization, and our stakeholders. We reinforce the importance of accountability through our SAQ program, our quality ratings and our partners’ performance evaluations.

Enablement is about giving our teams the resources they need to deliver high-quality audits. Those resources encompass our technological tools, such as EY Canvas, EY Helix and the Client Portal, as well as a network of experienced professionals, the QELs around the globe.

Our QELs provide on-the-ground support and mentorship to our teams, helping them to set and achieve high standards and providing additional assistance as and when it is needed. We are also enabling our teams to work more efficiently by simplifying and streamlining our audit methodology and associated guidance.

The drive for better-quality audits is a collective endeavor on the part of the entire global audit profession. This means that we do not just want to inspire our own teams, we also want to inspire every auditor in every member firm across the world. As a result, we are challenging our people to become role models, to think proactively about how they can inspire those around them, and to embed quality within their DNA.

From the conversations that we have with our clients and with regulators, we know that our commitment to audit quality is visible and we also know that it is having an impact on outcomes. We are on course to achieve the target set by IFIAR of a 25% reduction in “deficient audits” – these are audits that have at least one significant inspection finding – by the time of the 2019 IFIAR Survey.

In fact, we have set ourselves an internal target that is more aggressive. It is our long-term aim that the percentage of our audits globally that produce an inspection finding will be in the single digits, while we

“We know that our commitment to audit quality is visible and that it is having an impact on outcomes.”



will also have achieved a cumulative 10% improvement in the results of both internal and external audit inspections.

Measuring audit quality

While audit quality is subjective to a certain extent, it can also be assessed using some objective measures. For EY, these objective measures include our inspection results – both through external regulators and our own internal Audit Quality Review (AQR) program – and the results of our coaching activities, our performance in terms of the timeliness of the audit, and the competencies and experience of our teams.

We strive to measure our performance on quality wherever possible, to analyze any quality challenges and to take corrective action. Quality is central to our offering as auditors. It is our brand. It is also a reflection of our function, which is to serve the public interest at the highest possible level.

Leading companies and their audit committees are making quality a key factor when choosing an auditor. Tenders require evidence of quality levels, and companies are specifically hiring or not hiring because of quality considerations.

However, the premier driver for our SAQ program is our professional duty and pride. As auditors, we want to be as good as we can be. The systems of accountability and enablement that we have established are helping to achieve this goal.

Reward and recognition

Although EY has always been focused on audit quality, we recognize that our stakeholders' expectations of, and reliance on, the work we do is increasing all the time. So the performance of our audit leaders is measured and rewarded with this in mind. Quality is a significant factor in an audit leader's overall evaluation.

We have been measuring our partners' performance against a range of criteria, including external inspection results, our own audit quality reviews, embracing SAQ initiatives, compliance with assurance and risk management policies, commitment to consultation, setting the tone at the top, and attendance at mandatory training events.

When we first embarked on our SAQ program in 2015, we crafted the

foundation and the pillars of a new approach to quality. Now we are building on those foundations and pillars to take our commitment to quality to an even higher level.

Accountability framework

We have also established a framework for evaluating the leaders who are responsible for audit within the global EY Regions, so they can be assessed in a consistent manner and rewarded based on quality. This means that we have both global and local accountability in our framework for audit quality.

Consistency and governance

Good governance drives consistency in audit quality across our network. For this reason, we have created the GAQC to make sure we consider the most important matters relating to audit quality, including lessons learned, policy and strategy. The committee's remit is to monitor quality and drive our efforts globally, highlight leading practices and identify and address emerging quality issues.

The GAQC, which meets around six times a year, consists of senior global Assurance leaders, as well as the Area Professional Practice Directors, Area QELs and a representative from our public policy team. Together, this committee collaborates to develop, maintain and oversee key SAQ initiatives.

The audit leaders also meet with EY's independent non-executives on a regular basis, and quality is an item on the agenda every time the Global Executive meets. Our Global Vice Chair Professional Practice discusses quality with our Global CEO on a regular basis.

We also have an EY IFIAR subcommittee, which meets on a monthly basis. It brings together leading practices and current developments on audit quality from the nine countries that are members of the IFIAR Global Audit Quality Working Group (Australia, Canada, France, Germany, Japan, the Netherlands, Singapore, the UK and the US) in a collaborative, constructive and transparent way.

