

Our commitment to audit quality

Information for audit committees,
investors and other stakeholders

Ernst & Young LLP
November 2017





Contents

Audit committees, investors and other stakeholders

We are pleased to present our 2017 report on the commitment of Ernst & Young LLP (EY US or the Firm) to audit quality. Delivering high-quality audits is our top priority, and this report explains what we are doing to innovate and drive continuous improvement in the quality of our audits.

As independent auditors, we take seriously our responsibility to serve the public interest and our role in the capital markets. We know that we work to serve investors and that in addition to being technically skilled to execute quality audits, our people must act with the highest level of integrity, objectivity, skepticism and independence.

We also recognize that, to serve the public interest, we need to help our stakeholders better understand how we conduct audits and what we're doing to improve audit quality. This report – which includes a number of data points about our audit practice – is one of the ways we provide transparency into these topics. To provide even more transparency, we have expanded the number of data points in this year's report. A list of those data points is included in the appendix.

We have also expanded our discussion of how we build and motivate high-performing teams and how we use data analytics and other technologies to audit more effectively. This report discusses changes we have made to our processes to help our professionals focus on identifying and responding to risks in an audit and what we are doing to prepare during a period of unprecedented accounting change.

Our report also addresses the challenges we face in meeting our objective of consistently performing high-quality audits. The international nature of business activity and advances in technology continue to change the way companies operate and how we need to approach our audits. Meanwhile, regulators, audit committees and investors around the world are seeking greater insights into what we do to deliver consistently high-quality audits.

We are committed to being viewed as the leading audit firm with audit quality as the foundation of our culture. We believe that we can address challenges and capitalize on opportunities to further audit quality and promote the role and relevance of the profession. We are continuing to recruit and retain top talent and develop leading-edge processes and tools to help our people achieve our mission of building a better working world by performing high-quality audits.

We hope this report helps you understand our commitment to audit quality. We welcome any comments and questions you may have about EY US and the matters discussed in this report. Please contact an EY US partner for more information.



Stephen R. Howe, Jr.
Chairman and Managing Partner
Ernst & Young LLP



Francis C. Mahoney
Vice Chair of Assurance
Ernst & Young LLP



Building a better
working world

A snapshot of key metrics



Our audit portfolio

Public companies we audit:
963



We audit **30%** of
Fortune 1000 companies



We audit **five** of the top 10
companies on Fortune's 2017 list
of most admired companies



People, diversity and inclusiveness

44% of our nearly 11,000 US audit professionals
are women



43% of our new partners are women or minorities



EY US is the **top professional services firm** in Universum's annual World's Most Attractive Employer rankings



Performing quality audits

- ▶ Retained **91%** of top-rated senior managers and managers
- ▶ Retained **81%** of our top-rated seniors and staff



92% of our US audit professionals
said that EY experiences are
valuable for their growth and
professional development



Average overtime hours for non-partners
decreased nearly 30% since fiscal 2014



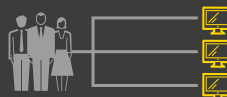
Percentage of public companies we audit
that had restatements:
0.5% down from 0.8% last year



Innovating the audit



100% of our US audit teams on public
company audits use EY Canvas



Increase in our network of data
analytic professionals: **38%**

1

Our commitment to audit quality



We are committed to serving the public interest by performing quality audits that promote trust and confidence in financial reporting. We are also committed to enhancing transparency into how we execute quality audits at the engagement level and our system of quality control. Our system of quality control is fundamental to our ability to consistently perform high-quality audits. It underpins everything we do, and we continue to look for ways to make it more robust.

Tone at the top and accountability

At EY, we set a high standard for our delivery of audit quality. We are committed to acting with the highest level of integrity. This keeps us focused on doing the right thing in our audits and in all of our interactions with the companies we audit, our regulators and members of our own teams.

Our senior leaders and partners consistently deliver the message that performing high-quality audits and acting with integrity are our top priorities and that we are all accountable for the quality of our work. They also stress that, to maintain the public trust in our work as independent auditors, each of us must continue to demonstrate our commitment to quality, integrity and ethics.



Our values define who we are and shape our culture

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

Quality is explicit in our messaging from our leaders about our purpose of building a better working world. Quality is a key element in how we evaluate and compensate all of our professionals, including our leaders. This promotes accountability. Our new performance development and management approach further emphasizes our accountability for quality audits by creating more touchpoints during the year for our professionals to receive feedback.

