

EY Global Audit Quality Report

June 2024

Contents

Forewords

Carmine Di Sibio and Janet Truncale	03
Marie-Laure Delarue and Mike Verbeck	04
Tonia Lovell on behalf of the Public Interest Committee	05

About the global EY organization	06
Governance and leadership	07

Quality by the numbers	09
-------------------------------------	-----------

Quality results	11
Monitoring activities	12
System of Quality Management monitoring and remediation	13
Remediation activities	15

Infrastructure to drive quality	16
Assurance Quality Leaders	17
Diane Larsen and Ira Fitlin: Acting on audit quality worldwide	19
Global Professional Practice Group	20

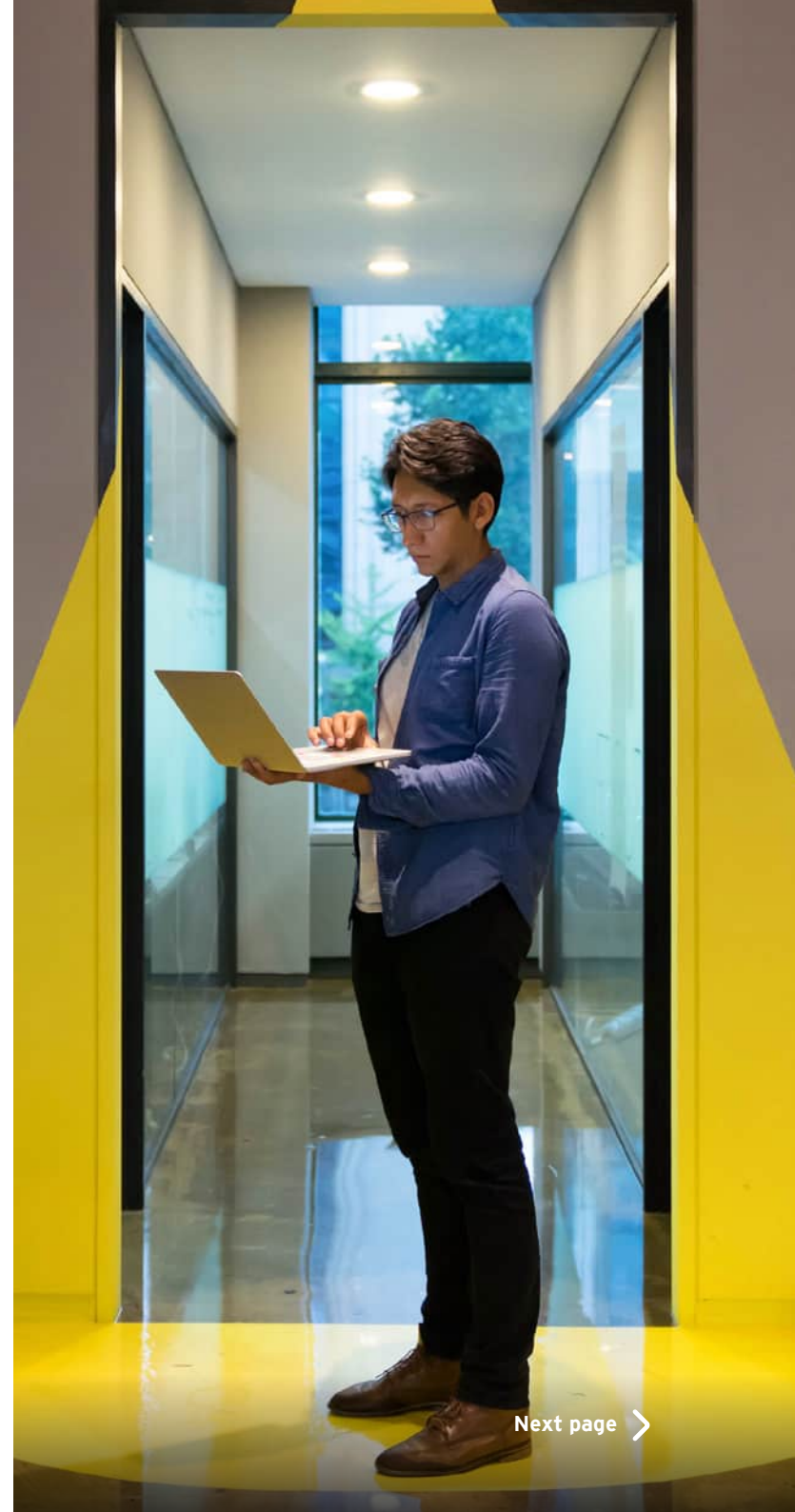
Independence practices	21
-------------------------------------	-----------

System of Quality Management	25
From Internal Quality Control System to System of Quality Management	26
Cristina Lopez Alvarez: A clear tone from the top	28

Setting the right tone for quality	29
Governance and leadership	30
Relevant ethical and legal requirements	32
Client and engagement acceptance and continuance	34
Consultation requirements	34

Empowering quality audits: technology and people	36
Engagement performance: the role of technology	37
Attracting, recruiting and developing EY people	39

Risk management	44
Organizational risk management	45
Managing engagement risk	46



A commitment to audit quality across the global EY organization



Carmine Di Sibio
EY Global Chairman
and CEO



Janet Truncale
EY Global Chair and CEO
– Elect

Audit quality plays a crucial role in creating long-term value for all stakeholders. It builds confidence in the capital markets, which in turn drives investment and economic growth, and we are committed to its continuous improvement. It is also an important way of fulfilling the EY purpose of building a better working world – our anchor in a time of significant change. Geopolitical volatility, extreme weather events and demographic shifts are just a few of the challenges that we continue to witness. At the same time, accelerating technological change – including the rise of generative artificial intelligence (GenAI) capabilities – is transforming industries and opening new opportunities.

Our commitment to audit quality is unwavering, and technology plays a key role in our continuous improvement. The US\$1b investment in a next-generation Assurance platform aims to reinforce trust, transparency and transformation. In addition, advanced analytics support EY teams in providing audit clients with more focused insights into the running of their businesses.

Equally important is the focus on EY people, including recruiting, training and retaining talented individuals, but also investing in building leaders of tomorrow with the right skills and values. A key part of creating the highest-performing teams in the profession is the work to build a diverse, equitable and inclusive workplace where EY people can bring their whole selves.

Executing high-quality audits starts with independence, objectivity and integrity. It involves professional skepticism, compliance with professional standards and due professional care. A central part of the EY

quality improvement framework is the engagement-level root cause analysis, and EY leaders thoroughly evaluate the points raised during internal and external inspections to identify areas where audit quality can be improved. A detailed, responsive set of actions has been developed and is being deployed to address the most pervasive areas of audit findings and root causes from these inspections. These actions are strongly tied to the System of Quality Management and accountability framework. Some specific activities focused on engagement execution include:

- ▶ The introduction of a new guided workflow for engagement teams to execute the risk assessment process
- ▶ The deployment of the next generation of general ledger analytics that provide deeper insights into revenue trends and movements in key accounting estimates
- ▶ Further deployment of centers of excellence on complex accounting and auditing topics to support engagement teams with specialized skills and knowledge

To supplement these engagement-specific actions, macro-related initiatives include standardizing and clarifying the audit approach, and enhancing actions related to managing workloads, audit pacing and the completion of work.

As leaders of the global EY organization, we strongly believe that everyone – from the most senior leadership to entry-level team members – is accountable for the quality of our work. This report details our approach to continuous improvement and we look forward to the next phase in our progress.

Building confidence by transforming the audit experience



Marie-Laure Delarue
EY Global Vice Chair
– Assurance



Mike Verbeck
EY Global Deputy Vice Chair
– Assurance

The business world relies on confidence. This is especially important when organizations are faced with a range of challenges – from the emerging complexities of AI, to decarbonization, cybercrime, geopolitics and continually shifting demographics.

Against this backdrop, stakeholders are looking to organizations to provide them with guidance to make important decisions with confidence. Auditors can help build this confidence through their proven ability to validate and interpret data objectively and independently, before providing the appropriate level of challenge.

The global EY organization is committed to helping its stakeholders make better decisions, both for their own benefit and for the positive impact it has across the broader working world. This is why we are resolute in our commitment to progressing audit quality – our north star.

This focus on quality also underpins our major, multi-year audit transformation journey that is improving the way in which EY teams perform audit work while driving quality. We recognize that the purpose of the independent audit is to provide confidence in the quality of the financial reports. Therefore, serving this public interest remains the cornerstone of our transformation journey.

The transformation initiative involves an audit execution model where the lead audit team is supported by dedicated teams in centers of excellence, standardized and clarified audit processes and technology. Technology not only guides teams confidently through the workflow, but also enhances

their experience by embedding data analysis and AI in the audit process. It also provides EY people with tools that help them gather better audit evidence by selecting transactions for testing that include those that are anomalies, outliers or unexpected.

The global EY organization employs more than 96,000 audit professionals across the organization (as of 31 March 2024) and it is vital that it sets clear and consistent expectations and upholds a culture of integrity and accountability. Everyone is responsible for achieving the highest standards. To help EY people obtain and enhance the complex skill sets involved in performing today's audits, the organization is investing in their development through coaching, training, and international and cross-sector experiences.

The connectivity of the global EY organization provides auditors around the world with a shared set of values and a mindset focused on continuous improvement. The culture of the global EY organization is supported by the values of the nearly 400,000 people across the globe who:

- ▶ Demonstrate integrity, respect, teaming and inclusiveness
- ▶ Act with energy, enthusiasm and the courage to lead
- ▶ Build relationships based on doing the right thing

This starts with a strong tone at the top, which is reinforced by leaders within Areas, Regions and countries.

Reinforcing audit quality and consistency



Tonia Lovell

On behalf of the Public Interest Committee

The Public Interest Committee of the Global Governance Council (GGC) of the global EY organization comprises the independent non-executives – currently Duane M. DesParte (whose appointment became effective on 1 June 2024), Sir C K Chow and myself – and the presiding partner of the GGC. In 2023, the presiding partner was Trent van Veen. Trent held this position until 16 November 2023, and was followed by Brad Tozer. The Public Interest Committee's role is to discuss the public interest aspects of the activities of the global EY organization, both internal (including audit quality, culture and ethics) and external (including reputation and stakeholder engagement, particularly in relation to regulators).

In recent years, the Public Interest Committee has brought a public interest perspective to multiple external crises, including geopolitical upheaval and economic volatility. The independent non-executives have provided a third-party perspective, advice on and challenge to the plans of the global EY organization to respond to these external events while maintaining the focus on quality.

It is in the public interest that the global EY organization conducts high-quality audits that help to maintain trust and confidence in the capital markets. At a time of significant technological change, as well as long-term economic uncertainty, consistency in audit quality continues to be important for society as a whole.

In our quarterly meetings, the Public Interest Committee closely monitors the performance of the global EY organization against a range of audit quality indicators (AQIs), in particular the quality results from internal and external inspections. We discuss the related root causes and responsive action plans to these quality results. The global EY organization has been transparent about the inconsistency of its inspection results, the challenges around improving them and its commitment to reinforcing the quality of its audits. The Public Interest Committee has an important role to support and challenge Assurance leadership in this respect and to monitor whether these improvements are being applied consistently across all member firms.

Agenda items from our quarterly meetings over the past year have also included:

- ▶ Understanding the implementation by, and results of, the global EY organization related to the adoption of International Standard on Quality Management 1 (ISQM 1).
- ▶ Understanding investments made in AI-related technology and enhancements made to the EY Global Audit Methodology, in particular, how the global

EY organization is using, or plans to use, AI and embedding it into new or existing technology-related tools. We discussed the public interest aspects in engaging ethically with technology and AI and putting the right guardrails in place, and we spent time with the EY global Public policy team on the regulatory and policy aspects of advances in AI.

- ▶ Discussing, and bringing our views on, the important 2023 focus areas for Assurance, including technology, process improvements, professional skepticism and risk assessment. These focus areas also include enhancements to the EY Global Audit Methodology that is discussed elsewhere within this report and will continue to be discussed with the Public Interest Committee in the future.
- ▶ Discussing the compliance and reputational risks related to data and IT security and the processes and controls to monitor and mitigate these risks.
- ▶ Reinforcing the importance both of ethics, culture and the tone being set from the top, and of maintaining consistent ethical and conduct standards across member firms.
- ▶ Discussing the regulatory and policy aspects of sustainability.

Finally, because serving the public interest extends beyond the Assurance service line, in 2023 the Public Interest Committee introduced periodic presentations from the non-Assurance service lines on how they manage quality. In the year, we received presentations from the Tax, Strategy and Transactions, and Consulting service lines.

About the global EY organization



The global EY organization is a leader in assurance, tax, strategy and transactions, and consulting services. Across the globe, nearly 400,000 people share a commitment to building a better working world, united by shared values and an unwavering commitment to quality, integrity and professional skepticism. In today's global market, the seamless integrated EY approach is particularly important in the delivery of high-quality multinational audits, which can span nearly every country in the world.

This seamless integrated approach supports EY member firms to develop and draw upon the range and depth of experience involved in performing such diverse and complex audits.

"EY" in this report refers to the global organization of member firms of Ernst & Young Global Limited (EYG), a UK company limited by guarantee. EYG coordinates the various activities of the member firms and promotes cooperation among them. EYG does not provide services, but its objectives include the promotion of exceptional high-quality client service by member firms worldwide. Each member firm is a separate legal entity. Each member firm's obligations and responsibilities, as a member of EYG, are governed by the regulations of EYG and various other agreements.

The structure and principal bodies of the global organization, described below, reflect the principle that the global EY organization has a common shared strategy. At the same time, the EY network operates on a regional level within the Areas. This operating model allows for greater focus on stakeholders in the Regions, permitting member firms to build stronger relationships with clients and others in each country, and be more responsive to local expectations.