Enablement, quality support and monitoring

Across EY, there are systems and structures in place to help analyze our audit quality and improve working

Our leaders say...

“Systems and structures alone cannot guarantee continuous improvement. Our purpose requires a mindset and a culture of both personal and collective responsibility.”

Jay Paulson, EY Global Quality Enablement Leader

practices, skill levels and resources where necessary. We understand the importance of supporting our people, who often work in stressful and demanding environments. It's crucial that we monitor audit quality and have open discussions when there has been a problem.

Our QEL network is a group of senior Assurance leaders who take action to drive audit quality by providing hands-on support to engagement teams. They are some of our best, most talented people. Present in every Region, and increasingly within different locations within each Region, their responsibilities include coaching teams; supporting internal and external inspections; evaluating significant audit deficiencies through root-cause analysis; and helping provide additional support to teams due to changes in demands on engagements.

Professional Practice

Our Professional Practice group is responsible for monitoring, controlling and enhancing the quality of our Assurance practices. It also provides thought leadership and guidance on accounting, auditing, financial reporting, regulatory matters and other technical and risk matters to our audit teams, the entities we audit and other stakeholders.

Professional Practice is responsible for responding to proposals from standard setters, writing guidance on new standards and dealing with any challenges of deployment. It also oversees our internal inspections processes, including

Viewpoint

Being better



Jay Paulson, EY Global Quality Enablement Leader

Quality is the very fabric that makes every successful organization. At EY, we are passionate about quality and recognize that it has to be embedded within our DNA. Not only are we accountable for what we do, we are also committed to going beyond what is expected within the audit profession more broadly.

We believe that when our people go to work, they should ask themselves the question: how can I make a positive difference today?

At EY, we expect continuous improvement in our audits and from our auditors. We desire to be better tomorrow compared to where we are today. I know from our inspection results, and from the conversations that I have had with our teams, clients and regulators, that this improvement is happening. We still have much more to do, however. Quality is

an area in which we will never be complacent.

We are proud of the framework that we have built in support of quality – a framework that monitors our performance, supports engagement teams and encourages ever-higher quality levels. We have a GAQC that oversees audit quality globally, a network of QELs to help us with local and global implementation and monitoring of our initiatives, an accountability framework, and powerful technological tools such as EY Canvas, which has its own, highly regarded, project management tools and client portal.

But systems and structures alone cannot guarantee continuous improvement. Our purpose requires a mindset and a culture of both personal and collective responsibility. At EY, we are all accountable for SAQ. Every leader, every executive, every professional and every trainee in each member firm has a duty and responsibility to provide high-quality work. It is one of the strongest markers that sets us apart.

I see on a daily basis the commitment and knowledge of EY's auditors and support teams. They have a passion for what they do and take great pride in their audits. It is not just EY's work; it is their own personal work.

We always seek to be better. We learn from every audit and put what we learn into practice. In doing so, I believe we make a difference to the investing community and to society as a whole.

AQR, engagement quality reviews and pre-issuance reviews – as well as liaising with regulators on external inspections.

Professional Practice is an important part of our assurance quality infrastructure, and works closely with the audit leadership on any areas of challenge.

Inspection results

EY's internal and external inspection findings globally are showing improvement. Nevertheless, we will not allow ourselves to plateau, because the bar is being raised higher all the time. We know that we must continue to drive both qualitative improvement (relating to the nature of audit deficiencies) and quantitative improvement (relating to the number of audit deficiencies).

Each year, the EY network conducts the AQR program as an important element of assessing our system of quality control. This includes work at the member firm, regional and Global level consistent with the requirements of the International Standard on Quality Control 1 (ISQC-1).

The engagements reviewed each year are selected on a risk-based approach, including consideration of audits that are large, complex or of significant public interest. The AQR program includes detailed, risk-focused reviews covering a large sample of listed and non-listed audit engagements to measure compliance with internal policies and procedures, EY's Global Audit Methodology and relevant professional standards and regulatory requirements.