We continue to focus on reinforcing key behaviors that we believe contribute to audit quality and support our quality-focused culture. Acting with integrity, remembering our commitment to the public interest, maintaining independence, and exhibiting professional skepticism are just some of the keys to executing quality audits that we continue to stress to our professionals.

“Quality audits are, and always will be, our priority to serve the public interest and promote trust and confidence in financial reporting. Our message continues to be that quality is always the most important focus area for our auditors.”



Francis C. Mahoney
Vice Chair of Assurance

Globally consistent audit quality

Through the EY global organization's [Sustainable Audit Quality \(SAQ\) program](#), we and other EY member firms around the world share a commitment to delivering the highest-quality audits in the profession. The SAQ program is the top focus for our Assurance practice in our global Vision 2020+ strategy.

The overarching elements of the SAQ program are tone at the top and accountability. The four other components are strengthen our people capabilities, audit technology and digital, enablement and quality support (including monitoring), and simplification (i.e., simplifying our tools and audit methodology so our people can better identify and respond to risk).

The EY global organization drives consistency by requiring auditors at EY member firms to use the same audit methodology and the same tools and to evaluate their professionals against the same quality standards, regardless of their location. The EY global organization also has a consistent global training program for auditors to perform audits in accordance with Public Company Accounting Oversight Board (PCAOB) standards.

The EY Global Audit Quality Committee, which includes several executives from our US audit practice, monitors and oversees quality globally. It also considers strategy and policy decisions, highlights leading practices and identifies and addresses emerging quality issues.

The EY global organization also continues to focus on culture and promoting those behaviors it has identified as key to delivering a quality audit. We also have a [Global Code of Conduct](#), with which all EY people are required to confirm compliance each year. The Code also requires our auditors to protect confidential information relating to the companies we audit.



Transparency and engagement

We know that investors want more information about audits to make investment decisions, and we meet periodically with small groups of investors to provide an overview of the audit process. We also actively engage with audit committees, regulators and investors to discuss the role of the auditor, how to make the audit process more transparent and how to measure audit quality.

We actively engage with national and regional networks of audit committee chairs to discuss challenges in the audit environment, including the implementation of new accounting and audit standards, cyber risks and oversight of the audit.

We are also working with members of individual audit committees of the companies we audit to share engagement-level data and determine what type of information is most useful to them. With that feedback, we are exploring how to provide audit committees across our practice with data points related to their audits. Greater transparency about the audit enriches the conversation on audit quality between our audit teams and audit committees and enhances the ability of audit committees to oversee the audit.

As required by the PCAOB, we now disclose the name of the partner who leads each public company audit and information about certain other accounting firms in the audit. We are continuing to discuss with audit committees our use of other accounting firms and related risk assessment procedures.

We are also preparing for significant changes to the auditor's report under a new PCAOB standard. Among other changes, auditors will be required to disclose critical audit matters and auditor tenure. We are discussing the changes with audit committees and are developing guidance and supporting materials to assist our audit teams in determining which matters would meet the definition of a critical audit matter and what should be disclosed about them.





Cybersecurity

In our audits, we obtain an understanding of the company's processes and controls related to information technology relevant to the audit, including how cybersecurity risks are identified and addressed. Audit procedures are designed to respond to identified risks of material misstatements to the financial statements. It is important to note that these procedures are not designed to provide assurance about the adequacy of a company's cybersecurity controls.

To safeguard the confidentiality of information about the companies we audit, we also invest heavily in protective and detective technologies. We constantly monitor our systems. We also work hard to maintain a security-conscious culture by educating our professionals on how to protect confidential information and how to recognize security threats, among other things.

Preparing for change

We are proactive about preparing our professionals for an unprecedented period of accounting change and rapid advances in technology that affect the ways in which business is conducted.

Calendar year-end public companies will be adopting the new revenue recognition standard on 1 January 2018. We are focusing our teams on identifying financial reporting and audit risks through training, enablement and coaching.

We established a network of more than 600 professionals with special training on this new standard to help teams design and execute appropriate audit procedures. We are engaging in robust discussions with company management and the audit committee about the company's readiness for adoption. We are also monitoring our own readiness to audit the financial statements and a company's internal control over financial reporting under the new standard.

As auditors, we have an important role to play during this period of accounting change, and we are taking the necessary actions to promote trust and confidence in financial reporting. We continue to meet with our stakeholders to share our insights on implementation challenges related to the major new standards



on revenue recognition, leases and credit losses on financial instruments that they will be adopting over the next several years.

