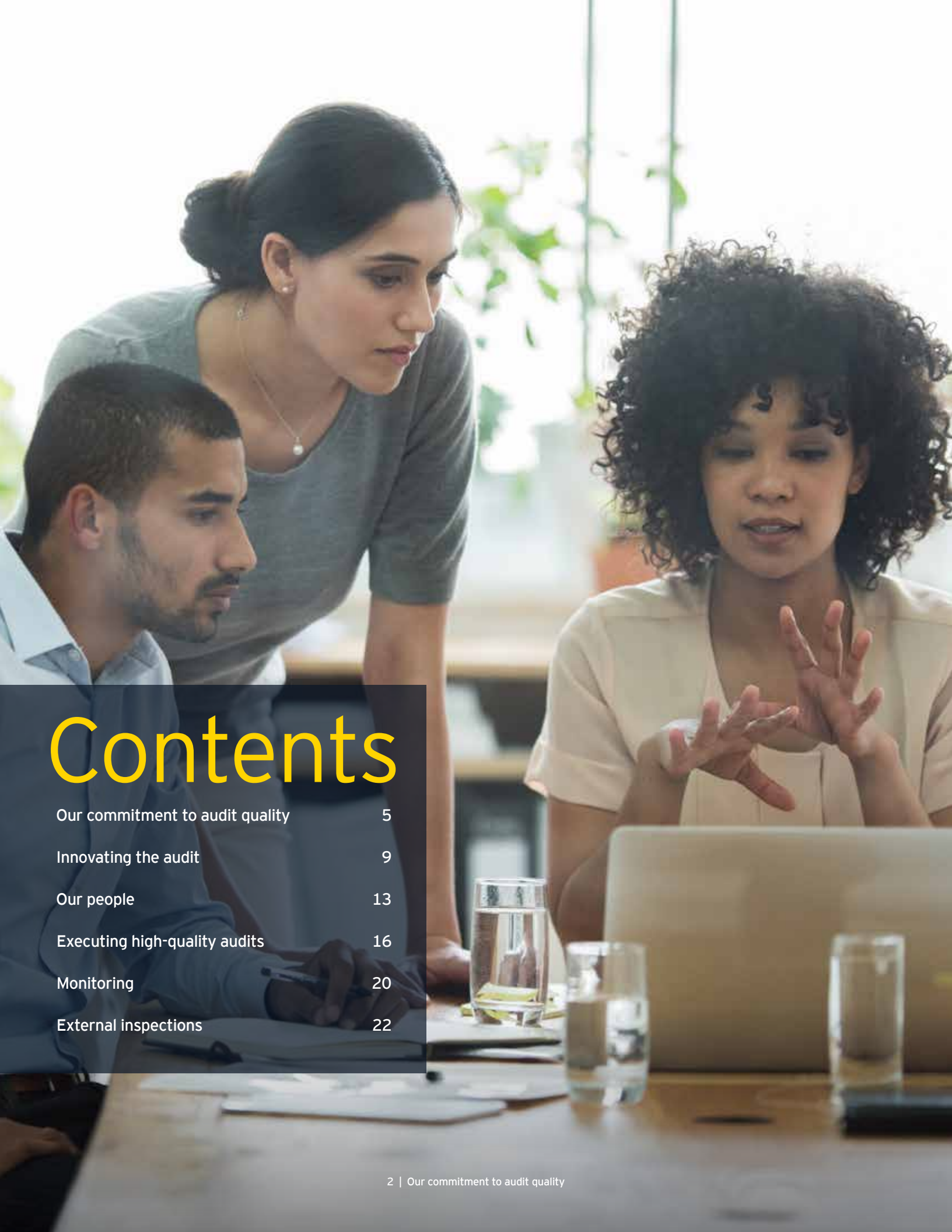




# Our commitment to audit quality

Information for Canadian audit  
committees, investors and  
other stakeholders

January 2020



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# Audit committees, investors and other stakeholders

We're pleased to present our annual report demonstrating our commitment to continuously improving the quality of our audits and strengthening our system of quality control.

This commitment is foundational to our purpose of building a better working world. It's also central to our responsibility as independent auditors to perform high-quality audits that promote trust and confidence in the capital markets.

As part of our commitment to serving the public interest, we have a responsibility to provide our stakeholders with a better understanding of how we conduct our audits, how we monitor our performance and what we are doing to continuously improve the quality of our audits. This annual report, which we have been producing since 2013, is one way we provide that transparency.

Our report highlights our continued investment in technology that is transforming our audits and enabling our people to spend more time focusing on the key risks in an audit. Stakeholders expect us to deploy the latest technology to better understand and respond to the risks they face. That's why EY teams are leveraging emerging technologies, including blockchain, artificial intelligence and more, as part of the connected, data-driven audit. This report also describes our investments in attracting, retaining and developing highly skilled professionals who share our values.

We have made significant progress over the past year enhancing audit quality by transforming our audits to be truly digital. Our audit teams are using data analyzers in more areas of our audits and obtaining a better understanding of a company's processes and the most important risks in the audit, which improves the audit experience for our people and the companies we audit.

We also continue to add capabilities to our audit platform to help our teams better manage their day-to-day audit tasks, communicate securely with the companies we audit and supervise the work of members of the EY global organization when they participate in our audits of multinational companies.

Our culture of doing the right thing and speaking up is critical to our ability to perform high-quality audits. That's why our leaders continue to emphasize acting with integrity, high ethical standards and independence, along with reinforcing the other specific behaviours that contribute to audit quality. We continue to promote diversity and inclusiveness because teams with diverse perspectives help us conduct higher-quality audits. We are also hiring more auditors with technology skills to help us continue to transform the way we work.

In this year's report, we discuss in more detail the benefits of the EY global organization, which is committed to conducting globally consistent, high-quality audits. This structure promotes audit quality because the global organization sets a unified tone and facilitates large-scale investments in technology, methodology and training that would be difficult for any member firm to achieve on its own. Our model of having professionals in disciplines such as information technology (IT), tax and valuation, which are global in reach, is also critical to our ability to perform high-quality audits of increasingly complex businesses.

One constant in today's Transformative Age is the need for trust and confidence in financial reporting. We hope this report provides you with a better understanding of our commitment to delivering high-quality audits to help meet those needs. We welcome any comments and questions you may have about the matters discussed in this report. Please contact an EY Canada partner for more information.



**Jad Shimaly**  
Chairman and Chief  
Executive Officer, Canada



**Massimo Marinelli**  
Managing Partner,  
Assurance Services, Canada



**Laney Doyle**  
Professional Practice  
Director, Canada





# Our commitment to audit quality

Our mission is to serve the public interest by performing high-quality audits now and in the future. We understand that, in response to today's Transformative Age, we need to continuously innovate and implement ways to audit more effectively.