Governance and leadership

Global Governance Council

The Global Governance Council (GGC) is an important governance body of EYG. It comprises one or more representative(s) from each Region, other at-large representatives from any member firm and independent non-executives. The Regional representatives, who otherwise do not hold senior management roles, are elected by their Regional Partner Forums for a three-year term, with the ability to be reappointed for one additional three-year term. The GGC advises EYG on policies, strategies and the public interest aspects of its decision-making. The GGC approves, in some instances upon the recommendation of the Global Executive (GE), certain matters that could affect the global EY organization.

Independent non-executives

Up to six global independent non-executives are appointed from outside the global EY organization. The global independent non-executives are senior leaders, either from the public or the private sector, and reflect diverse geographic and professional backgrounds. They bring to the global organization, and to the GGC, the significant benefit of their varied perspectives and depth of knowledge. The global independent non-executives also form most of the Public Interest Sub-Committee of the GGC. The role of the Public Interest Sub-Committee includes public interest aspects of decision-making and dialogue with stakeholders, issues raised under whistleblowing policies and procedures, and engagement in quality and risk management discussions. The global independent non-executives are nominated by a dedicated committee, approved by the GE and ratified by the GGC.

Global Executive

The Global Executive (GE) brings together EY leadership functions, services and geographies. It is chaired by the Chair and CEO of EYG and includes its Global Managing

Partners of Client Service and Business Enablement; the Area Managing Partners; the global functional leader for Talent; the leaders of the global service lines – Assurance, Consulting, Strategy and Transactions, and Tax; and one EY member firm partner on rotation.

The GE also includes the Global Vice Chair of Markets, the Global Vice Chair of Transformation, the Chief Client Technology Officer, the Chair of the Global Accounts Committee, the Chair of the Emerging Markets Committee, as well as a representative from the Emerging Markets practices.

The GE and the GGC approve nominations for the Chair and CEO of EYG and approve nominations of the Global Managing Partners. The GE also approves or ratifies appointments of Global Vice Chairs and other members of the GE. The GGC approves or ratifies the appointments of any member of the GE.

The GE's responsibilities include the promotion of global objectives and the development, approval and, where relevant, implementation of:

- ▶ Global strategies and plans
- ▶ Common standards, methodologies and policies to be promoted within member firms
- ▶ People initiatives, including criteria and processes for admission, evaluation, development, and reward and retirement of partners
- ▶ Quality improvement and protection programs
- ▶ Proposals regarding regulatory matters and public policy
- ▶ Policies and guidance relating to member firms' service of international clients, business development, and markets and branding
- ▶ EY development funds and investment priorities
- ▶ EYG's annual financial reports and budgets
- ▶ GGC recommendations on certain matters

The GE is also updated regularly on ISQM 1 matters and aspects that require its attention.

The GE also has the power to mediate and adjudicate disputes between member firms.

GE committees

Established by the GE, and bringing together representatives from across the organization, the GE committees are responsible for making recommendations to the GE. In addition to the Global Audit Committee, examples of other committees include Assurance, Consulting, Tax, Strategy and Transactions, Global Markets and Investments, Global Accounts, Emerging Markets, Talent, and Risk Management.

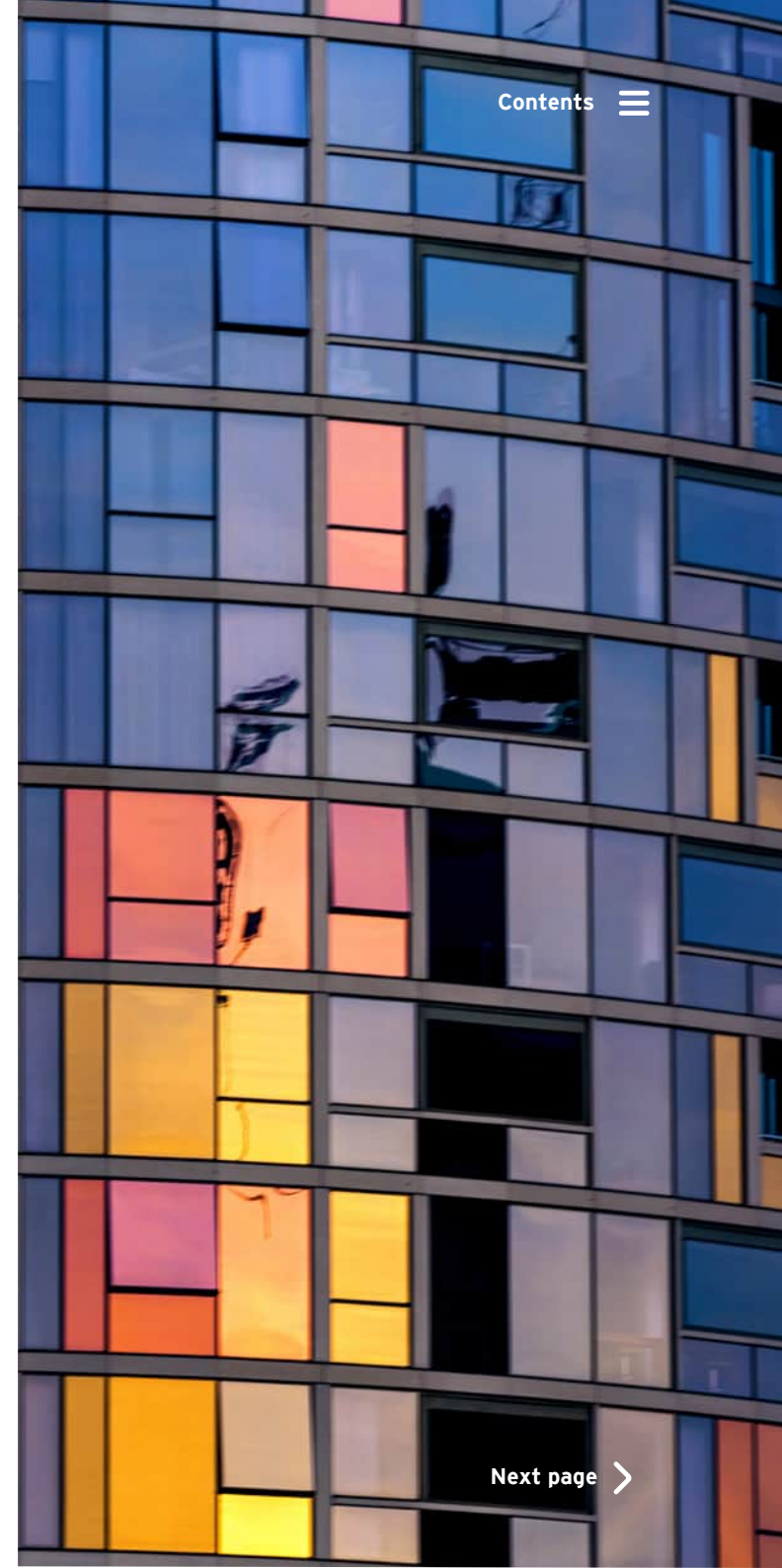
EY member firms

Under the regulations of EYG, member firms commit themselves to pursue EY global objectives, such as the provision of high-quality services worldwide. To that end, the member firms undertake the implementation of global strategies and plans, and work to support an appropriate scope of service capability. They are required to comply with common standards, methodologies and policies, including those regarding audit methodology, quality and risk management, independence, knowledge sharing, talent, and technology.

Above all, EY member firms commit to conducting their professional practices in accordance with applicable professional and ethical standards, and all applicable requirements of law. This commitment to integrity and doing the right thing is underpinned by the EY Global Code of Conduct and EY values, covered in the section titled "[Setting the right tone for quality.](#)"

Besides adopting the regulations of EYG, member firms enter into several other agreements covering aspects of their membership in the global EY organization, such as the right and obligation to use the EY name and share knowledge among member firms.

Member firms are subject to reviews to evaluate adherence to EYG requirements and policies governing issues such as independence, quality and risk management, audit methodology, and talent. Member firms unable to meet quality commitments and other EYG membership requirements may be subject to termination from the global EY organization.



Quality by the numbers



Quality results

1,400+

audit engagements subject to internal inspection.

1,500+

audit engagements go through global coaching on an annual basis.

330+

audit engagements inspected by global regulators.

Internal inspection results of all engagements

2019 2020 2021 2022 2023

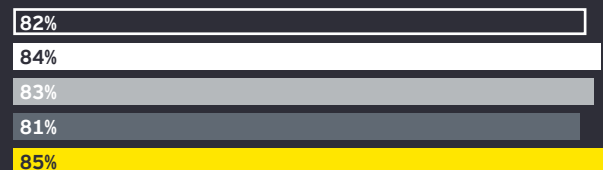
Total compliant engagements



External inspection results of all engagements

2019 2020 2021 2022 2023

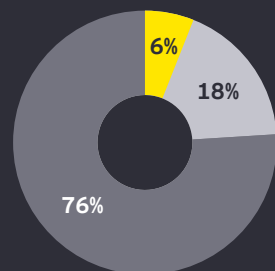
Total compliant engagements



Reviews performed in 2023 (principally on 31 December 2022 audit engagements).

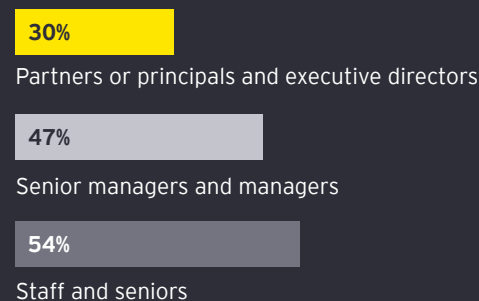
People

Audit professionals by rank

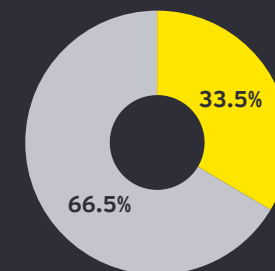


Partners or principals and executive directors
Senior managers and managers
Staff and seniors

Audit professionals by rank that are women



New partners promoted on 1 July 2023

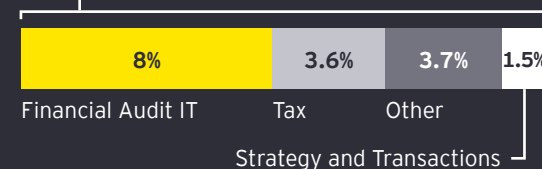


Women
Men

Executing the audit

Audit hours provided by specialists

16.8% of audit hours across all engagements (listed and non-listed) are provided by specialists.



Included within Other are valuation specialists, actuaries and forensics specialists.

All data is as of 31 December 2023 unless otherwise stated.

Quality results



Monitoring activities

Audit quality reviews

The global Audit Quality Review (AQR) program complies with the requirements and guidelines in the ISQM 1 and is supplemented, where necessary, to comply with EY member firm professional standards and regulatory requirements. It also aids EY member firms' continual efforts to identify areas where performance can be improved, or policies and procedures can be enhanced.

Audit quality reviews include the inspection of at least one completed engagement for each partner in charge on a cyclical basis. The engagements analyzed each year are selected on a risk-based approach, emphasizing audit engagements that are large, complex or of significant public interest, including elements of unpredictability. The global AQR program includes detailed risk-focused file reviews covering a large sample of listed and non-listed audit engagements to measure compliance with internal policies and procedures, EY methodology requirements, and relevant local professional standards and regulatory requirements. It also includes reviews of a sample of non-audit assurance engagements performed by engagement teams. These measure compliance with the relevant professional standards, and internal policies and procedures that should be applied in executing non-audit assurance services.

The global AQR program complements external inspection activities, such as inspection programs executed by audit regulators and external peer reviews. It also informs EY leaders of compliance with regulatory requirements, professional standards, and policies and procedures.

The results of the AQR program are summarized globally along with any areas where the results indicate that continued improvements should be made. Summarized results are shared within the network. Measures to resolve audit quality matters noted from the global AQR program, regulatory inspections and peer reviews are addressed by Assurance leadership and Professional Practice. These programs provide important practice monitoring feedback for the System of Quality Management and continuing quality improvement efforts.

Internal inspection results of all engagements

	2022	2023
Compliant engagements		
▶ With no areas of improvement identified	85%	84%
▶ With areas of improvement identified ¹	10%	9%
Total compliant engagements	95%	93% ↓
Deficient engagements²	5%	7% ↓

Note: Red arrow indicates deterioration of compliant engagements.

¹ Such findings may result in the need for additional audit procedures or documentation. However, given their nature, these matters would not be expected to have a significant impact on the overall audit conclusion.

² Findings in procedures or documentation that are material to the financial statements or auditor's reports or were not performed in accordance with EY policies.




The AQR results for 2023 reflect a deterioration in the percentage of compliant engagements at the global level, although within many geographies there was improvement in the year-over-year results.

The analysis of AQR findings identified certain limited areas where enhancements in audit focus should be made. One of these areas is related to auditing companies' IT systems and understanding and evaluating the effect of the entities' IT systems on the financial statements and the impact on audit strategies when audit teams are not able to, or choose not to, test general IT controls. Specific actions have been implemented to address this particular topic, including specific enablement, targeted engagement coaching and more importantly, the plans to align Technology Risk professionals to Assurance.

External inspections

More than 150 audit regulators conduct inspections of audit engagements across EY member firms. The global EY organization respects and benefits from the external regulator's inspection process. EY leaders thoroughly evaluate the points raised during inspections to identify areas where audit quality can be improved and areas that are relevant to the System of Quality Management. Engagements with significant findings and certain other engagements are subject to root cause analysis (see "[Remediation activities](#)" later in this section). Together with internal inspections (the AQR program), external inspections provide valuable insights into the quality of EY audits. These insights help the global EY organization to effectively execute high-quality audits.