AQR reviewers and team leaders are selected for their knowledge and professional competence in accounting and auditing, as well as their industry specialization. They often work on the Global AQR program for a number of years and are highly skilled. Team leaders and reviewers are assigned to inspections outside of their home location and are independent of the audit teams reviewed.

The results of the AQR process are summarized globally (including for Areas and Regions), along with any key areas where the results tell us that continued improvements are required. This information, along with remediation and improvement plans, is presented to the Global Executive; Global Assurance, Global PPD and Global Risk Management Executives; and others.



Overall, we have concluded that our systems of quality control meet the requirements of ISQC-1. However, we recognize that we must continue our efforts to improve the quality of audit work globally.

Coaching

We have a variety of coaching programs to assist our teams in the more challenging areas of our audits. Our AQR program also provides a level of learning for our teams.

Audits that have undergone coaching have shown improved post-issuance inspection results. We therefore believe our coaching program is an important component in our drive to improve audit quality.

The program provides timely and important feedback, benefiting not only the individual audit reviewed, but also other audits. It offers valuable coaching for our teams and allows for appropriate adjustments to be made, where necessary, before we issue the audit reports. We also believe that coaching provides EY with important information that can be used more broadly for the benefit of all our audit teams.

Milestones

Timing is critical to the execution of a quality audit. We have seen a positive correlation between teams that have produced strong quality results and those that are disciplined in completing the phases of the audit at the appropriate time. EY has established a Milestones project management program in which our teams establish goals early on in the audit cycle for when they will complete stages such as planning, internal control evaluation, interim audit work and other key efforts.

Milestones is empowered by EY Canvas, so it will allow assurance leadership, Professional Practice and QELs to see when the different phases of the work have been completed. It also drives further consistency across the network.

We have also introduced the EY Client Portal. This will allow for centralized tracking of audit deliverables and provide senior management and audit executives with a better mechanism to track progress. It promotes collaboration and mutual accountability.

Root-cause analysis

We use a range of tools to gain a deeper understanding of the factors that drive

our inspection results and to help us avoid any recurring issues. In 2016, we devoted 20,000 professional hours globally to root-cause analysis. This is an in-depth assessment of audits that serves to identify the root causes contributing to the audit achieving either a positive or negative outcome in an inspection.

We then carry out deep dives on our findings and undertake correlation analysis. By combining all of this research, we better understand the drivers behind both positive and negative inspection outcomes, allowing us to take remedial action where necessary.

Audit quality indicators

We have developed audit quality indicators that give us forewarning on where we may need to intervene if quality appears to be slipping. Audits are scored on a basis of individual indicators and also on a basis of all indicators being combined to give a cumulative score. Examples of these indicators include:

- ▶ External and internal inspection results
- ▶ Milestone performance
- ▶ People surveys
- ▶ Staff retention at manager and senior level
- ▶ Transparency International's Corruption Perceptions Index for the country in which the audit is taking place
- ▶ Utilization ratios

Continuous improvement

At EY, we are committed to continuous improvement, and we provide an environment in which our auditors can thrive. We recruit, develop and retain the right people, embrace innovation, encourage simplification and monitor closely what we do.

Our aim is to exceed regulatory benchmarks and produce audits of the highest quality. Continuous improvement is critical to the way we operate, and quality is the key to our culture.

Case study

How I am providing audit quality



Arthur Marshall, Partner, Boston, US

On one engagement, we were looking for ways to enhance the audit process from both the EY and the client perspective, and as a team we made a strong commitment to implementing Milestones.

Milestones is a sure way to set up effective project management on your engagement and to live out execution

excellence on the audit year-round. With very simple steps, we can focus on continuous improvement to transform the audit process, helping our clients see the value in our work, improve our efficiency, and bring even greater levels of job satisfaction to our people.

We were very upfront with the client about what Milestones meant and the level of commitment we were holding ourselves and them to (in terms of due dates, deliverables, etc.). Management appreciated that we were starting to approach the audit as a more continuous process. They welcomed the enhanced project management and worked alongside us throughout the year to make sure we had what we needed when we needed it. With this increased transparency, we were not only able to deliver on time, it also helped the team identify out-of-scope items in a more timely way than in prior years, which resulted in fewer surprises and enhanced our focus on key areas.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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