## How we define audit quality

At EY Canada, we define audit quality as providing reliable and independent audit opinions and informative communications that promote trust and confidence for stakeholders, delivered through globally consistent processes and innovative technologies by people who act with integrity, objectivity and professional skepticism.

We understand the important role we play in the financial ecosystem, which also includes investors, regulators, audit committees and management. While we recognize that these stakeholders may have different definitions of audit quality, we

view audit quality through the lens of the audit committees and shareholders we serve. That is, we understand that we serve the public interest by providing confidence and trust in the opinions we issue on financial statements and internal control over financial reporting.

Transparency about how we operate is more important than ever. In this report, we describe the factors that we believe drive audit quality and how we assess our performance at the individual partner level, the engagement level and firmwide. We also describe new ways we are working to sustain audit quality.

We are proactively preparing for the most significant change in auditor reporting in decades – describing Key Audit Matters (KAMs) in our auditor's reports on financial statements of TSX-listed entities for periods ending on or after December 15, 2020. In 2019 we performed a dry run of KAM reporting for TSX-listed entities that we audit. In doing so, we are using this opportunity to deepen the conversation about audit quality by further discussing our risk assessments and related procedures with audit committees. To make sure our descriptions of KAMs are clear and useful, we have developed detailed guidance for our professionals, along with specialized training and coaching.

Throughout the year, our professionals provide robust communications to the audit committees of the companies we audit on topics such as key business issues, our risk assessments, the company’s progress implementing major new accounting standards, and how our digital audit transformation is improving audit quality.

### Leadership, tone at the top and mindset

We set a clear tone from the top with a culture that is focused on doing the right thing and speaking up. The EY global organization’s governance structure enables EY member firms to drive a common strategy focused on a unified culture and a shared set of values.

Auditors at all EY member firms around the world are required to comply with our independence policies and to confirm compliance with our Global Code of Conduct each year. That Code of Conduct discusses how we work with one another and the companies we audit, act with professional integrity, maintain our objectivity and independence, and protect confidential information.

At EY Canada, our culture and communications emphasize that executing high-quality audits is our highest priority. Our communications also emphasize our focus on our values, our global mindset and our belief in the importance of diversity and inclusiveness, as well as the specific behaviours we have identified as contributing to audit quality. Our leaders deliver these messages consistently in town hall meetings, training sessions, all-hands webcasts and emails, and partners reinforce them at the team level.

Accountability is also a key aspect of our culture. All of our professionals are held accountable for the quality of their work, including our leaders and professionals from other service lines who help us execute audits.

Our partners are evaluated based on factors such as the tone they convey to their teams, including their emphasis on the behaviours that contribute to audit quality, how well they exercise professional judgment and professional skepticism, their level of consistent and direct involvement in the audit, the results of inspections and our monitoring activities, and their mentoring activities.

### Our values

- ▶ People who demonstrate integrity, respect and teaming
- ▶ People with energy, enthusiasm and the courage to lead
- ▶ People who build relationships based on doing the right thing

We also continue to focus on emphasizing the specific behaviours we have identified as contributing to audit quality and how our professionals incorporate them into their daily activities and interactions. These behaviours, which we group under the themes of acting with confidence and courage, saying what needs to be said and leading the way, are now embedded in training for all of our audit professionals and are reflected in our career development and performance management processes. Our leaders emphasize these behaviours in various communications, including by highlighting how individuals demonstrated these behaviours in ways that had a positive effect on audit quality.

We believe that our focus on these behaviours has improved audit quality, and our monitoring efforts confirm that we have identified the right behaviours and demonstrate that our professionals have been receptive to the messaging.

### Delivering high-quality audits across the globe

EY Canada is a member of a global organization that is committed to globally consistent, high-quality audits. This structure provides a unifying culture and a shared set of values for auditors at EY member firms around the world. It also enables large-scale investments in technology, training and methodology that would be difficult for member firms to achieve on their own.

As a result, auditors at all EY member firms around the world use the same audit technology and the same audit methodology, and they are evaluated against common internal quality objectives, regardless of their location.

The EY global organization’s Sustainable Audit Quality (SAQ) program, which reflects our collective commitment to

Themes	We demonstrate the following behaviours...
Confidence and courage	<ul style="list-style-type: none"> <li>▶ Know and demonstrate what needs to be done to execute on a quality audit</li> <li>▶ Know when we need help and actively seek it</li> <li>▶ Are objective and inquisitive and have a skeptical mindset throughout the audit</li> <li>▶ Know the business of the company we audit and the relevant risks</li> </ul>
Say what needs to be said	<ul style="list-style-type: none"> <li>▶ Call it like we see it</li> <li>▶ Have open and direct communications</li> <li>▶ Hold ourselves and each other accountable for our work</li> </ul>
Leading the way	<ul style="list-style-type: none"> <li>▶ Strive to continuously improve by proactively developing our skills and expertise</li> <li>▶ Remember that the purpose of our audit is to assist the shareholders to oversee management</li> <li>▶ Always act with integrity, follow high ethical standards and do the right thing</li> </ul>

## Driving Sustainable Audit Quality across six global pillars to serve the public interest



**Tone at the top:** The internal and external messages sent by EY leadership, including audit partners, that establish and encourage a culture based on a commitment to quality, a dedication to continuous improvement, an emphasis on values, a global mindset and the importance of teaming, setting a clear tone at the top.



**Exceptional talent:** Specific initiatives that support EY auditors in performing quality work. This covers recruitment, retention, learning and workload management. It also includes consideration of the type of skills and capabilities needed, both now and in the future.



**Audit technology and digital:** How the EY Digital Audit is evolving in this Transformative Age to set the standard for the data-first way of approaching an audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality.



**Simplification and innovation:** How we are simplifying and standardizing the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit. This involves the move to the Digital Global Audit Methodology and the growing use of artificial intelligence and blockchain.



**Enablement and quality support:** How EY teams are being helped to manage their responsibility to provide high audit quality. This includes efforts to support them through coaching, root cause analysis, the Milestones project management program and updated quality control standards.



**Accountability:** The systems and processes in place to help EY people take responsibility for carrying out high-quality work at all times. This discusses how we measure audit quality, the latest reward and recognition initiatives, the enhanced Accountability Framework and the Global Audit Quality Committee.

conducting globally consistent high-quality audits over time, continues to be the top focus for the Assurance practices at EY member firms around the world. It establishes a strong governance structure that enables each member firm to provide high-quality audits. It is implemented locally and coordinated and monitored globally. The word “sustainable” in SAQ is used to demonstrate that this is not a one-off, short-term initiative, but a process of continuous improvement.

The EY global organization describes the six pillars of the SAQ program as follows: tone at the top, people capabilities, simplification and innovation, audit technology and digital, enablement and quality support, and accountability.

Significant progress has been made through SAQ. For example, the EY global organization has deployed world-class technological solutions that enhance the quality and value of audits, including the EY Canvas online audit platform, EY Helix data analytics and the EY Atlas research tool.