International Forum of Independent Audit Regulators (IFIAR) and other non-IFIAR regulators deficiency rates

	2022	2023	
Global EY IFIAR survey deficiency rate	20%	28%  (a)	
Global EY all IFIAR PIE deficiency rate	26%	23%  (b)	
Global EY all-in deficiency rate	18%	13%  (c)	

Note: Green arrow indicates improvement. Red arrow indicates deterioration. The 2023 deficiency rates include all inspections completed during that calendar year and represents the number of engagements with at least one significant finding divided by the number of engagements inspected.

- a. This represents the aggregate EY global result of inspections of listed public interest entities (PIEs) conducted by audit regulators who are members of, and responded to, IFIAR's inspection survey.
- b. This represents the aggregate EY global result of inspections of listed and non-listed PIEs conducted by audit regulators who are members of IFIAR.
- c. This represents the aggregate EY global result of inspections of all engagement types (PIEs and non-PIEs) conducted by any audit regulator. This rate also includes any inspections by an audit regulator not conducted in their home country (e.g., a UK regulator inspecting an engagement outside the UK).

Many geographies of the global EY organization continue to experience strong external inspection results. However, greater consistency across the network is necessary because certain member firms have experienced an increase in inspection findings. In particular, the increase in the global EY IFIAR deficiency rate for 2023 is a result of a few, albeit material, jurisdictions.

The multi-year Assurance transformation strategy is focused on clarifying and standardizing the audit approach, building centralized teams to provide audit support on various topics and embedding a continuous improvement mindset in the culture.

System of Quality Management monitoring and remediation

The global EY organization has established a System of Quality Management monitoring and remediation process to:

- ▶ Provide relevant, reliable and timely information about the design, implementation and operation of EY member firms' System of Quality Management
- ▶ Provide a basis for the identification of deficiencies
- ▶ Take appropriate actions to respond to any identified deficiencies

Information obtained from the monitoring and remediation process about the design, implementation and operation of the EY member firm's System of Quality Management is evaluated to conclude on the effectiveness in achieving the objectives of the EY member firm's System of Quality Management.

System of Quality Management monitoring activities include:

- ▶ Tests of System of Quality Management controls
- ▶ Internal and external engagement inspections
- ▶ Other monitoring activities, for example and not exhaustive:
 - ▶ Tests of the EY member firm's and its personnel's compliance with ethical requirements related to independence
 - ▶ Quality criticisms made by external regulators relevant to the System of Quality Management
 - ▶ Issues reported through the Ethics Hotline

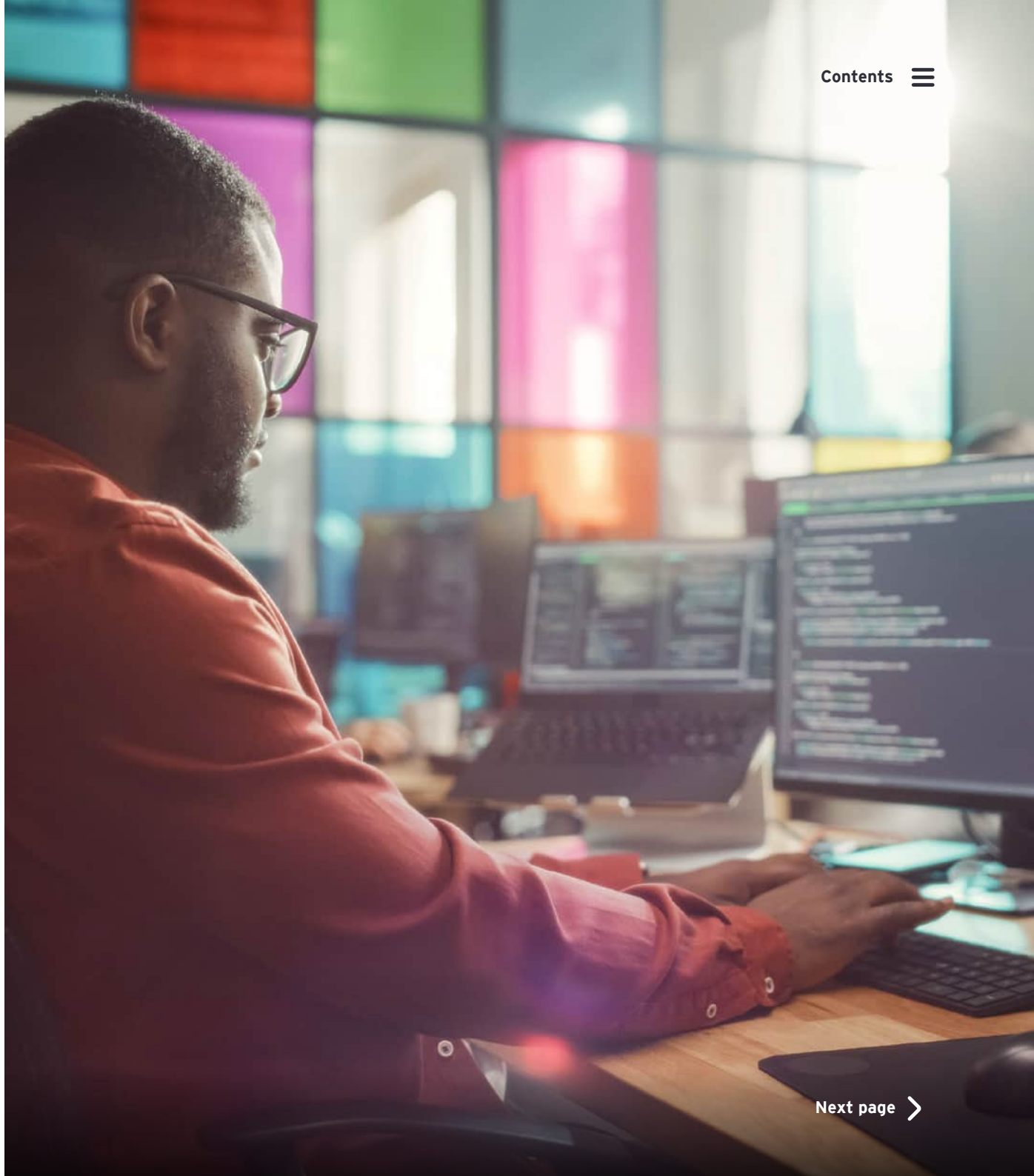
The monitoring and remediation process is executed annually based on the Global System of Quality Management Monitoring and Remediation policy, which is an example of a global intellectual resource provided to drive consistency in the execution of the EY member firm's System of Quality Management. The monitoring and remediation process executed at the EY member firm level is coordinated and monitored by representatives of their respective Areas (Professional Practice and leadership) and the Global Professional Practice Group, with oversight by global Assurance leadership.

Tests of System of Quality Management controls

System of Quality Management controls have been designed and implemented to mitigate quality risks. The objective of performing tests of System of Quality Management controls within the EY member firm's System of Quality Management includes determining whether the System of Quality Management controls:

- ▶ Were designed, implemented and operated in accordance with the control owner's understanding and documentation thereof
- ▶ Were operated on a timely basis by the control owner or control operator specified in the design of the System of Quality Management controls
- ▶ Resulted in the timely resolution of any matters (information accumulated) identified
- ▶ Were based on reliable information (i.e., information used in the performance of the System of Quality Management control is complete and accurate, if applicable)

Individuals testing System of Quality Management controls are competent, objective and independent of the control owners and control operators.



Remediation activities

Engagement-level root cause analysis and action plans

Engagement-level root cause analysis is a central part of the EY quality improvement framework, providing an in-depth assessment of the root causes that underlie an engagement's positive or negative inspection outcome. The findings of each root cause are analyzed in detail. Analyzing this research creates a better understanding of the drivers behind both positive and negative outcomes. This allows the global EY organization to focus on behaviors that drive positive and high-quality results, a process that is fundamental and foundational to continuous improvement.

Once the engagement root cause analysis has been completed, EY member firms are responsible for assessing their portfolio results, with special consideration given to identifying pervasive issues and developing responsive action plans for remediation.

The global EY organization continues to undertake activities to support engagements in process while understanding how the changes being made are being received and implemented.

Identifying and assessing System of Quality Management deficiencies and performing root cause analysis

Findings are information about the design, implementation and operation of the System of Quality Management which indicates that one or more deficiencies may exist. Findings are accumulated from the performance of monitoring activities. EY member firms evaluate each finding or aggregation of findings considering the relative importance of the finding(s) to determine whether a deficiency exists.

If any deficiencies are identified, a root cause analysis is executed to determine the root cause, to assess the severity and pervasiveness of the deficiency, and to develop responsive actions.

Representatives from global and Area Professional Practice and Assurance leadership meet on a regular basis to analyze the results of the monitoring activities and the assessment of findings and deficiencies. This helps drive consistency in the application of the framework for identifying and assessing findings and evaluating deficiencies and performing root cause analysis – as described in the Global System of Quality Management Monitoring and Remediation policy.

System of Quality Management quality improvement plans

For any identified deficiencies, applicable EY member firms develop quality improvement plans, which includes:

- ▶ Correcting the effect of the identified deficiency
- ▶ Remediating identified deficiencies in a timely manner

- ▶ Evaluating the effectiveness of the remediation actions

Quality initiatives

The quality agenda of the global EY organization is designed to address specific quality matters and includes:

- ▶ Network-wide transformation activities, including efforts around standardization and clarification. These efforts leverage the extensive technology platform of the global EY organization while incorporating language directly from applicable auditing standards to drive proficiency in execution.
- ▶ Member firm-based initiatives targeted at:
 - ▶ Employee deployment and workload management
 - ▶ Enhanced training and engagement team coaching for specific areas of audit findings
 - ▶ Business operations and portfolio management

Measuring success

Another way for the global EY organization to demonstrate consistent high-quality audit results is through continued improvement in internal and external inspections.

In the interim, the global EY organization continues to undertake activities to support engagements in process while understanding, on a real-time basis, how the changes being made are being received and implemented by engagement teams, including their effectiveness in improving audit quality. These insights inform whether the global EY organization should implement course corrections and additional enablement and guidance.

Infrastructure to drive quality



The Global Assurance Quality Network (formerly known as the Global Quality Enablement Network) and the Global Professional Practice Group (GPPG) work in tandem to support the delivery of quality audits.

Supporting these two functions, additional quality focus is driven by:

- ▶ The global System of Quality Management network
- ▶ Quality leaders within the non-Assurance service lines

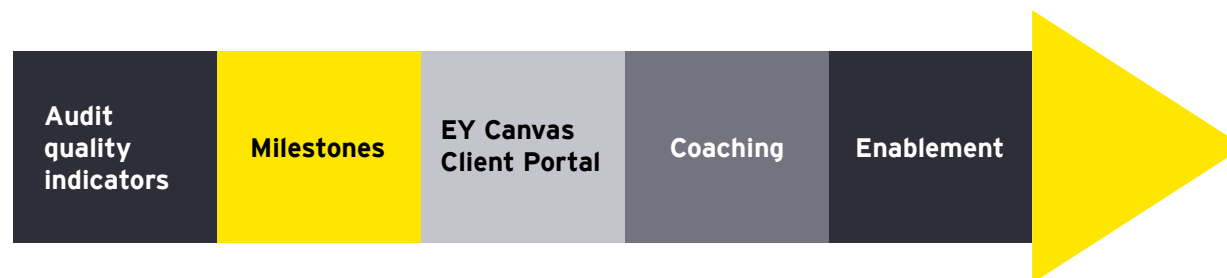
Assurance Quality Leaders

The EY Global Assurance Quality Network is a group of senior Assurance leaders around the world who support engagement teams and practice leaders in the execution of high-quality audits.

The Global Assurance Quality Network is instrumental in serving as:

- ▶ **Experienced change agents** who effectively communicate changes coming and the rationale behind the changes, and positively influence behaviors.
- ▶ **Dedicated methodology leaders** who can guide engagement teams in their execution of audit strategies and answer technical questions.
- ▶ **Risk management leaders** who can oversee audit portfolios and remain alert to signs of execution or client risk, and positively intervene when necessary.

The Global Assurance Quality Network drives a focus on audit quality through:



- ▶ **Operational drivers** who can enforce policies, support the execution of ISQM 1 controls such as monitoring adherences to pacing milestones, monitoring the level of executive involvement and assessing partner workloads, and eliminate optionality to drive global consistency.

The Global Assurance Quality Network oversees the implementation of policies and procedures and executes controls designed to drive quality audits. Additionally, through in-flight coaching, the Global Assurance Quality Network can measure the progress of in-process audits and identify areas that should receive additional attention before they are completed. Several elements of in-flight coaching activities are also audit quality indicators (AQIs), which help to drive the focus and accountability around executing quality audits.

Monitoring audit quality indicators

The Assurance leadership of the global EY organization monitors the execution of the EY strategy and quality priorities through a

combination of metrics and AQIs. While no single reportable metric or set of metrics can be viewed as a sole indicator of audit quality, a set of metrics can be used to give an indication of audit quality.

Supported by strong global integration of tools, practices and policies, country-specific data is accumulated monthly on a variety of topics. The AQIs include both leading and lagging quality-related indicators and span across themes related to execution, talent, remediation and enablement. Each AQI is measured against established geographically specific and global targets, with an evaluation and remediation plan prepared for outliers. The AQIs are also aligned to the EY accountability framework to reinforce priorities for the country leadership network, and are subject to an annual evaluation to help them remain relevant and responsive to quality initiatives.

Examples of EY AQIs include:

- ▶ Internal and external inspection results
- ▶ Adherence to engagement pacing milestones
- ▶ Retention
- ▶ Independence
- ▶ Deployment of mandatory learning

The global AQI dashboard helps to inform the leadership about whether actions are having the intended effect, and provides an early warning where intervention is warranted.