This program is also helping EY member firms recruit, develop and retain the right people, embrace innovation, encourage simplification and monitor performance to help continuously improve the quality of audits and better serve the public interest.

The Global Audit Quality Committee works with EY Global Assurance leaders to monitor and oversee quality globally. It also considers strategy and policy decisions, highlights leading practices, and identifies and addresses emerging quality issues.

### Our system of quality control

Our system of quality control is the foundation for how we consistently perform high-quality audits. Our approach to our system of quality control is (1) to promote a culture of audit quality, (2) prevent and detect risks to audit quality and (3) have all our people understand their roles and responsibilities, including their responsibility to be accountable for the quality of their work.

We continuously review our system of quality control and make changes to our policies and our processes when necessary. The EY global organization said in a recent comment letter that it generally supports the International Auditing and Assurance Standards Board’s proposed standard on quality control (ISQM 1) which has an anticipated effective date of December 2021.

Over the past few years, the Canadian audit regulator, the Canadian Public Accountability Board, has evolved its audit oversight methodology (supplementary to engagement file inspections) to assess the effectiveness of our Quality Management Systems (QMS).

We are comprehensively reviewing our QMS and proactively making enhancements based on CPAB’s assessment criteria and ISQM 1.

A dedicated ISQM 1 project team has been created and a steering committee appointed to oversee implementation in Canada.

We support the increased focus on QMS and believe the changes we have made and are making will improve consistency of audit quality. Based on enhancements made in the last 12-18 months and those in progress, including those driven by our Global SAQ program, we have more formalized quality control processes, improved accountability across leadership, better, more timely information being shared to respond to risks and are allocating resources more effectively.



**We view our quality management systems (QMS) as the foundation for consistently executing high-quality audits. Investments we are making in our SAQ program and QMS are driving cultural change and enhancing audit quality.”**



Massimo Marinelli  
Managing Partner, Assurance Services, Canada

## Our multidisciplinary strategy

Our multidisciplinary model allows us to build our teams by including EY professionals who focus on tax matters, IT and valuation in Canada and throughout the EY global organization who share our values. These professionals help us deliver high-quality audits at a time when business models and transactions are changing rapidly and increasing in complexity. Our audit professionals and our professionals in other fields collaborate throughout the audit because we believe this approach enhances the quality of our audits.

Our multidisciplinary model also gives both EY Canada and the EY global organization the scale and resources to invest in digital audit technology, including blockchain, robotics, artificial intelligence and other cutting-edge technologies that are reshaping the way we perform our work.

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We are committed to a multidisciplinary model because it provides the structure, breadth and depth of technical skills and industry expertise necessary to deliver high-quality audits. Quality audits depend on teams with diverse skills delivering on a digital audit based on a culture of shared values.”



Jad Shimaly  
Chairman and Chief Executive Officer, Canada

## Information security and privacy

Members of the EY global organization use a globally consistent and regionally based approach to information security that incorporates aspects of people, process and technology in how we protect information and technology assets. The global organization invests heavily in protective and detective technologies, and actively monitors our systems. One of the most important elements of our strategy is maintaining a security-aware culture enabled by training and risk management communications. This year, for example, the EY global organization developed new training on handling information safely and required everyone to complete this training.

EY Canada maintains robust information security and data privacy programs, consistent with industry standards and applicable legal requirements, designed to protect against unauthorized disclosures of data and attacks on our network. Our policies for protection of data generated by the companies we audit are updated on a continuous basis to reflect the changing nature of risks and privacy legislation.

Safeguarding the confidentiality of the information we receive from the companies we audit is core to our IT strategy and our digital audit strategy and is increasingly important as we continue to transform our audits through the digital analysis of large amounts of company data. Transfer of this data is accomplished using industry standard file transfer solutions designed to securely transfer large files between EY Canada and the companies we audit. The Client Portal component of EY Canvas provides a secure platform for communication and smaller data transfers between the companies we audit and our audit teams.







# Innovating the audit

We are deploying a truly digital audit that combines the talents of our diverse workforce with the power of advanced technology to improve audit quality and the experience of our people. We are also continuing to innovate, leveraging emerging technologies like artificial intelligence to further enhance the quality of our audits.

## Leveraging technology to improve audit quality

We continue to expand our use of digital audit technology. That means using data analytics in every phase of the audit to help us develop an even deeper understanding of a business and its financial reporting, enhance our risk assessments and obtain audit evidence based on full populations of data. Our technology helps us spend the right amount of time responding to key risks throughout the year.

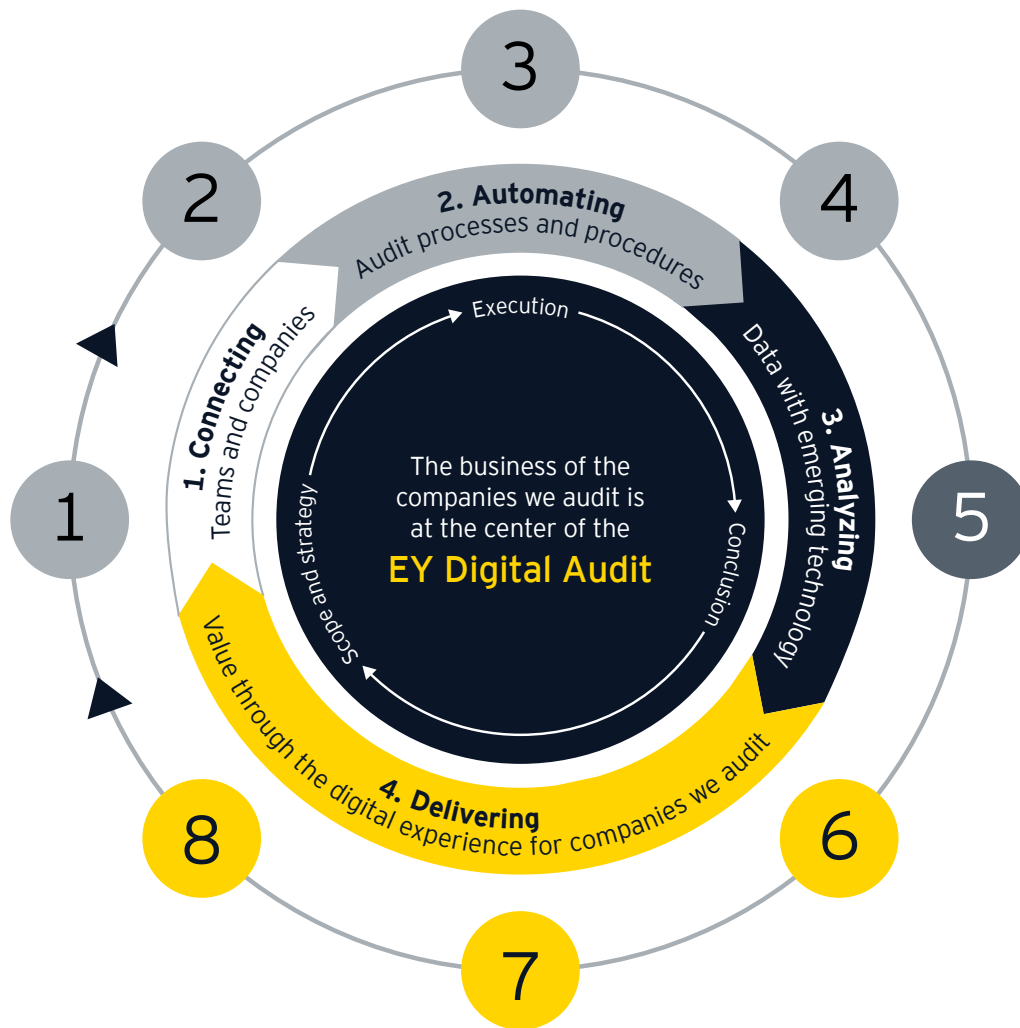
Our people are excited that we are automating administrative processes where it makes sense and using data to help our teams identify risks and appropriately allocate resources to

the higher-risk areas of the audit. They are excited to work differently through a combination of global and engagement-specific solutions that simplify our processes and help teams focus on the key risks in an audit.

The EY Canvas platform is the foundation of our audit technology. All EY teams around the world use it to apply the EY audit methodology and manage their day-to-day audit work. This global platform helps our teams track their progress and communicate with team members in other locations, which is especially helpful in multinational audits when our Canadian auditors are supervising the work of auditors from other EY member firms.

EY Canvas also enables our teams to securely communicate with and obtain data from the companies we audit and provide them with real-time status updates. This enables us to manage the audit more effectively, with less disruption for the companies we audit.

The EY global organization continues to add features to EY Canvas that reduce the effort required to perform administrative tasks and help our teams spend more time focused on areas of the audit that require professional judgment and insight based on experience. The EY Canvas platform now features solutions that automate routine audit procedures and processes, such as a solution that sends out and receives requests to confirm



## One technology platform. One global audit.

- 1 EY Canvas:** one global audit connecting all teams and companies to manage and deliver every EY audit

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- 2 Data capture:** data capture strategy for group and statutory audits – led centrally by account teams with data held safely and securely

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- 3 Centralization and standardization:** consistent process fundamental to our delivery model

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- 4 Automation:** intelligent, automated execution of standardized procedures and output

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- 5 EY Helix:** data fed into certified library of data analytics aligned with new digital methodology

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- 6 Dashboard reporting:** data-driven reporting to management and audit committee

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- 7 Differential investment:** strategy sessions and roadmaps to develop multiyear digital transformation strategy

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- 8 Continuous auditing:** ongoing development and deployment of emerging technology to accelerate movement to a continuous audit resulting in less disruption for the companies we audit

the Trade Receivables balances with customers and Intelligent Checklists that help streamline the preparation and review of financial statement disclosure checklists.

Over the past year, our teams continued to make significant progress in securely capturing the large amounts of audit-relevant data generated by the companies we audit and using the EY Helix suite of data analytics to analyze full populations of data rather than samples.

EY Helix analyzers can be used in every significant aspect of an audit, regardless of size, and many of our teams are building custom solutions to audit more effectively.

For example, one of our teams used a company's disaggregated financial and non-financial information of manufacturing contracts to identify production and budgeting variances at a site level.

Another of our teams used a company's inventory data to visualize multiple changes in the inventory status of particular product groups to better understand the product lifecycle.

As a result, our auditors gain a deeper understanding of a company's processes and can better identify and focus on the most important risks in an audit rather than spending time collecting and reviewing data manually. They ask better questions and spend more time on analysis than on routine tasks, enhancing professional skepticism.

### Supporting our teams with **tenthree | labs**

To accelerate our use of technology in our audits, EY Canada continues to invest in the centralized service delivery model we call **tenthree | labs**. It is designed to help our teams realize the power of our technology. By providing our teams with access to data analytics professionals who can help them efficiently capture data from the companies we audit and effectively use it in the audit, **tenthree | labs** has inspired confidence in our teams and sparked a cultural shift.

We continue to invest heavily in training our data analytics professionals to support our teams. This year, we brought together nearly 300 of our digital coaches from across the US and Canada for the first ever Digital Coaches Academy. During this event, the digital coaches shared knowledge and leading practices with each other, received advanced training on how to use our analyzers, brainstormed about how to effectively support our teams and learned about emerging technologies.

To make sure our people are well equipped to use our digital solutions, we have expanded our digital training. We recently provided our interns with an opportunity to participate in a Digital Ambassador Program in which they learned digital skills and applied them to solve real-world audit challenges. We are



also driving quality by integrating Quality Network professionals into our digital support network activities and developing training and materials to make sure we consistently execute high-quality digital audits.

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“Having access to a company’s data allows us to proactively identify unusual transactions or events and discuss them with management. Our audits now put greater emphasis on risk identification and business insight with the ability to focus on issues in real time and consider the audit implications immediately.”



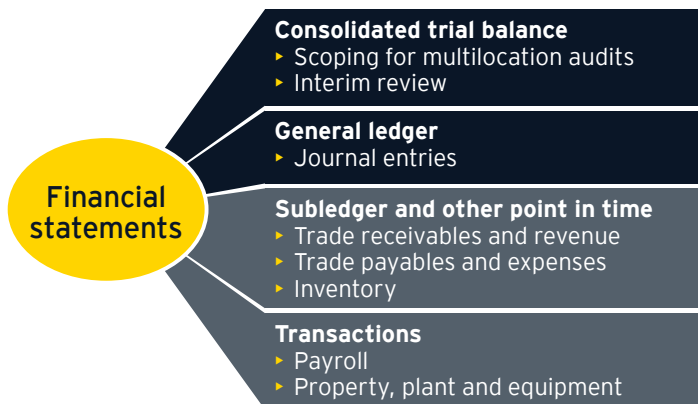
Tracy Brennan  
Managing Partner, Central Canada, Assurance Services



“  
The power of technology is its ability to unlock the talents of our people and inspire confidence and trust across the capital markets. That’s why we invest heavily in training to expand our people’s skills.”

 Daniela Carcasole  
Canadian Assurance Innovation & Digital Leader

The graphic below lists certain analyzers in our current EY Helix portfolio. We continue to develop sector-specific solutions as well.



In our latest audit cycle 90% of our teams on large public company audits incorporated the use of these analyzers into their audit plans

### Emerging audit technology

We are making significant investments to take advantage of emerging technologies and to proactively address technological changes at the companies we audit.