Monitoring adherence to pacing milestones

Effective project management helps audit teams to stay focused on the risks that matter most across the audit cycle, better balancing the workload by allocating the right amount of time to complete the right tasks and involving executives in a timely way. Milestones set completion due dates for important phases of the audit, and when used effectively, Milestones help to avoid time compression during the peak busy season.

A well-paced, well-organized audit can result in a less stressful work environment. Teams that work collaboratively to set a manageable pace for the audit by tackling issues and clearing review notes in real time report higher morale overall, as well as a sense of personal ownership and accomplishment for the individual auditor. Additionally, project management encourages auditors to be more thoughtful and intentional at every stage of the audit, accelerating learning and development as well as creating a more meaningful experience along the way.

More than 1,500 engagements a year receive some form of globally directed coaching.

The focus on project management in the global audit platform, EY Canvas, is powered by the Milestones program. Facilitated through dashboards in EY Canvas and the EY Canvas Reporting Hub, Milestones breaks the audit cycle down into specific tasks, with dates and steps designed to help achieve timely completion, and appropriate supervision and review.

Adherence to Milestones is monitored via AQIs, and the intervention with audit teams when Milestones are not achieved is an element of the System of Quality Management of the global EY organization.

Monitoring usage of EY Canvas Client Portal and extent of late client requests

EY Canvas allows EY teams to send clients requests for documents used to support the audit or for work to be performed by internal audit, as permitted by local laws and regulations. Clients work on the requests, upload documents and respond by using EY Canvas Client Portal. Clients can see requests that have been assigned to them or to the group(s) of which they are a member (e.g., accounting,

payroll or internal audit). EY Canvas Client Portal also has several features available to assist them with project management.

The usage of EY Canvas Client Portal and the extent of client delays in providing requested audit support is one of the AQIs of the global EY organization. When audit teams adhere to Milestones in EY Canvas and use EY Canvas Client Portal, quality results improve.

Designing and providing in-flight coaching

More than 1,500 engagements a year receive some form of globally directed coaching. This coaching is principally directed at those areas where there have been more pervasive inspection findings as well as those areas impacted by new or revised auditing standards.

Coaching can be directed at audit teams utilizing new technology and automated tools and techniques to evaluate the proficiency with which the engagement teams are utilizing the technology.

Observations from these coaching engagements are discussed with the audit teams and for items identified of more significance, local representatives from the Global Assurance Quality Network assist engagement teams in addressing the observations prior to the issuance of the auditor’s report.

Designing and deploying enablement for new technology

Working with technology product owners and the GPPG, the Global Assurance Quality Network designs and deploys enablement to assist audit teams in utilizing the automated tools and techniques as designed. This enablement is deployed to engagement teams and supported in local practices by the respective representatives of the quality network.

The enablement is designed to be intuitive and easily consumable (e.g., short videos) while bridging the technology with methodology, thus explaining the audit rationale behind the technology. Through the Global Assurance Quality Network's working relationship with the technology leadership team and the GPPG, the mandatory usage of certain automated tools and techniques is agreed on prior to release.

Designing and deploying enablement to address new or revised auditing standards

Working with the GPPG and other stakeholders, the Global Assurance Quality Network works to develop and deploy enablement to support the adoption of new or revised auditing standards.

In 2023, the Global Assurance Quality Network led the global EY organization in implementing ISQM 2 Engagement Quality Reviews and International Standard on Auditing 220 (ISA 220 (Revised)) Quality Management for an Audit of Financial Statements. For both standards, specific classroom learning was developed and deployed, and additional functionality was built into EY Canvas to facilitate the execution of the partner in charge and engagement quality reviewer responsibilities. The System of Quality Management of the global EY organization was also enhanced to incorporate revisions to necessary policies, procedures and controls.

Acting on audit quality worldwide

Diane Larsen
EY Global Assurance Quality Leader, effective January 2024

The global EY organization is committed to serving the public interest through high-quality audits that are executed with independence, integrity and objectivity. We set clear expectations for the quality of work we do every day, and we foster a culture of integrity and accountability including acting with professional skepticism, complying with professional standards and exercising due professional care. In our role of serving the public interest, the global EY organization remains focused on the right priorities, which include activities to improve audit quality. Quality is non-negotiable – and our role is to support the business and audit teams in executing high-quality audits and driving continuous improvement.



Ira Fitlin
EY Global Assurance Quality Leader, through December 2023

Executing a high-quality audit is complex. It involves assessing emerging risk, working with data and emerging technologies, exercising judgment and performing responsive audit procedures – often within strict timelines. This necessitates audit teams engaging in candid, sometimes difficult, conversations with management and those charged with governance.

As EY Global Assurance Quality Leaders, our focus is on giving audit teams the tools and skills to be successful, and on creating environments in which they are supported in facing these challenges. In practice, this means making sure audit teams have the

right resources at the right time and enough resources with enough time, including the Financial Audit IT, Tax and other specialists that contribute to executing a high-quality audit. This also means audit teams setting milestones to pace our work, coupled with timely executive involvement, assessing risk of engagements in process, including fraud risks and other emerging risks, and supporting audit teams in the adoption of new or revised standards and technology.

We are also working closely with local Assurance leaders to identify the risks embedded within their portfolios and support their decision-making with regard to important elements of an effective System of Quality Management, such as workforce assignments and engagement continuance. We use root cause analysis to understand the factors that contribute to both positive and negative quality occurrences and take action to remediate negative factors while supporting the positive factors more broadly across the network.

The global EY organization is taking steps to continually improve audit quality, many of which this report details. As EY Global Assurance Quality Leaders, we remain proud of the work our teams do and the values they demonstrate.

Global Professional Practice Group

The Global Professional Practice Group (GPPG) is a worldwide network of dedicated technical subject-matter professionals in corporate reporting and assurance standards who consult on accounting, auditing and financial and non-financial reporting matters. They also perform various quality management oversight and monitoring roles, and risk management activities.

The GPPG develops accounting and auditing guidance, learning and quality oversight policies used by the EY network, and the tools and enablement used by audit professionals to execute audits consistently and effectively.

The GPPG includes a global Capital Markets (CM) team, which comprises senior EY professionals located in the major global financial market centers. These professionals perform a quality oversight function intended to satisfy the regulatory requirements and established practices of different jurisdictions related to public offerings. The CM team has coordinating responsibilities for audit quality, regulatory compliance and risk management for cross-border transactions and matters, with a focus on US Securities and Exchange Commission (SEC) registrants outside the US.

The CM team maintains global policies, processes and procedures to provide seamless and consistently high-quality service and risk management support. The CM team also provides support to member firm audit teams across a wide range of industries and provides cross-border support and risk management on many aspects of the regulatory and capital-raising process.

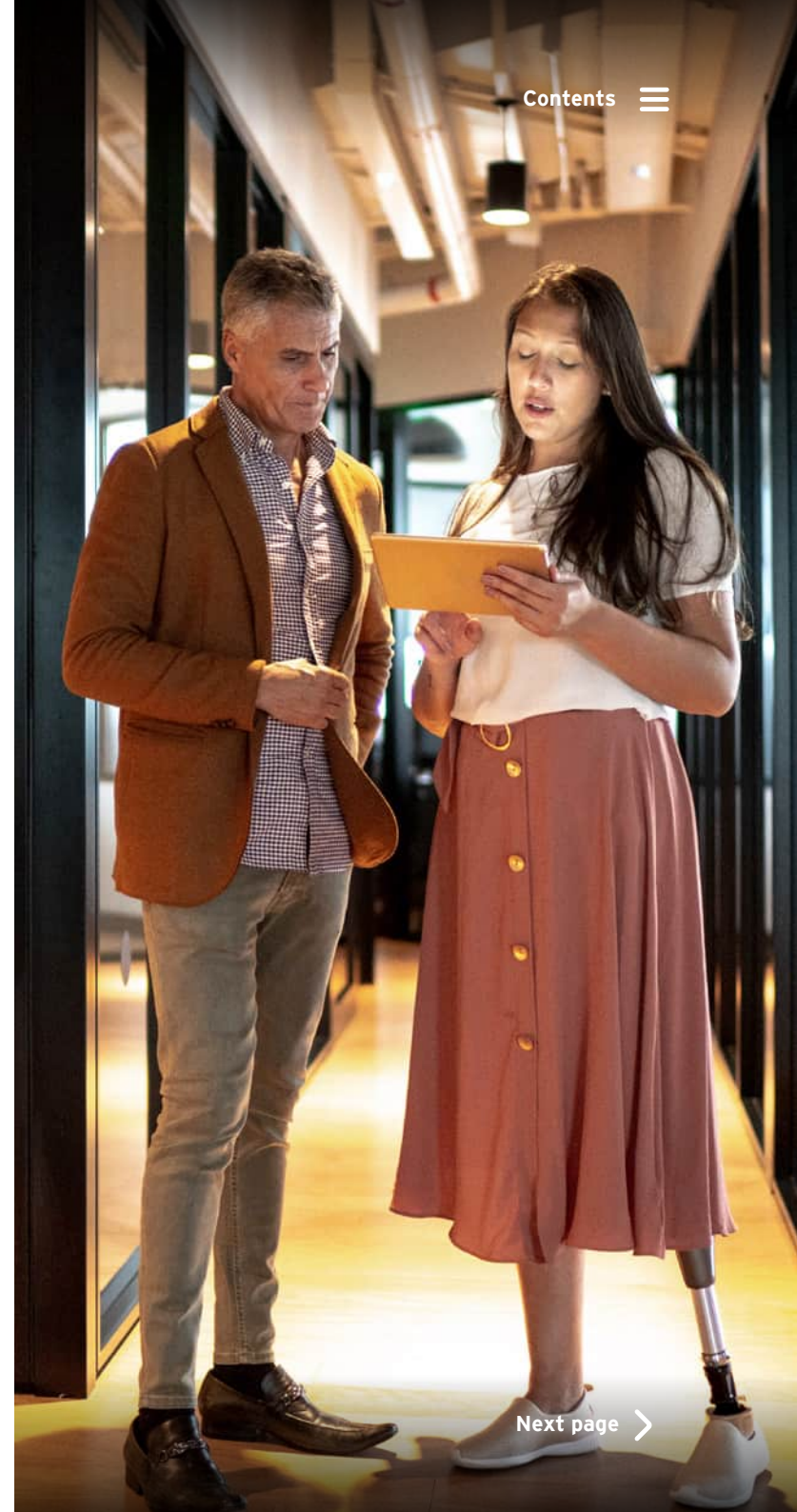
The Global Professional Practice Director (PPD) oversees the development of the EY Global Audit Methodology and related audit policies and technologies so that they are consistent with relevant professional standards and regulatory requirements. The GPPG also oversees the development of the guidance, training and monitoring programs, and processes used by audit professionals to execute audits consistently and effectively. Additionally, the GPPG develops accounting and auditing guidance to respond to event-specific issues such as geopolitical conflicts and economic volatility.

The global, Area, Regional and Country PPDs, together with other professionals who work with them in each member firm are readily accessible for consultation with audit teams.

Additional resources often augment the GPPG, including professionals focused on:

- ▶ Internal-control reporting and related aspects of the EY Global Audit Methodology
- ▶ Accounting, auditing and risk issues for specific topics, industries and sectors
- ▶ General engagement matters and how to work effectively with those charged with governance

Further, the Country PPD has operational responsibility for monitoring the System of Quality Management of the member firm. This includes concurring with or proposing changes to the recommended System of Quality Management annual evaluation conclusion. The System of Quality Management monitoring process is coordinated and monitored by representatives of the GPPG.



Independence practices



The EY Global Independence Policy requires the global EY organization and EY people to comply with the independence standards applicable to specific engagements, e.g., the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code) and applicable local independence standards. The EY Global Independence Policy is an example of a policy issued by EYG to support the operation of the System of Quality Management and the performance of ISQM 1 engagements (audits, reviews, agreed-upon procedures, etc.).

The global EY organization considers and evaluates independence about various aspects, including financial relationships of the global EY organization and those of EY people, employment relationships, business relationships, the permissibility of services provided by the global EY organization to companies it audits, applicable firm and partner rotation requirements, fee arrangements, audit committee pre-approval, where applicable, and partner remuneration and compensation.

Failure to comply with applicable independence requirements is a factor in decisions relating to a person's promotion and compensation, and may lead to other disciplinary measures, including separation from the global EY organization.

Global applications, tools and processes support the global EY organization, its professionals and other employees in complying with independence policies.

EY Global Independence Policy

The EY Global Independence Policy contains the independence requirements for EY member firms, professionals and other personnel. It is a robust policy predicated on the IESBA Code and supplemented by more stringent requirements in jurisdictions, where prescribed, by the local legislative body, regulator or standard-setting body. The policy also contains guidance designed to facilitate an understanding and the application of the independence rules. The EY Global Independence Policy is readily accessible and easily searchable on the EY intranet.

Global Independence System

The Global Independence System is an intranet-based tool that helps EY professionals identify the entities from which independence is required and the independence restrictions that apply. Most often, these are listed audit entities and their affiliates, but they can also be other types of attest or assurance clients. The tool includes family-tree data relating to audit clients and their affiliates, other entities for which independence restrictions apply, and for other entities for which there are no independence restrictions. Family-tree data is updated by client-serving engagement teams. The entity data includes notations that indicate the independence rules that apply to each entity, helping EY people determine the type of services that can be provided or other interests or relationships that can be entered.

The Global Independence System is an example of a technological resource provided by a global function to drive consistency in the System of Quality Management.

Global Monitoring System

The Global Monitoring System (GMS) is another important global tool that assists in identifying proscribed securities and other impermissible financial interests. Professionals ranked as manager and above are required to enter details about all securities they hold, or those held by their immediate family, into the GMS. When a proscribed security is entered or if a security they hold becomes proscribed, professionals receive a notice and are required to dispose of the security. Identified exceptions are reported through an independence incident reporting system for regulatory matters.

GMS also facilitates annual and quarterly confirmation of compliance with independence policies, as described below. GMS is an example of a technological resource made available to EY member firms to drive consistency in the System of Quality Management.

Independence compliance

The global EY organization has established several processes and programs aimed at monitoring the compliance with independence requirements of EY member firms and their people. These include the following activities, programs and processes.

Independence confirmation

Annually, EY member firms are included in a process to confirm compliance with the EY Global Independence Policy and process requirements, and to report identified exceptions, if any.

All EY professionals are required to confirm compliance with the EY Global Code of Conduct annually. All client-facing professionals at the ranks of manager through partner, and certain others, based on role or function, are required to confirm compliance with independence policies and procedures quarterly.

Independence compliance reviews

The global EY organization conducts internal procedures to assess member firm compliance with independence matters. These reviews include aspects of compliance related to non-audit services, business relationships with the companies audited by the global EY organization and financial relationships of EY member firms.

0.09%

of audit engagements had an independence breach.

0.13%

of audit personnel had an independence breach.

These percentages represent actual breaches with applicable regulatory rules in the specific jurisdiction. The independence breach rate for personnel is based on the total number of EY personnel across the globe who are subject to independence requirements.

Personal independence compliance testing

Each year, the EY Global Independence team executes a program for personal independence compliance testing (PICT), which is an audit of an individual's compliance with the requirement to report financial interests in GMS. As part of the PICT, the selected individuals provide account statements and other documentation of their financial interests, which are then compared to information reported in GMS as of the relevant period being tested to determine if there are unreported interests. Any unreported interests are evaluated with consequences assigned as deemed appropriate.

14.9%

PICT deficiency rate

As indicated above, this global PICT deficiency rate represents the percentage of PICT audits that resulted in at least one matter of non-compliance with the EY Global Independence Policy regarding an individual's requirement to report financial interests in GMS. This deficiency rate does not represent a level of actual independence breaches based on regulatory requirements.

This PICT deficiency rate is not where the global EY organization wants it to be. Adherence to the requirements to report financial interests is an element of the EY global accountability framework that includes consequences imposed by member firms (monetary and other) for non-compliance. Furthermore, member firm leadership teams are responsible for reinforcing compliance through messaging and actions, and taking necessary steps to remediate unacceptable deficiency rates.

Non-audit services

The global EY organization monitors compliance with professional standards, laws and regulations governing the provision of non-audit services to audited entities through a variety of mechanisms. These include the use of tools, such as the EY Process for Acceptance of Clients and Engagements (PACE) (see page 34) and the Service Offering Reference Tool (SORT) (see below), and training and required procedures completed during the performance of audits and internal inspection processes. There is also a process in place for the review and approval of certain non-audit services in advance of accepting the engagement.

Global independence learning

The global EY organization develops and deploys a variety of independence learning programs. All EY professionals and certain other personnel are required to participate in annual independence learning to help maintain independence from the companies EY member firms audit.

The goal is to help EY people understand their responsibilities and to aid each of them, and their member firms, to be free from interests that might be regarded as incompatible with objectivity, integrity and impartiality in serving an audit client.

The annual independence learning program covers independence requirements, focusing on recent changes to policy, as well as recurring themes and

topics of importance. Timely completion of annual independence learning is required and is monitored closely. EY member firms may supplement this program with local content to cover local independence requirements that differ from the EY Global Independence Policy.

In addition to the annual learning program, independence awareness is promoted through events and materials, including new-hire programs, milestone programs and core service line curricula.

The annual independence learning program is an example of an intellectual resource provided by a global function to drive consistency in the System of Quality Management.

Service Offering Reference Tool

The Service Offering Reference Tool (SORT) serves as the master list of approved EY services. The global EY organization assesses and monitors its portfolio of services on an ongoing basis to confirm that they are permitted by professional standards, laws and regulations, and to make sure that the global EY organization has the right methodologies, procedures and processes in place as new service offerings are developed. This process restricts services from being provided that could present undue independence or other risks.

SORT further provides EY people with information about EY service offerings. It includes guidance on which services can be provided to entities audited by the global EY organization and non-audit clients, as well as independence and other risk management issues and considerations.

SORT is an example of a technological resource made available to EY member firms to drive consistency in the System of Quality Management.

Audit committees and oversight of independence

The global EY organization recognizes the important role audit committees and similar corporate governance bodies undertake in the oversight of auditor independence. Empowered and independent audit committees perform a vital role on behalf of shareholders in protecting independence and preventing conflicts of interest. The global EY organization is committed to robust and regular communication with audit committees or those charged with governance. Through the EY quality review programs, the global EY organization monitors and tests compliance with EY standards for audit committee communications, as well as the pre-approval of non-audit services, where applicable.

Business Relationships Independence Data Gathering and Evaluation

EY people are required to use Business Relationships Independence Data Gathering and Evaluation (BRIDGE) in many circumstances to identify, evaluate and obtain advance approval of a potential business relationship with an entity audited by the global EY organization, thereby supporting compliance of the global EY organization with independence requirements.

BRIDGE is an example of a technological resource made available to EY member firms to drive consistency in the System of Quality Management.

System of Quality Management



From Internal Quality Control System to System of Quality Management

In 2023, the global EY organization finalized the implementation of ISQM 1.

The global EY organization previously had a strong System of Quality Management, which is evidenced by historically strong quality results; however, ISQM 1 has taken what was previously informally embedded in the culture and has enhanced this into formalized processes and controls.

The System of Quality Management presented here also meets the requirements of the current International Standards on Quality Control (ISQC 1), issued by the International Auditing and Assurance Standards Board (IAASB).

Structure

The reputation of the global EY organization for providing high-quality professional audit services independently, objectively and ethically is fundamental to the success of the global EY organization as independent auditors. The global EY organization continues to invest in initiatives to promote enhanced objectivity, independence and professional skepticism. These are fundamental attributes of a high-quality audit. Designing, implementing and operating an effective System of Quality Management is essential to these efforts.

The role of the global EY organization as auditors is to provide assurance on the fair presentation of the financial statements of the companies audited.

The global EY organization brings together qualified teams to provide audit services, drawing on broad experience across industry sectors and services. The global EY organization continually strives to improve quality and risk management processes, so that the service quality is at a consistently high level.

Delivering high-quality audits remains important in today's environment, characterized by continuing globalization, rapid movement of capital and the impact of technological changes. There is a continued and strong investment in the development and maintenance of the EY audit methodology, tools and other resources to support high-quality audits.

While the market and stakeholders continue to demand high-quality audits, they also demand increasingly effective and efficient audit services. The global EY organization continues to look for ways to clarify and standardize the audit methodology and processes, while improving audit quality.



Designing, implementing and operating a System of Quality Management

ISQM 1 requires a more proactive and risk-based approach to managing quality at the firm level by requiring firms to design, implement and operate a System of Quality Management. ISQM 1 also requires evaluating, at least annually, the System of Quality Management.

ISQM 1 includes robust requirements for the governance, leadership and culture of professional accountancy firms, and introduces a risk assessment process to focus the firm's attention on mitigating risks that may have an impact on engagement quality. It also requires more extensive monitoring of the System of Quality Management to identify deficiencies where corrective actions should be implemented and to provide the basis for evaluating the overall effectiveness of the System of Quality Management.

ISQM 1 outlines an integrated and iterative approach to the System of Quality Management based on the nature and circumstances of the firm and the engagements it performs. It also takes into consideration the changes in the practice and the different operating models of the firms (e.g., use of technology, network and multidisciplinary firms).

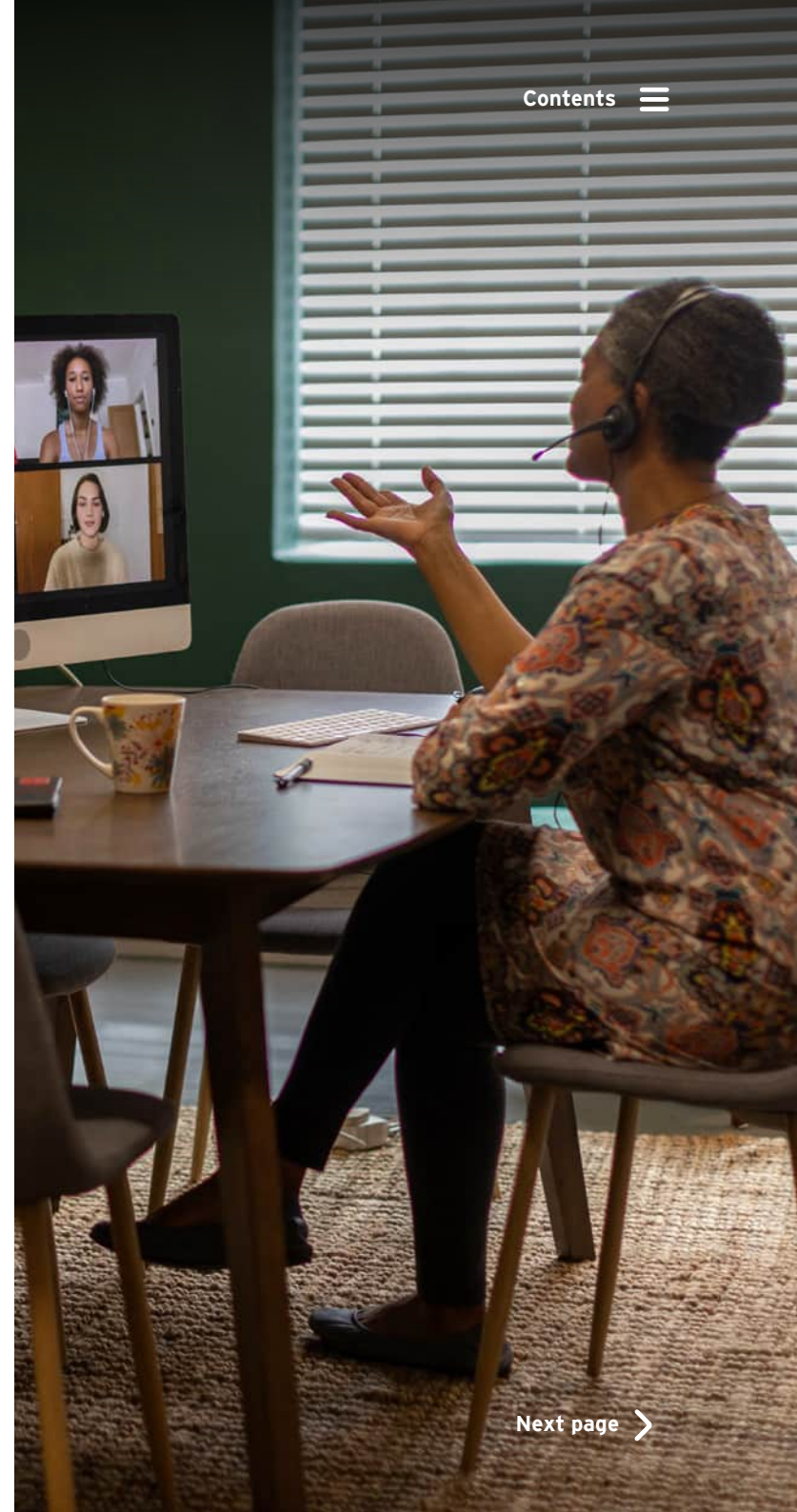
The EY approach is to implement a System of Quality Management that is consistently applied across the entire network of member firms to promote engagement quality and operating effectiveness. This is especially important in a global economy where many audits are transnational and involve the use of other EY member firms.

To achieve this purpose, EY member firms have access to certain policies, technologies, strategies and programs to be used in the design, implementation and operation of the member firms' Systems of Quality Management. The purpose of these resources is to support member firms and their personnel.

For example, the global EY organization has established an approach to the required risk assessment process that includes input and feedback from across EY service lines, functions and geographic areas to develop global baseline minimums, including quality objectives (based on ISQM 1 requirements), quality risks and responses (including System of Quality Management controls) assumed to be applicable to EY member firms. In addition, the global EY organization has developed global tools to support the System of Quality Management processes.

EY member firms are ultimately responsible for the design, implementation and operation of their System of Quality Management, and have the responsibility to:

- ▶ Evaluate policies, technologies, strategies, programs and baseline provided to them
- ▶ Determine if they need to be supplemented by the member firm to be appropriate for use (e.g., if the policy needs to be amended to comply with local laws and regulations or if it is necessary to translate the content into the local language)



Effectiveness of System of Quality Management annual evaluation conclusion as of 30 June 2023

All EY member firms performed the first annual evaluation of their System of Quality Management as of 30 June 2023. During this first year of implementation of ISQM 1, the global EY organization identified areas where improvements should be made, such as on resource management and standardization across all EY member firms in the execution of controls.

In 2023, Cristina Lopez Alvarez was appointed as EY Global System of Quality Management Operational Leader. Cristina reports to the EY Global Vice Chair of Assurance.

A clear tone from the top



Cristina Lopez Alvarez
EY Global System of Quality Management Operational Leader

The year 2023 has been an important year, with the finalization of the implementation of ISQM 1 and the first System of Quality Management annual evaluation completed by all EY member firms.

Implementation of ISQM 1 had contributed to the creation of a more structured and robust System of Quality Management – notably with a clear identification of roles and responsibilities on quality. The approach used during the implementation of ISQM 1, involving all the stakeholders of our System of Quality Management to design our global baseline (quality objectives, quality risks and responses), drove enhanced and consistent System of Quality Management in all EY member firms with the ability for them to add on.