For example, the EY Blockchain Analyzer can be used to review cryptocurrency business transactions, among others. The analyzer is designed to help audit teams gather a company’s entire transaction data from multiple blockchain ledgers, reconcile the data with what is in the company’s records and identify items for follow-up.

The EY global organization is also using artificial intelligence to develop solutions that enable our auditors to review contracts and other documents such as invoices, bank statements and broker statements quickly and more accurately than if they did so manually. In addition, the EY global organization is developing solutions to automate the process of supporting information in the financial statements and solutions that help us standardize physical counts of inventory.



# Our people

Our people are critical to our ability to deliver high-quality audits. That's why attracting, inspiring, retaining and developing great people and promoting a culture of belonging are central to our purpose.

## Attracting exceptional talent

We recruit talented people who share our values and our commitment to executing high-quality audits. We stress the importance of the work we do as auditors and the value of the EY brand in our campus recruiting and internships. This year, our audit practice hired 488 people from university campuses, a 9% increase from the previous year.

We increased our emphasis on hiring people who have both an accounting degree and a major or minor in data analytics, management information systems or computer information systems. Because of their academic studies, they are uniquely positioned to help us realize the benefits of a digital audit. We've assigned them to audits where they can leverage their advanced technology skills to help us accelerate our use of our data analytics tools.

Our reputation as a great place to work and our culture of belonging enhance our ability to attract exceptional people. For example, we are the only Big Four firm that has been consistently on the 50 Great Places to Work list in Canada.

In our 2019 Global People Survey, 84% of our EY Canada assurance professionals said they are proud to work for EY.

Once again, EY Canada ranked #1 overall and #1 among professional services employers at its target universities for accounting, auditing and taxation in Universum's annual Most Attractive Employer rankings for Canada.

EY Canada is widely recognized as a great place to work, as demonstrated by the following:

- ▶ Great Places To Work: Best Workplaces Canada 2019
- ▶ Named one of LinkedIn's Top 25 Companies in Canada 2019
- ▶ Universum Most Attractive Employers - Business 2019

## Leveraging diversity and promoting inclusiveness

Diversity and inclusiveness is central to our ability to deliver high-quality audits. We create high-performing teams when we maximize the power of diversity and bring together professionals with different opinions, experiences, perspectives and skill sets. When our people feel that they belong, that their ideas matter and that they are able to be themselves at work, they perform at a higher level and bring out the best in others, which helps us deliver higher-quality audits.

To measure our progress, we look at various metrics, including the percentages of women and minorities we recruit and promote into leadership positions. This year, 40% of the audit professionals we promoted to partner were women or minorities. In our campus hiring, 45% of our recruits in fiscal 2019 were women and nearly 39% were minorities.

We are taking steps to promote pay equity, including conducting annual pay gap analyses. We're proud of our achievements on diversity and inclusion; in 2019 women represented 52% of the audit practice and 31% were minorities, similar to the previous year. Women lead 18% of our most important global audit accounts in Canada and minorities lead 25% of these accounts. We saw a 6% increase in our Global People Survey response to people who believe the firm fosters an inclusive environment.

We sponsor a wide variety of professional networks to provide opportunities for our people to connect with one another and firm leadership; foster a sense of belonging by meeting with peers, role models and allies; share their experiences; and get advice. They include our Black Professional Network, EY AccessAbilities, Unity (LGBTQ+), Latino Professional Network, ASCEND for Asian professionals, Professional Women's Network, and Today's Families Network.

We are proud of the recognition we have received for our efforts.

### Percentage of Canadian women or minorities in our audit practice\*

	Fiscal 2019	Fiscal 2018	Fiscal 2017
Partners and associate partners	45%	46%	44%
Senior managers and managers	69%	67%	66%
Seniors and staff	69%	68%	68%
<b>Total</b>	<b>67%</b>	<b>65%</b>	<b>65%</b>

\*Headcount

## The right people at the right time

We are focusing on strategic workforce planning to make sure we have the right people with the right skills at the right time. Our efforts include analyses to predict future retention rates and what our business needs will be.

Identifying and developing partners who can lead our most complex and most challenging multinational audits when senior partners retire is critical to our ability to deliver high-quality

audits. We are strengthening and expanding this group of partners by making sure they have the appropriate experiences to develop their skills.

We also recognize and reward our top performers to make sure we have the continuity of skills and experience we need to perform high-quality audits, especially on our most complex engagements.

### Number of Canadian audit professionals\*

	Fiscal 2019	Fiscal 2018	Fiscal 2017
Partners and associate partners	138	133	135
Senior managers and managers	392	373	391
Seniors and staff	1,068	1,022	1,023
<b>Total</b>	<b>1,598</b>	<b>1,528</b>	<b>1,549</b>

\*On a full-time equivalent basis

To further support our people, we use an approach to career development and performance management that provides our people with meaningful career conversations that enhance their experience, along with regular and useful feedback and ongoing insight into their performance. We refined our new global approach to career, development and performance called LEAD (Leadership Evaluation and Development). It provides our people with future-focused career conversations, regular and useful feedback and ongoing insight into their performance. LEAD provides greater transparency and allows our people to spend more time having meaningful conversations that shape their futures. It enables our people to gain the skills, insights and confidence they need to be agile, dynamic leaders who ask better questions and build a better working world. Our people are telling us that they are getting more feedback and having more meaningful conversations about their careers, enhancing their career experience.

We intend to build on our successes by focusing on more relevant feedback and strategic career discussions in the coming year.

We also want to make sure our people are engaged, which we define as a combination of factors – pride, advocacy, commitment and satisfaction, which we assess through an internal people survey. We combine these factors into an "engagement index." This year, the engagement index for our Canadian audit practice was 72%, the same as last year. This showing is impressive, given the unprecedented levels of accounting and auditing change our people are facing.

We track this index and prioritize taking actions to drive positive change such as motivating and inspiring our people through better conversations, career progression and enabling everyone to be part of a counseling family to increase satisfaction and belonging. Our leaders are held accountable for the quality of our people's experience.

We also use an online survey of our teams to evaluate how our people feel about their engagement team's culture, flexibility

and communication. Team members then discuss the findings and develop action plans to improve their experience.

Our counseling families also help our people feel more engaged by creating a greater sense of community. Counseling families comprise small groups of professionals who meet periodically with an executive and mentor and encourage one another on performance, career management and other important issues.

We believe providing a flexible work environment helps us retain top talent and develop high-performing teams. In fact, based on our annual survey results, flexibility has the strongest correlation with retention. Most of our people are able to work flexibly when they need to, and we offer an array of more formal flexible work arrangements for those who need to flex more consistently. We reinforce the importance of flexibility in our leadership communications.

### Developing our people

We have a deep commitment to enhancing the growth and development of our professionals and making sure they have the right skills to succeed as the audit evolves.