However, we do not see the achievement of this important and significant milestone as a “finish line.” Building on experience from the first year of ISQM 1, we plan to improve using the same successful collaborative and iterative approach involving all the stakeholders of the System of Quality Management.

The System of Quality Management established among all service lines, functions and geographies should be maintained, enhanced and evolved to reflect the

evolution and changes of EY structure and businesses as well as the expectations of external stakeholders.

My role as EY Global System of Quality Management Operational Leader has been created to lead this work and support EY leadership, which is strongly committed to the System of Quality Management and convinced of its importance. My appointment, as part of the EY Global Assurance Executive Committee, illustrates this commitment.

We believe that the EY approach to ISQM 1 benefits audit quality by promoting a strong tone at the top regarding the member firms’ role in serving the public interest and providing transparency to internal and external stakeholders. So, we aim to continue to capitalize on the System of Quality Management to take quality to the next level and demonstrate the commitment of the global EY organization to build confidence in the capital markets and serve the public interest.

Setting the right tone for quality



Governance and leadership

Tone at the top

The appropriate tone is set by the leadership of the global EY organization, including audit partners, who encourage a culture based on a commitment to quality, a dedication to continuous improvement, a focus on values, a global mindset and the importance of teaming. This is underpinned through the global accountability framework, which directly aligns audit quality with annual performance reviews of Assurance leadership.

The tone at the top is vital. But EY people also understand that quality and professional responsibility start with them, and that within their teams and communities they are leaders too. Shared values inspire EY people and guide them to do the right thing, and the EY commitment to quality is also embedded in everything they do.

The EY culture strongly supports collaboration and places special emphasis on the importance of consultation in dealing with complex or subjective accounting, auditing, reporting, regulatory and independence matters. The global EY organization believes it is important to determine that engagement teams and the entities they audit follow consultation advice, and it emphasizes this when necessary.

The consistent stance of the global EY organization has been that no client is more important than professional reputation – the reputation of the global EY organization and the reputation of each EY professional.

The EY approach to business ethics and integrity is contained in the EY Global Code of Conduct and other policies and is embedded in the EY culture of consultation, training programs and internal communications. Senior leadership reinforces the importance of performing quality work, complying with professional standards, adhering to EY policies and leading by example. In addition, EY member firms assess the quality of professional services provided as an important metric in evaluating and rewarding EY professionals.

Global Quality Survey

To measure the quality culture across EY member firms and provide the global EY organization with valuable insights into the perceptions of the culture of quality, including tone at the top, collaboration, workload management and ethical behavior, a Global Quality Survey was launched in April 2023. The results of the Global Quality Survey were used to identify areas where the global EY organization was doing well and where more actions should be taken.

The Global Quality Survey results indicate that EY people recognize that the tone at the top set by leadership demonstrates commitment to quality and that the global EY organization recognizes and values contributions to quality. The recognition of a strong culture of consultation, coaching and continuous quality improvement is also reflected in the results. EY people also recognized their personal responsibility and commitment to deliver quality audits. However, EY people have also communicated through the survey that there is still more to do to improve the culture around work intensity.

Accountability framework

The accountability framework of the global EY organization is a set of global quality control policies and practices that puts quality into action. These policies and practices meet the requirements of the International Standards on Quality Management issued by the International Auditing and Assurance Standards Board.

Engagement partners are responsible for managing and achieving quality on audit engagements, including sufficient and appropriate involvement throughout the engagement, to provide a basis for determining whether the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the audit.

For those individuals in member firm or regional leadership roles, the accountability framework outlines their System of Quality Management-related responsibilities as well as other quality focused activities.

This framework covers individuals in leadership roles, including service line and functional line leadership roles, at the member firm and regional level.

The accountability framework sets the process and governance for providing input, setting and overseeing the establishment of an individual's quality and effective risk management rating (Q&ERM rating) based on the achievement of certain quality objectives (e.g., level of inspection findings, independence violations), and operating effectiveness of System of Quality Management controls.

The framework outlines criteria for measuring alignment between an individual's overall performance rating and their Q&ERM rating.

Global Code of Conduct

The global EY organization promotes a culture of integrity among EY professionals. The EY Global Code of Conduct provides a clear set of principles that guide actions and business conduct and are to be followed by all EY personnel. The EY Global Code of Conduct is divided into five categories:

- ▶ Working with one another
- ▶ Working with clients and others
- ▶ Acting with professional integrity
- ▶ Maintaining our objectivity and independence
- ▶ Protecting data, information and intellectual capital

Through procedures to support compliance with the EY Global Code of Conduct and through frequent communications, the global EY organization strives to create an environment that encourages all personnel to act responsibly, including reporting misconduct without fear of retaliation.

The global EY organization promotes a culture of integrity among EY professionals.



Relevant ethical and legal requirements

Compliance with the Global Code of Conduct

The EY Global Code of Conduct provides guidance about EY actions and business conduct. The global EY organization complies with applicable laws and regulations, and EY values underpin the commitment of the global EY organization to doing the right thing. This important commitment is supported by several policies and procedures, which are explained in the paragraphs below.

Independence

Compliance with relevant ethical requirements, including independence, is an important element of the System of Quality Management. It involves determining that the global EY organization is independent in fact, as well as appearance. The ethical requirements relevant to the audits and professional services of the global EY organization are included in the IESBA's International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code). The global EY organization also complies with local ethical requirements or codes in the jurisdiction of EY audits and professional services. Refer to the "[Independence practices](#)" section for information on policies, tools and process relating to maintaining independence.

Rotation and long association

The global EY organization complies with the audit partner rotation requirements of the IESBA Code as well as the US SEC, where required.

The global EY organization supports audit partner rotation because it provides a fresh perspective

and promotes independence from company management, while retaining experience and knowledge of the business.

The global EY organization uses tools to effectively monitor compliance with regulatory rotation and long association requirements.

There is also a process for rotation planning and decision-making that involves consultation with, and approvals by, Professional Practice and Independence professionals within the global EY organization.

External rotation

For public interest entities, the global EY organization complies with the external audit firm rotation requirements of Article 17 (1) of the EU Audit Regulation.

Whistleblowing

The EY Ethics Hotline provides EY people, clients and others outside of the global EY organization with a means to confidentially report activity that may involve unethical or improper behavior, and that may be in violation of professional standards or otherwise inconsistent with the EY shared values or EY Global Code of Conduct. Globally, the hotline is operated by an external organization that provides confidential and, if desired, anonymous hotline reporting.

When a report comes into the EY Ethics Hotline, either by phone or internet, it receives prompt attention by the member firm's legal function. Depending on the content of the report, appropriate individuals from Risk Management, Talent or other functions are also involved in addressing the report.

EY member firms are encouraged to submit to the EY Ethics Hotline matters that are reported locally outside of the EY Ethics Hotline.

Non-compliance with laws and regulations

In accordance with the IESBA Code, the global EY organization has adopted a policy designed to meet obligations to report non-compliance with law and regulation (NOCLAR). The policy covers reporting obligations with respect to non-compliant activity by clients or EY personnel, as relevant to their respective business activities.

In addition to the NOCLAR reporting obligations, the global EY organization may be required to make certain reports to relevant regulatory authorities regarding possible misconduct by clients – actual or suspected. Where such obligations exist, reports are made in accordance with local laws.

Anti-bribery

The EY Global Anti-Bribery Policy provides EY people with direction on certain unethical and illegal activities. It emphasizes the obligation to comply with anti-bribery laws and provides a definition of what constitutes bribery. It also identifies reporting responsibilities when bribery is discovered. In recognition of the growing global impact of bribery and corruption, efforts have been sustained to continue to embed anti-bribery measures across the global EY organization.

Insider trading

Securities trading is governed by many laws and regulations, and EY personnel are obliged to comply with applicable laws and regulations regarding insider trading. This means EY personnel are prohibited from trading in securities while in possession of material non-public information.

The EY Global Insider Trading Policy reaffirms the obligation of EY people not to trade in securities when in possession of insider information, provides detail on what constitutes insider information and identifies with whom EY people should consult if they have questions regarding their responsibilities.

Economic and trade sanctions

It is important that EY people comply with the ever-changing situation with respect to international economic and trade sanctions. EY monitors sanctions issued in multiple geographies both prior to business relationships being accepted and as they continue. Guidance is provided to EY people on impacted relationships and activities.

Anti-money laundering

Where applicable, EY member firms are classified as an obliged entity under applicable anti-money laundering (AML) regulations. Consistent with the EY global guidance on AML, where applicable EY member firms have implemented policies and procedures designed to meet these obligations, including Know Your Client (KYC) procedures, risk assessments and suspicious activity reporting. EY people are trained on their responsibilities under the regulations and provided guidance on who to consult when they have questions.

Data protection and confidentiality

The EY Global Data Protection and Confidentiality Policy sets out the principles to be applied to the collection, use and protection of all information that the global EY organization has responsibility for, including personal data relating to current, past and prospective personnel, clients, suppliers and business associates, as well as other information considered confidential to clients, third-parties or the global EY organization. This policy is consistent with the requirements of the EU's General Data Protection Regulation (GDPR), and other applicable laws and regulations concerning data protection and privacy in addition to relevant professional standards providing a framework for confidentiality. The global EY organization also has binding corporate rules approved by UK and EU regulators in place to facilitate the movement of personal data within the EY network.

It is important that EY people comply with the ever-changing situation with respect to international economic and trade sanctions.



Client and engagement acceptance and continuance

Global policy on client and engagement acceptance and continuance

The EY global policy on client and engagement acceptance and continuance sets out principles for member firms to determine whether to accept a new client or a new engagement with an existing client, or to continue with an existing client or engagement.

These principles are fundamental to maintaining quality, managing risk, protecting EY people and meeting regulatory requirements.

Putting policy into practice

The global EY organization uses the EY Process for Acceptance of Clients and Engagements (PACE), an intranet-based system, for efficiently coordinating client and engagement acceptance and continuance activities in line with global, service line and member firm policies. PACE takes users through the acceptance and continuance requirements, and identifies the policies and references to professional standards needed to assess both business opportunities and associated risks. PACE is an example of technological resources used by EY member firms across the globe to drive consistency in the System of Quality Management.

The process for acceptance or continuance of clients and engagements includes consideration of the engagement team's assessment of risk factors across a broad range of categories such as industry, management's attitude, internal controls, audit complexity and related parties.

As part of this process, the global EY organization carefully considers the risk characteristics of a prospective client or engagement, and the results of due diligence procedures. Before taking on a new engagement or client, the global EY organization also determines whether it can commit sufficient and appropriate resources to provide quality service, especially in highly technical areas, and if the services the client is requesting are appropriate for it to provide. The approval process provides that new audit engagements may not be accepted without an approval by representatives from local or Regional PPD and Area Managing Partner (AMP) teams.

In the EY annual client and engagement continuance process, the global EY organization evaluates service and ability to continue providing a quality service and confirms that clients share the EY commitment to quality and transparency in financial reporting. The partner in charge of the audit, together with Assurance leadership, annually evaluates the relationship with the entities the global EY organization audits to determine whether continuance is appropriate.

As a result of this evaluation, certain audit engagements are identified that necessitate additional oversight procedures during the audit (close monitoring), and some audit relationships are discontinued. As with the client and engagement acceptance process, Regional and Country PPD and AMP representatives are involved in the continuance process and should agree for the continuance to occur.

The global EY organization carefully considers the risk characteristics of a prospective client or engagement, and the results of due diligence procedures.

Consultation requirements

EY consultation policies are built upon a culture of collaboration, whereby audit professionals are encouraged to share perspectives on complex accounting, auditing and reporting issues. As the environment in which EY member firms work has become more complex and connected around the globe, the EY culture of consultation has become even more important to help member firms reach the appropriate conclusions for entities that they audit on a timely basis. Consultation requirements and related policies are designed to involve the right resources, so that engagement teams reach appropriate conclusions.

The EY culture of consultation supports engagement teams to provide seamless, consistent and high-quality services that meet the needs of audited entities, their governance bodies and all stakeholders.

For complex and sensitive matters, there is a formal process requiring consultation outside of the engagement team with other personnel who have more relevant experience, primarily Professional Practice and Independence personnel. In the interests of objectivity and professional skepticism, EY policies require members of Professional Practice, Independence and certain others to withdraw from a consultation if they currently serve, or have recently served, the entity to which the consultation relates. In these circumstances, other appropriately qualified individuals would be assigned.

EY policies also require that all consultations are documented, including written concurrence from the person or persons consulted, to demonstrate their understanding of the matter and its resolution.

Furthermore, if the engagement quality reviewer makes recommendations that the partner in charge does not accept or the matter is not resolved to the reviewer's satisfaction, the auditor's report is not issued until the matter is resolved.

Differences of professional opinion that are resolved through consultation with Professional Practice are appropriately documented.



Empowering quality audits: technology and people

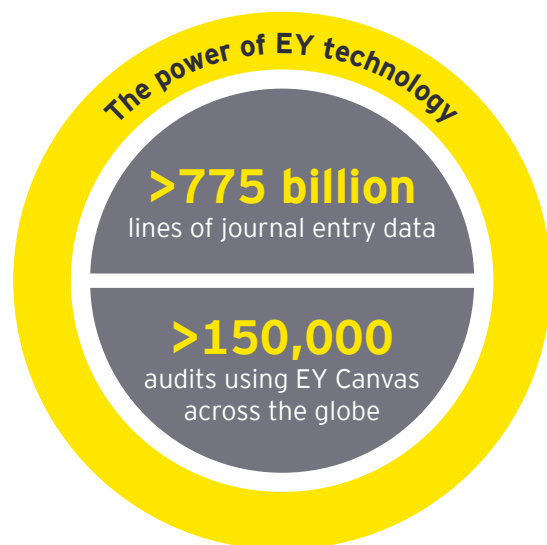


Engagement performance: the role of technology

The global EY organization is investing more than US\$1b in next-generation Assurance technology as part of its continued commitment to providing high-quality audits.

This investment is building on the strength of the existing leading-edge audit technology suite – integrating advanced technologies under one seamless platform while driving transformation by harnessing:

- ▶ Next-generation data-access capabilities and advanced analytics
- ▶ AI at scale
- ▶ An elevated user experience



In 2023, the global EY organization released more than 20 new major Assurance technology capabilities, supported by an expanded alliance with Microsoft, during the first year of this four-year investment program.

These releases are deployed across the global EY organization and include globally scaled AI. These AI-enabled capabilities – leveraging publicly available and EY-generated data – are directly, seamlessly integrated with EY Canvas to support EY Assurance professionals in assessing risk. The global EY organization is also introducing new AI-enabled capabilities in predictive analytics; content search and summarization; and document intelligence, including financial statement tie-out procedures.

Spotlight on driving quality through technology

Next-generation data-access capabilities and advanced analytics

Advanced data capabilities help to drive quality by supporting the analysis of entire data populations – supporting data-driven auditing that is embedded into methodology.

EY Helix already supports the use of mature analytics throughout the audit – allowing EY teams to drill down on the right data at the right time and better understand the audited company and its risk landscape.

By further integrating advanced analytics directly into the workflow of EY Canvas, the global EY organization sets a strong foundation to expand the use of AI at scale and significantly elevates user experience.

Enhancing data capture and analysis capabilities helps to provide further confidence in a high-quality audit by widening the range of data used to obtain audit evidence, including both disaggregated and nonfinancial data.

AI at scale

AI at scale and other intelligent capabilities help to drive quality by standardizing processes and leveraging data to provide risk guidance and relevant recommendations to EY teams.

Existing smart automation capabilities, such as EY Intelligent Checklists and EY Financial Statement Tie-out, automate and enhance routine audit activities, which helps efforts to be refocused on higher-risk areas. Looking ahead, guided workflow and other enhancements take this to the next level, using the knowledge and learnings of other EY teams to support deeper risk focus and continued confidence in a high-quality audit.

An elevated user experience

A leading-class experience helps to drive quality by facilitating highly integrated and consistently executed audits worldwide.

EY Canvas sits at the center of the audit experience today, supporting effective coordination, consistent documentation and easier collaboration between EY teams and companies around the world.

Integrating a guided workflow, data and knowledge under a single platform empowers EY teams to access all the capabilities involved in providing high-quality audits while also empowering company users with new features to better understand the status of the audit.

Quality at the core of technology development

The efforts of the global EY organization to provide this next-generation Assurance technology platform are consolidated under a global transformation program. This program includes standardized protocols that are adhered to with regard to technology concept creation, development and deployment. Multiple stakeholders are involved in this effort, including global and Area representatives from Professional Practice, the Global Assurance Quality Network and EY Technology.

New Assurance technology concepts are presented to a global committee of these stakeholders for evaluation based on several benefit criteria including quality, value for EY professionals and value for EY clients.

If the committee believes that a concept lacks sufficient attributes under these and other criteria before investment is unlocked, the concept is rejected or adjustments are made, and the concept is re-presented to the committee.

Robust testing throughout the development cycle, including with end users, is a prerequisite for the release of any audit technology. The Assurance technology is then presented for release to the global practice once this extensive testing, including piloting, is completed, feedback is evaluated and incorporated, and the necessary certification is complete.

Technology-enabled methodology

Companies are leveraging technology to develop new systems and processes for business management, as well as analyzing more data to inform business decisions. This trend is facilitating a more data analysis-driven and risk-based approach to the audit, which means that full populations of data can be analyzed and focuses the auditor's attention on the complete transaction flow and process.

The embedded data-driven approach of the EY Global Audit Methodology enhances the auditor's preliminary risk assessment and helps enable the auditor to challenge those conclusions throughout the various phases of the audit. The auditor can reassess risk based on what is identified in the data, which creates an audit flow that is iterative in nature.

Addressing the risk of technology over-reliance

The global EY organization has procedures, policies and enablement in place to encourage the responsible use of audit tools and technology, including AI-enabled technologies, and to mitigate the risk of over-reliance by the audit professional.

In addition, the EY Global Audit Methodology emphasizes applying appropriate professional skepticism in the execution of audit procedures. The design of globally certified audit tools and technology, including AI-enabled technology, is intended to provide support for the audit team's procedures to address risks of material misstatement, but not replace the important role of the professional in applying their experience and judgment to reach a conclusion.



Attracting, recruiting and developing EY people

In a world with a decreasing talent pipeline, where the number of students graduating with an accounting degree continues to drop, competition for talent with the relevant skills has never been higher. Finding the next generation of high-quality auditors remains the top priority.

The global EY organization is committed to attracting talented people and investing in the next generation of leaders – giving everyone opportunities to grow and develop and empowering them to be intentional about their careers.

At the same time, the global EY organization reinforces a culture where everyone – from the most senior global leadership to the most junior members of audit teams – demonstrates accountability for and commitment to executing high-quality audits.

Audit teams bring together an increasingly diverse set of skills, and this trend is accelerating as new technologies are adopted and the role of the audit professional continues to evolve. The EY organization is further enhancing skill sets to encompass new competencies, such as data analysis and data visualization, and new areas, such as the analysis of nonfinancial information (for example, rapidly changing environmental, social and governance (ESG) standards).

Audit professionals should also understand and assess the risks and considerations associated with these technologies, particularly as companies implement new systems and generate new data that

impact financial reporting, such as business models dealing with cryptocurrencies.

Talent investment should focus more broadly on the development of new skill sets – enabling teams to harness the full potential of new technology and bring a new lens to their work.

In addition, the global EY organization has taken action to address emerging risks, through both training and a focus on increasing awareness of these risks. Common themes that teams should focus on are communicated throughout the organization.

The global EY organization keeps the recruiters it works with up to date and upskills them with current trends and hot topics in audit, which equips them with the information to talk to candidates. The global EY organization also uses several recruitment innovation platforms and talent attraction initiatives to network with new and diverse audiences that are harder to reach through traditional channels, and find new ways to connect with and attract future talent.

To recruit people who fit with the EY culture, it is important to consider not only technical excellence, but also other attributes – communication skills, high ethical standards and the ability to collaborate in high-performing teams. All joiners are expected to live up to high standards of integrity, and to have strong business acumen and leadership potential.



Retention and focus on wellbeing

Having recruited the talent, retaining it within the business is an important contributor to the delivery of high-quality audits. Retention can vary based on external drivers such as market conditions. However, there is one factor that is consistent around the globe: employee expectations.

Achieving a work-life balance is important to EY people. People are now far more focused on getting the balance right between their professional and personal lives. Flexibility is measured through the employee listening survey.

An increasingly important talent priority has been a focus on wellbeing and improving the day-to-day experience of EY people. The overarching goal is to embed a wellbeing culture through the commitment of leadership to provide the financial, physical, emotional and social support that helps EY people to be the best they can be. In practice, this can include equitably balancing work allocations and breaking down barriers that have previously prevented professionals from setting and adhering to healthy boundaries.

The better the organization can support people's wellbeing, the more likely it is to provide them with compelling reasons to continue their career journey within the EY network.

However, new entrants to the world of work are less likely to stay at the same organization for their entire careers. Boosting retention, therefore, now means focusing more on the journey than the destination.

As part of this commitment, there is a stronger focus on experience management and scheduling auditors onto engagements where they can find opportunities to expand their knowledge as part of longer-term career progression.

Agile career paths

As the workforce becomes more diverse in terms of background, skill sets and education, aspirations also change. With more people with diverse skills and experience entering the organization, EY member firms are implementing more flexible career paths for all professionals that link to future-focused service execution model thinking.

The workforce is evolving, and individuals often have different career hopes, so the global EY organization is providing all EY people with the necessary tools and processes to manage their progression. A more individualized career structure is vital in attracting new talent and in helping to develop and retain the existing workforce.

Additionally, the newest workforce generation has a desire to progress more rapidly than their predecessors – at the same time as the pathway to partner is increasing in length. Offering an agile and flexible career path that includes acceleration for the highest performers is vital in attracting new, diverse talent and helping to develop and retain audit professionals.

The EY Audit Career Framework is built around the technical and business skills aligned to the EY operating model, with learning guidance and example experiences linked to these specific skills.

The framework more clearly sets out career paths and opportunities for rotations, highlighting that career journeys are a personal choice and giving staff the opportunity to lay a foundation to progress their career at a pace that suits them.

Promotions focus on people's skills, not the number of years in a post. For example, the global EY organization is introducing more "agile promotions," where career progression takes place when an individual is ready rather than at set times in the year.

While helping EY auditors to have unique and diverse careers, the framework also provides the business with greater visibility and understanding of the skills in the practice, helping to drive audit quality.

Mobility

In an organization that is spread across almost 150 jurisdictions, one of the most powerful experiences EY member firms can offer their people is to work across cultures and borders. People join the global EY organization for exceptional and diverse experiences, with more than 90% of member firms' new hires in EY Assurance being motivated by joining a highly globally integrated organization.

EY member firms provide a variety of on-demand mobility solutions and programs, leading to an increase in total Assurance mobility assignments, with more than 1,000 people on mobility assignments at any one time. The global mobility platform, Mobility4U, provides professionals with a single point of entry to locate opportunities worldwide. That includes job swaps, where individuals can exchange roles with an EY peer on either a long- or short-term basis. There is a focus on enabling specific business-driven mobility initiatives that give people an opportunity to learn or share specific knowledge and skills. Strategic mobility programs for member firm partners and future leaders also continue, which support EY emerging-market Regions.

Post-pandemic, EY member firms are increasingly able to offer virtual mobility experiences. These provide the benefits of working cross-border with new teams and facilitate EY people to expand their global networks.

Performance management

The global EY organization has a performance management framework, LEAD, that supports EY people's careers, inspires their growth and recognizes the value they bring to the global EY organization. Through ongoing feedback, counselor insights and development conversations, LEAD helps align individuals with the EY strategy and encourages a focus on the future. An individual's dashboard provides a snapshot of performance against the Transformative Leadership dimensions, including quality, risk management, technical excellence and engagement metrics. Feedback received during an annual cycle is aggregated and used as an input to compensation and reward programs.

At the center of the framework are conversations between counselee and counselor, covering topics such as understanding diverse career paths, creating an inclusive and equitable environment and pursuing learning and new experiences. These conversations help to identify opportunities for further development and to build future-focused skills.

The performance management framework extends to partners, principals, executive directors and directors, and applies to all EY member firms around the world. It reinforces the global business agenda by continuing to link performance to wider goals and values. The process includes goal setting, ongoing feedback, personal development planning and an annual performance review, all tied to partners' recognition and reward. Documenting partners' goals and performance is the cornerstone of the evaluation process. A member firm partner's goals are required to reflect various global and local priorities across six metrics, the most important one being quality.

Employee engagement

Employee engagement is a vital sign of success in building the right culture. Audit professionals want to feel that their employer cares about their progress and job satisfaction. Understanding the ambitions, concerns and pressures faced by EY people makes it possible to provide a better environment in which they can flourish.

Engagement levels are regularly monitored through a variety of channels, and the July 2023 EY employee listening survey showed that 74% of audit professionals had a favorable attitude in terms of engagement (up 2% from March 2023).

Listening to the views and concerns of EY people is an important element in increasing engagement. The EY employee listening strategy gives EY people a voice at every step of their EY experience, so that the global EY organization knows what it can do to help build exceptional experiences. Understanding the evolving perspectives and experiences of EY people is essential to supporting the employee value proposition of the global EY organization.

The employee listening survey is run three times per year to gather feedback on the elements that drive engagement and retention. Each survey focuses on different strategic drivers (careers, learning and skills, etc.) and includes other relevant topics.

EY Assurance runs an initiative known as "Global Voices," which unites 200 high-performing junior professionals from across the world and all subservice lines. Its purpose is to empower and engage the EY member firms' workforces by requesting their feedback on a wide range of topics of strategic importance, to broaden leadership perspectives. Leadership teams are increasingly engaged and motivated to understand the group's perspectives on business-critical challenges like talent attraction, technology, purpose, and ESG and societal impact.

The Audit Academy

The Audit Academy is the EY global learning program for auditors. It builds auditors' core skill sets and evolves over time – for example to complement those core skills with new capabilities to support a data-driven audit. Every year, the content and focus of the Audit Academy is adjusted to address new technologies and strategic priorities that promote audit quality. Any changes

are agreed by Assurance leadership, following recommendations from the EY Global Assurance Learning Steering Committee.

Inspection and quality review findings are analyzed regularly to assess and address root causes, and the conclusions are then fed into the Audit Academy curriculum to enhance and strengthen continual learning.

Through the Audit Academy, teams receive leading-class and globally consistent core learning, which includes focusing on changes in regulation, mastering emerging technologies or embedding data analytics into existing audit practices. Moreover, the Audit Academy encourages and empowers individuals to apply professional skepticism, think critically and provide exceptional client service.

Post-pandemic, the Audit Academy now provides a blend of on-demand learning and simulation or case study-based learning that can be deployed either physically or virtually.

Professional development

To encourage the building of new skills, the EY Badges program helps professionals to gain future-focused skills including AI, blockchain, robotic process automation, innovation and cybersecurity, as well as other capabilities that are in high demand, such as sustainability. EY Badges is a self-directed learning initiative that supplements a substantial program of core structured training for auditors.