In our training, we continue to focus on teaching our professionals how to think critically and apply the knowledge they have gained. In the classroom, our professionals work on simulations of the audit experience and focus on risk, understanding professional standards and evaluating whether they have sufficient appropriate audit evidence, all with professional skepticism and due care.

Over the past year, we continued to shift some of our technical accounting training to online courses that our people can access on demand, when they need to know more about a particular topic. We also continued to focus on incorporating additional skills,

attributes and knowledge into our training programs, including significant investments in training our people on the effective use of data analytics. We are proud that in our 2019 Global People Survey, 93% of Canadian audit professionals indicated that their experiences at EY are valuable to their growth and development and 91% confirmed that EY has created an environment where people with diverse backgrounds and experiences can succeed.

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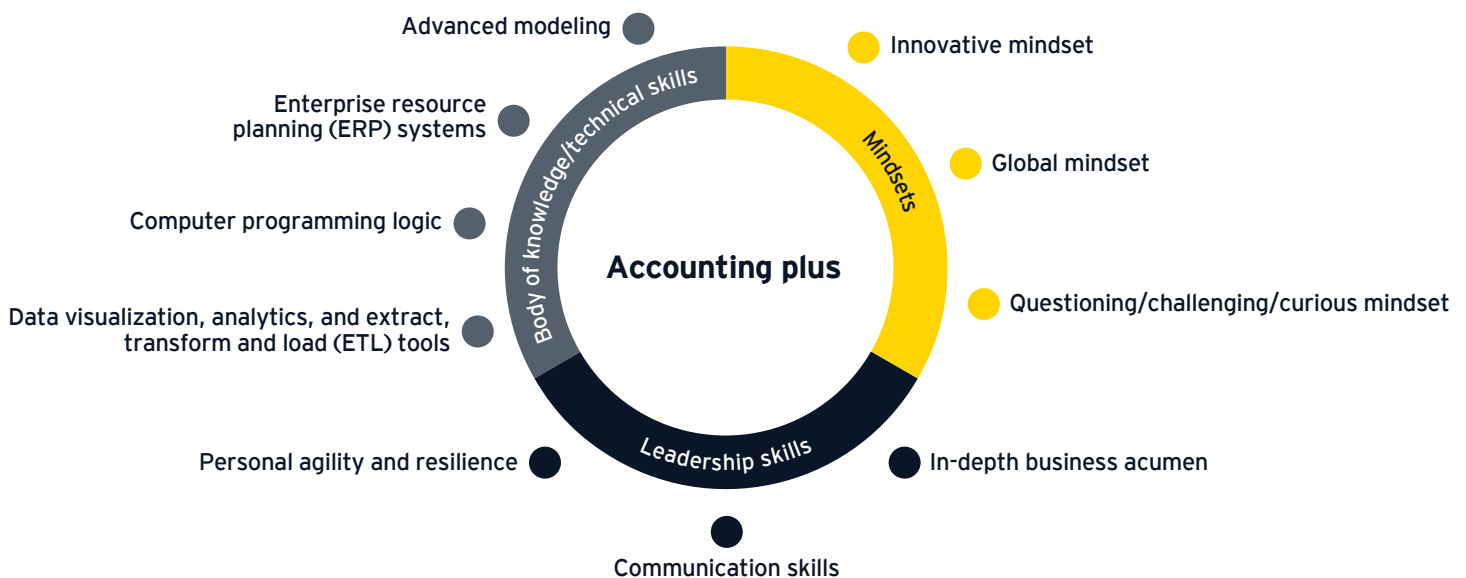
We are creating a platform to develop professionals who can lead with the skills needed in the digital age and we are pleased that we saw a 6% increase in the number of audit professionals who believe EY is providing them with the skills they need to be successful in the future.”

Charles Marful  
Assurance Talent Leader, Canada



We also continue to look for ways to enhance our culture of learning and promoting instructor excellence. For example, we will be implementing a facilitator nomination program whereby local office leadership will nominate and support the involvement of our managers and senior managers in facilitating core assurance training. We continue to recognize our executives who facilitate training sessions and receive top ratings from participants by celebrating them in firm-wide communications as well as recognition awards.

## The skills and mindsets we need





# Executing high-quality audits

We work with companies that share our commitment to quality and build high-performing teams that have the right skills and capacity to perform a high-quality audit. We support them with coaching and consultations to resolve difficult accounting, auditing or financial reporting questions. We also leverage data, so we can proactively identify audits that may require additional support to manage and mitigate risks in the audit.

## **Working with the right companies**

We focus on making sure the companies we audit share our commitment to quality and transparency in financial reporting. Our rigorous firmwide assessment and approval process, conducted by our Assurance practice and its leaders, helps us evaluate risk and identify the companies we want to audit, considering factors such as management's integrity and approach to meeting its financial reporting responsibilities, the company's financial condition and the strength of its audit committee.

Our Professional Practice group, which operates independently of our local audit practices, also reviews and approves the decisions about which companies we will audit. As part of the process, which is an important element in our system of quality control, we develop an overall risk designation for each audit, based on the risk factors specific to the company. They might include the risk associated with adopting new accounting standards, entering into a business combination or going public.



## Establishing the right team

The partner in charge of the audit sets the tone for the team and has overall responsibility for the direction, supervision and performance of the audit. On all public company audits, another partner serves as engagement quality reviewer and evaluates significant judgments made by the team, including those made by the partner in charge of the audit. The engagement quality review is an important element in our system of quality control.

When we assign partners to these roles, we consider their skills, workload and experience with a particular industry and partner rotation requirements. Our leaders also consider the company's risk designation and the risk factors identified in our firmwide assessment process when determining assignments.

All assignments of partners in charge of public company audits and engagement quality reviewers on these audits are approved by both Assurance and Professional Practice leadership.

We review the workloads of audit partners to make sure they have enough time to execute quality audits. We also perform a review of each team to make sure we are staffing our audits with audit professionals who have the right skills and capacity to execute quality audits, given the risk factors identified in each engagement.

## Managing the audit

We have long believed that timely pacing of the audit and strong project management, including timely supervision and review by audit executives, are important drivers of audit quality. Our experience indicates that teams that track and complete their work at the appropriate time, including reviews by audit executives, execute higher-quality audits.

Our milestones program drives strong project management, discipline and timely executive involvement. It focuses our teams on monitoring progress and completing procedures, related documentation and reviews to meet certain milestones by a specified date for key phases of the audit.

While a significant amount of audit work needs to be completed at or after year end, our milestones program helps our teams perform as many tasks as possible before that busy period. Performing work earlier in the audit cycle gives teams more time to address any issues that arise before the year-end crunch.

Our people say the milestones program has helped them see the big picture, contributing to higher-quality audits. Teams are using milestone status meetings to discuss what is going on with the company at each stage of the audit and how audit technology can be used to help drive better insights.