Allied to EY Badges is the EY Tech MBA and Masters in both Business Analytics and Sustainability. These are online qualifications awarded by Hult International Business School, a triple-accredited university, that are available free of charge to all EY people.

As of 31 December 2023, almost 52,000 EY Badges had been awarded to current audit professionals, including 16,000 in analytics and data strategy alone. In addition, more than 26,000 EY Badges have been awarded to people who have since left the global EY organization.

In total, during the calendar year 2023, EY audit professionals undertook nearly 9 million hours of learning, averaging nearly 85 hours each.

There are also a variety of learning programs that have been developed specifically for member firm partners. These are available to all member firm partners worldwide and cover topics including transformative leadership, disruptive technology and sustainability. These are supplemented by high-touch, immersive programs for select groups of partners on topics such as client leadership and disruptive technology, and there are also regular learning programs on audit-specific topics such as fraud.

Where an EY member firm audits and reviews International Financial Reporting Standards (IFRS) financial statements, relevant audit professionals undertake learning to become IFRS-accredited.



Diversity, equity and inclusiveness

The global EY organization has a long-standing commitment to diversity, equity and inclusiveness (DE&I). This commitment to building high-performing, diverse, equitable and inclusive teams is especially important in audit, where diverse perspectives drive professional skepticism and critical thinking. Greater diversity and equity, and inclusive environments, drive better decision-making, stimulate innovation and increase organizational agility.

The global EY organization has been on a DE&I journey for many years, and while substantial progress has been made, it remains committed to increasing DE&I progress throughout the organization. The GE has made a visible commitment to EY people and to the market to accelerate DE&I within the global EY organization through signing the Global Executive Diversity, Equity and Inclusiveness Statement. Not only does this reinforce that DE&I is an important business lever, but it also helps EY member firms to hold themselves accountable for progress, starting with the tone at the top.

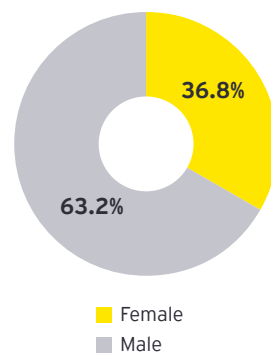
There has been a particular focus on promoting gender diversity over recent years. Thirty-three percent of new audit EY member firm partners around the globe promoted on 1 July 2023 were women, and a strong pipeline of female leadership has been built, supported by 54% of all audit hires by member firms across the globe in 2023 being female.

Inclusive organizations maximize the power of all differences. Employees should feel they are working for an organization that not only values them as individuals, but also sees differences as strengths

and values their contributions. Fostering this sense of belonging is important for helping the global EY organization attract the most talented individuals and helping EY professionals stay motivated and engaged.

In the November 2023 employee listening survey, 86% of EY auditors said the people they work with make them feel they belong to a team, with 84% feeling included and supported. Eighty-two percent of EY auditors said the global EY organization provides a work environment where they feel free to be themselves. These are the top three highest-scoring questions in the most recent survey.

EY Global Executive by gender



Risk management



Organizational risk management

Risk management practices

Risk Management coordinates organization-wide activities designed to help EY people meet global and local compliance responsibilities and support client-facing teams in providing quality and exceptional client service. Responsibility for high-quality service and ownership of the risks associated with quality is placed with the EY member firms and their service lines.

Among other things, the Global Risk Management Leader helps monitor the identification and mitigation of these risks, as well as other risks across the organization as part of the broader enterprise risk management framework. The enterprise risk management priorities are communicated to enterprise risk management member firms.

The Global Risk Management Leader is responsible for establishing a consistent risk management framework around the globe and coordinating risk management across the global EY organization.

Member firm professionals are appointed to lead risk management initiatives (supported by other staff and professionals), including coordinating with the service lines on such matters.

When events that present risks occur, Global Risk Management actively obtains input from EY member firms on lessons learned from both crisis management and business continuity standpoints. This after-action assessment process has generated significant changes to EY planning around crisis response and management of crises at the member firm and global levels. Such assessments provide

Responsibility for high-quality service and ownership of the risks associated with quality is placed with the EY member firms and their service lines.

a higher degree of proactiveness especially in identifying emerging risks before they cause significant impact, and the prioritization of risks by each member firm. For example, this allows the EY Global Security team and Region Security Manager network to work directly with their respective member firm crisis management teams in preparing for the most likely threats by incorporating training and advanced stages of readiness into its crisis management networks.

Additionally, Global Risk Management has placed more focus on business resiliency in business continuity planning efforts in the global EY organization. An important component of this approach is the recognition that many crises do not just “happen”; there are usually indicators of escalating factors as a crisis unfolds. This approach allows EY member firms to begin addressing mitigation of risks while continuing to carry on “business as usual” at the very early stages of a potential business impact situation. The creation of “escalation matrixes” around several ongoing and high-chance geopolitical events allow EY member firm and Region Risk Management crisis management teams to respond more rapidly and

more effectively as events escalate. Additionally, these escalation matrices and subsequent action item checklists go beyond traditional workforce life and safety issues by delving into factors that could impact a member firm’s ability to effectively conduct business, e.g., disruption to banking systems or sustained cyber attacks.

These changes are allowing EY member firms to navigate significant crises more effectively via a prepared holistic approach.

In addition, the EY Global Code of Conduct provides a clear set of principles to guide the behaviors of those working with the global EY organization. This includes EY professionals being required to speak up when observing behavior that is believed to be a violation of law or regulation, applicable professional standards, or the EY Global Code of Conduct itself.

The Global Data Protection and Confidentiality Policy ([previously discussed](#)) sets out requirements when handling sensitive and restricted information, including personal data. EY member firms have a continuing responsibility to communicate changes in local law or regulation, reflecting the ever-changing landscape of restrictions on the use of data. The Global Data Protection and Confidentiality Policy was developed in accordance with applicable law, regulatory frameworks (such as the EU’s GDPR) and relevant professional standards. The policy provides clarity for EY member firms and their employees and connects to related policies and guidance on information security, records retention, social media utilization and other topics related to data protection.

Cybersecurity

Managing the risk of major and complex cyber attacks is a part of conducting business for all organizations. While no systems are immune from the threat of cyber attacks, the global EY organization is vigilant in the steps it takes to secure and protect client data.

The EY approach to cybersecurity is proactive and includes the implementation of technologies and processes necessary to manage and minimize cybersecurity risks around the globe. EY information security and data protection programs, consistent with industry practices and applicable legal requirements, are designed to protect against unauthorized access to systems and data. There is a dedicated team of professionals with extensive cybersecurity experience who constantly monitor and defend EY systems.

Beyond technical and process controls, all EY people are required to annually affirm in writing their understanding of the principles contained in the EY Global Code of Conduct and their commitment to abide by them. There are also required security awareness learning activities. Various policies outline the due care that is required to be taken with technology and data, including, but not limited to, the Global Information Security Policy and a global policy on the acceptable use of technology. EY cybersecurity policies and processes recognize the importance of timely communication.

EY people receive regular and periodic communications reminding them of their responsibilities outlined in these policies and of general security awareness practice.

Managing engagement risk

To maintain the highest audit quality, the global EY organization identifies and responds to audit risks when and where they arise, and is committed to maintaining a proactive approach to exercising appropriate, consistent responses throughout the network. The EY Global Assurance Risk Center of Excellence leverages technology and external data to alert engagement teams and risk oversight functions to elevated risks of fraud and NOCLAR.

Risk management infrastructure

The global EY organization has infrastructure and processes in place to identify, assess and respond to emerging risks that may adversely impact audit execution.

This activity is a collaborative process between the Global Professional Practice Group and the Global Assurance Quality Network and is based on processes in place to identify risks and implement responses.

For example, the global EY organization monitors macroeconomic and geopolitical trends, evaluates their impact on audits and responds by issuing guidance and enablement when necessary. The global EY organization also evaluates internal and external inspection trends and results from other monitoring activities (e.g., ISQM 1 monitoring) on a continuous basis to identify emerging risks, and designs responses which could include additional training or enablement.



“

My role of Global Assurance Risk Oversight Leader was created to focus on upholding the public interest responsibility of the global EY organization to deliver high-quality audits. In the current economic and geopolitical environment, it is more important than ever that EY teams are able to leverage the latest technology and external data to proactively identify, assess and respond to emerging risks.

Laney Doyle, EY Global Assurance Risk Oversight Leader

Emerging risks

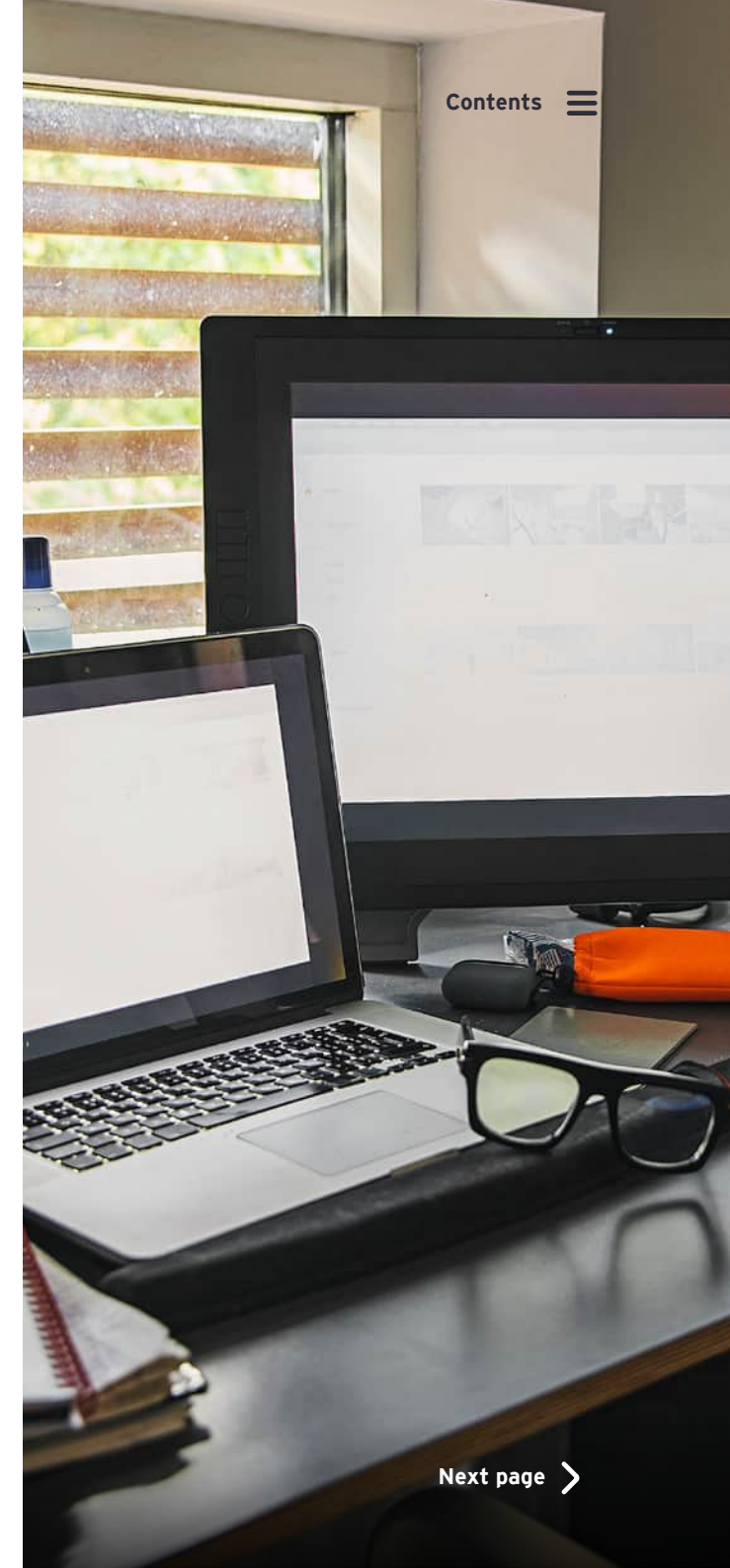
Both traditional and emerging risks can have an impact on financial statements, and the auditor's approach should continuously evolve to address both types of risks. Emerging risks include changing macroeconomic and geopolitical conditions, evolving client use of technology (such as AI), cybersecurity risks, climate risks and event-specific client developments. The Risk Center of Excellence continues to develop tools to enhance the ability to monitor emerging risks in the audit portfolio.

An ongoing focus on fraud risk

The global EY organization sees new opportunities to leverage data to identify and respond to the risk of fraudulent financial reporting. For example, auditors increasingly use data analytics to identify unusual transactions and their patterns that could indicate a heightened risk of fraud.

Through its Risk Center of Excellence, the global EY organization is developing tools and processes that help teams respond to the elevated risk of fraud. These include:

- ▶ **Document authenticity tool**, which tests for alterations to selected electronic documents using a variety of techniques and helps to identify when a document provided as audit evidence may have been altered, tampered with or modified.
- ▶ **Journal entry fraud risk analyzer (JEFRA)**, which tests each journal entry selected for characteristics associated with an elevated risk of management override and identifies entries for incremental consideration.
- ▶ **Short seller report alert process**, which monitors and distributes the reports globally to audit teams.
- ▶ **Adverse media searches**, which identify articles indicative of fraud or non-compliance risk. Selected articles are distributed internally for further consideration.
- ▶ **Enhanced forensics metrics**, which use data to identify indicators of elevated risk of fraud based on application of machine learning techniques to historical financial statement data sets, providing audit teams with the ability to enhance their assessment of fraud risks through specific account-level focus.



EY | Building a better working world

EY exists to build a better working world, helping create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data, and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

© 2024 EYGM Limited.
All Rights Reserved.

EYG no. 005236-24Gbl

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com