Our teams, including our partners and other audit executives, use EY Canvas to track the progress of their audits and completion of activities in real time. This visibility enables executives to provide more targeted supervision and to better identify team members in need of coaching. Our Quality Network also uses EY Canvas to track teams' progress on milestones and identify teams that may need coaching or more resources to keep the audit on track in a timely manner.

## Performing the audit

Our teams develop a deep understanding of key business processes and the risks involved by applying an approach that leverages the power of teaming and builds quality in at the source.

All of our teams that perform integrated audits of SEC registrants meet early in the audit cycle and collaborate with IT, tax and valuation professionals to drive a deeper understanding of key business processes and risks. Under the approach, which we implemented last year, audit teams analyze end-to-end business processes and the related risks and controls. With that understanding, we are asking management better questions and focusing our procedures on the most important risks. Our senior executives provide timely on-the-job coaching and supervision when the work is being performed. As a result, our teams are able to resolve issues earlier in the audit and enrich the experience of our professionals.

We also reimagined our audit documentation to more readily pinpoint risks and more clearly document how transactions are processed and recorded. This approach is enabling our people to ask better questions about the company's processes and risks.

We believe this approach is enhancing audit quality. Another benefit of our reimagined approach is that it permits management to challenge its own risk assessments and documentation of business processes.

### Milestones (example timing by phase of audit for a large calendar year-end company)

Scope of the audit	Jun 30
Audit strategy	Aug 31
Understanding key business processes	Sept 30
Interim control testing	Nov 30

As described earlier, our teams are also using data analytics, automation and emerging technologies to perform audit procedures more effectively.

We are revamping our global audit methodology to put data at the heart of the audit. New risk-based, technology-enabled techniques applied to entire data populations will further expand or replace traditional audit testing approaches.

“

We are committed to supporting our people and providing the resources and training they need to improve the quality of their audits. By combining technology and our auditors’ professional skepticism and judgment we are able to consistently execute higher-quality audits.”



Laney Doyle  
Professional Practice Director, Canada

### Supporting our teams

Our Quality Network focuses on proactively improving audit quality by coaching our audit teams on the more complex areas of the audit. Throughout the audit, Quality Network coaches provide advice on how our teams understand and document a company’s key business processes and identify potential risks of material misstatement, risk assessment and development of the audit strategy, and execution of procedures in complex areas, such as impairment, business combinations, and reclamation obligations. This allows us to effectively leverage the knowledge of our coaches across several engagements each year.

Members of the Quality Network identify teams that need help by leveraging the risk designation and risks identified during our firmwide assessment process. Because the professionals who make up our Quality Network are located in offices across the country, they have frequent contact with teams and are able to identify and proactively address emerging risks, including industry-specific risks.

Our Quality Network also supports audit quality through a number of activities, including learning and risk management. In this regard, the Canadian Quality Enablement Leader leads our Quality Network and works closely with each local Assurance leader as well as the Professional Practice director to identify and resolve project management and operational matters that have an impact on audit quality.

“

By proactively coaching audit teams, we help to drive audit quality and a culture of continuous improvement throughout the practice.”



Allan Russell  
Quality Enablement Leader, Canada

We have Professional Practice partners in each of our major offices to afford greater accessibility and interaction with our audit partners, teams and clients. This proximity allows them to know the partners and their capabilities better, be more attuned to the effects of the regional economy and better understand the businesses we audit and the related risks.

Professional Practice also performs technical accounting reviews designed to assess how well our teams are responding to important accounting issues prior to issuance to provide timely feedback to our teams so they can make adjustments, if necessary, before we issue an auditor’s report.

Members of our Professional Practice group:

- 1 Consult with audit teams on financial reporting, auditing and regulatory matters
- 2 Provide audit teams and the companies we audit with guidance and thought leadership
- 3 Perform risk management activities
- 4 Develop and operate our internal inspections program

## Culture of consultation

We have long promoted a culture of consultation to help drive audit quality. We believe consultation is an important way to address the challenges of more complex accounting standards that in recent years have required more significant audit judgments. We believe our consultation culture is a sign of strength.

We require consultation in certain cases but also strongly encourage our people to exercise professional skepticism and challenge whether we have arrived at the appropriate conclusion. We encourage all personnel – regardless of their level – to ask questions. In our view, better questions drive better answers and highlight how fundamental our professional skepticism is to the audit.

## Technical accounting and auditing support networks

We provide additional technical accounting and auditing resources for all of our audit teams through support networks. Audit teams are required to consult in specific situations, including complex business acquisitions, impairment assessments and debt/equity transactions.

## Quality Control Committee

An element of our quality control system is the Quality Control Committee (QCC). The QCC was formed as part of our commitment to continuous improvement. The QCC, which comprises senior members of our Assurance, Quality and Risk Management functions, meets regularly to evaluate internal and external inspection findings, the progress of SAQ initiatives and results of root cause analysis to determine whether steps need to be taken to improve audit quality.

## Engagement with audit committees

Our audit partners meet regularly with audit committees to share information on risks, the company's progress in implementing major accounting standards, insights about the business and engagement-specific audit quality indicators. We recently revamped our audit committee materials to improve the quality and focus of our interactions with the audit committee.

## Cybersecurity

Cyber risks are a major threat to businesses today. A breach of an organization's systems can affect the organization's reputation, disrupt operations and result in significant costs, including fines.

Business risks, including cyber risks, are addressed by audit procedures when those risks could result in a material misstatement of the financial statements. We obtain an understanding of a company's processes and controls that relate to IT and are relevant to the audit. The auditor would need to consider the effect on financial reporting, including disclosures, and the effect on internal control over financial reporting if information about a material breach is identified.

Boards of directors of organizations are increasingly involved in overseeing cybersecurity and are looking for ways to obtain knowledge and confidence in their organizations' cyber risk management programs. We offer a separate service of providing an independent and objective view of the effectiveness and description of controls that management has designed to address an organization's cybersecurity objectives. This is another way we support trust and confidence in the capital markets.





# Monitoring

Monitoring the effectiveness of our actions and performing robust root cause analyses of positive and negative audit performance are key to our system of quality control.

## **Internal inspections of completed audits**

We conduct internal inspections of selected engagements after we issue our auditor's report. We perform many of these reviews in the first half of the calendar year to obtain information that we can use to continue to enhance the quality of upcoming audits.

In these inspections, which we call audit quality reviews, we focus on specific audit areas of an engagement for compliance with professional standards, regulatory requirements and our policies, and to evaluate audit quality. Audits are selected for review based on risk, including factors such as how long it has been since a partner's last inspection and the results of that inspection, along with the complexity of the audit.

## **Turning root cause analyses into actions**

We use the results of our root cause analyses of both positive and negative outcomes to design the actions we take to improve audit quality. We also use this information to obtain meaningful insights into the effectiveness of firm actions to improve our system of quality control.

We define positive quality events as (1) exceptional performance in an audit that was inspected, (2) effective interactions with our Professional Practice group or the Quality Network, or (3) a clear demonstration of the behaviours we believe that contribute to quality, especially in a difficult situation.

## Independence monitoring

Independence from the companies we audit is foundational to providing trust and confidence to the capital markets.

Our policies require all EY Canada client-serving professionals at the rank of manager through partner to record securities and other financial relationships held by them and their immediate family members in the Global Monitoring System (GMS), which initially assesses and then monitors the permissibility of the securities and financial relationships. Managers through partners are generally required to have automated feeds from their brokers to make sure the records are updated in a timely fashion.

All EY Canada client-serving professionals from manager through partner are also required to confirm compliance with our independence policies and procedures each quarter.

Our policies also include a requirement that audit teams make audit committee communications affirming their independence and matters that may bear on independence after executing detailed procedures.

We test compliance on an ongoing basis with our personal independence confirmation requirements and with our requirement to report information into GMS. We audit each partner's compliance with our independence policies approximately every five years, and EY Canada leadership is audited every three years.

We also monitor compliance with independence requirements related to the permissibility and preapproval of non-audit services such as tax and advisory services as part of the firm's internal inspection programs.

We reinforce our policies, processes and systems through independence training and messaging that compliance with our independence policies is essential. Noncompliance has consequences that could include a decrease in compensation or separation from the firm.





# External inspections

We value the Canadian Public Accountability Board (CPAB) and Public Company Accounting Oversight Board (PCAOB) inspection processes because it helps us identify areas where we can continue to improve our performance.

## CPAB and PCAOB inspections

CPAB and the PCAOB conduct inspections of our system of quality control and selected public company audit engagements. We value this process and review the inspection findings to determine if changes or enhancements are required in our policies, processes or procedures.

Areas identified by the inspection process are critical inputs to our development of action plans for improvement. These action plans are communicated throughout the year and in executive learning events and other training. Our overriding objective is to make certain that all aspects of our auditing and quality control processes are of high quality. While we believe that our present

system of quality control provides reasonable assurance that our work meets applicable standards and regulatory requirements, we value the external inspection process because it helps us, along with our extensive internal monitoring activities, identify areas where we can continue to improve our performance.

## CPAB inspections

CPAB's protocol for audit firm communication of CPAB inspection findings with audit committees (the Protocol) directs auditors to discuss the contents of CPAB's annual public report with audit committees. The CPAB public report highlights recurring audit quality issues across firms without identifying the audit firm or the entity being audited.

CPAB inspects the audit files of reporting issuers on a systematic rotational basis. File selection is risk-based usually considering between two and four focus areas as the basis for assessing the quality of audit work in a selected file. The focus areas are generally material high-risk financial statement items requiring more complex estimates and judgment. CPAB communicates, in confidence, the inspection findings on individual audit files to the audit firm. The Protocol directs the auditor to share significant inspection findings with the entity's audit committee.

We provide the audit committees of the entities we audit with a copy of CPAB's most recent annual public report on its inspections of the Big Four accounting firms and speak to the matters raised in the report that reflect issues of importance to us and our audit clients. We describe our initiatives in addressing the audit quality issues raised in a manner that is customized to focus on matters of relevance to the entity.

When an entity's file is selected for inspection, we provide the audit committee with:

- 1 A description of the focus areas identified by CPAB
- 2 An indication of whether or not there were any significant inspection findings in each of the focus areas
- 3 Any significant inspection findings as reported in writing by CPAB, accompanied by a written description of EY's response and CPAB's disposition

The audit partner will work with the audit committee to establish a mutually agreeable protocol and expectations, and maintain confidentiality when the inspection findings are available for discussion.

At the conclusion of the firm inspection, CPAB issues a private report to the firm that includes a summary of findings as well as recommendations to improve audit quality.

### CPAB's Quality Management Systems Assessment

CPAB has evolved its audit oversight methodology (supplementary to engagement file inspections) to assess the effectiveness of our quality management systems.

This quality assessment approach underscores the need for firms to systemically embed audit quality into ongoing operations across the entire assurance portfolio. CPAB's five audit quality assessment criteria are: accountability, risk management, talent management, resource management, and oversight. In 2019 CPAB's work focused on assessing firm risks, control design and operating effectiveness, along with reviewing firm documentation, specific to those five criteria.

We are committed to continuously improving our QMS and have already begun preparing for the introduction of ISQM 1, which has an anticipated effective date of December 2021. We support CPAB's focus on a firm's quality management systems and believe we are well positioned for CPAB's evolved inspections approach through implementation of our global SAQ program and our relentless focus on consistency of audit execution.

### PCAOB inspections

The *Sarbanes-Oxley Act of 2002* requires the PCAOB to conduct inspections of each registered public accounting firm

that provides audit reports for issuers. The inspection process is designed and performed in a manner to give the PCAOB a basis for assessing the degree of the audit firm's compliance with applicable requirements and standards related to auditing SEC issuers. Because its inspections are designed to identify deficiencies in audit work, the PCAOB cautions that its inspection reports are not intended to serve as balanced report cards or an overall rating of the quality of the audits performed by a firm because the inspections primarily focus on higher-risk audits and are designed to identify deficiencies in audit work.

The process includes reviews of components of selected issuer audits performed by the firm. These reviews are intended both to identify deficiencies, if any, in the conduct of those audits and to determine whether the results of those reviews indicate deficiencies in the design or operation of the firm's system of quality control over audits of SEC issuers. In addition, the inspection includes review of the design of, and in some cases the application of, policies and procedures related to certain of the firm's quality control processes that could be expected to influence audit quality.

### Summary of principal observations from the inspection report

Part I is the publicly available portion of our PCAOB inspection report and is posted on the PCAOB's website. In Part I, the PCAOB describes engagements where it appeared to the inspection team that EY, at the time it issued its audit report, had not obtained sufficient audit evidence to support its opinion on the issuer's financial statements. Our response to the inspection report is included in Part IV of the inspection report.

Part II is the nonpublic section of the PCAOB's inspection report and provides observations about certain aspects of EY's system of quality control. This assessment of our quality control system rests both on the PCAOB's review of our stated quality control policies and procedures and on inferences that it draws from identified deficiencies in the performance of individual audits. Part II is not made publicly available upon initial release. We have one year to address the matters described in Part II to the PCAOB's satisfaction. If we fail to demonstrate to the PCAOB's satisfaction that we've addressed the potential defects, the PCAOB will make Part II of the report, or relevant sections thereof, publicly available.

The actions we take in response to the PCAOB's observations are influenced by many factors, including, for example, the timing of the communications from the PCAOB; the nature of the specific observations; the time required to evaluate and implement changes in policies, processes and training; and our ability to subsequently monitor the effectiveness of the changes implemented. Therefore, we view the PCAOB's inspection process and our responses to its observations and recommendations as a continuous, iterative process and one that transcends any individual annual inspection reporting period.

**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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