We are harnessing new technologies to expand our use of data analytical tools to help us audit more effectively. Our professionals can now analyze larger populations of data, giving them better information about the big picture and helping them identify items for follow-up.

Our network of 550 data analytic professionals (up from nearly 400 last year) support our transformation to the audit of the future. These professionals work with our teams and the companies we audit to capture data in a way that can analyze it with our new tools.

We are also engaging with stakeholders to discuss how data analytics affect the audit and how these tools can be used to further audit quality. We support research into how analytics can enhance audit quality, including our participation in the [Rutgers AICPA Data Analytics Research Initiative](#).

Thought leadership

We continue to issue timely thought leadership to help companies and investors understand changes in the regulatory environment, investors' expectations regarding corporate governance and the implications of new accounting standards. We also continue to contribute to the public discussion on how companies use non-GAAP financial measures and the audit committee's responsibility to oversee the use of these measures.

As part of our commitment to promoting an orderly implementation of the new accounting standards, we are issuing thought leadership on the new revenue standard and the related industry-specific issues to provide our insights on a standard that will change the way companies report this key financial measure.

We continue to host roundtables for investors, directors and other stakeholders to discuss corporate governance and financial reporting, including how disclosures can be improved. We have incorporated some of their thoughts into our comment letters to the SEC on its disclosure initiatives.

Our thought leadership also discusses what companies can do and are doing to make their disclosures more effective, as well as the role audit committees can play as the SEC considers updating its disclosure regime. For example, we highlighted [trends in disclosures](#) by companies in the Standard & Poor's 500 index between the years of 2012 and 2015 in a report on a study we conducted with the Financial Executives Research Foundation.

In addition, we publish reports on [information audit committees at public companies disclose](#) about their oversight of the audit and the auditor to add to the ongoing dialogue about how to make the audit more transparent.



Our thought leadership also analyzes the [decline in the number of public companies](#) over the past two decades and highlights improvements in financial reporting and audit quality in the [15 years since the Sarbanes-Oxley Act was enacted](#).

Financial information

Total revenue for EY US (which includes expenses billed to the companies we audit and revenue for work we performed for other EY member firms) for our fiscal year ended 1 July 2017 was \$13.0 billion.

Assurance continues to be our largest service line and generated 32% of our revenue. Our other service lines, Tax, Advisory and Transaction Advisory Services, generated 29%, 31% and 8% of our revenue, respectively. In our previous fiscal year, total revenue for EY US was \$12.2 billion, and the breakdown by service line was 33% from Assurance, 29% from Tax, 30% from Advisory and 8% from Transaction Advisory Services.

2

Innovating the audit



We continue to innovate and leverage technology to deliver high-quality audits. We have significantly expanded our use of data analytics to help our auditors gather evidence and identify and investigate unusual patterns of transactions and other information in an audit. In our journey to building a better working world, we are continuing to innovate and integrate new technologies such as robotic process automation into our audits.

To drive improvements in audit quality, we're also taking fresh approaches to how we execute audits by enhancing the process our teams use to perform their risk assessments and simplifying our audit approach.

Our suite of data analytics

We are embedding our EY Helix suite of data analytical tools in our audit process to analyze larger volumes of data and deepen our understanding of the companies we audit. By analyzing a complete population of transactions, our professionals can better identify and evaluate items in the audit that may not have been assessed using the traditional approach of selecting a sample of transactions.

Our professionals also use our Helix tools to analyze trends, further our understanding of a company's processes and better identify financial reporting risks.

Our data analytic tools are built for use in our audits, regardless of size. They can handle the large amounts of data generated by the more complex companies we audit. We are continuing to expand the number of engagements in which we are using our account-based analytic audit programs, and we expect to significantly accelerate our use of these programs in the coming year.



An example of how we are using data analytics:

We are now able to use an analytic tool to analyze the correlation between revenue journal entries and cash collections. For a company in the retail industry, this means we can now analyze that correlation for all of the retail locations in the scope of the audit. This analysis provides additional evidence about the existence of revenue. Analyzing larger populations of data presents a fuller picture of the business activities than using a traditional sampling approach.

The graphic below lists many of the analytic tools in our current portfolio. We are also developing other sector-specific tools, such as a warranty tool for use in automotive audits, a trade spending analyzer for use in audits of consumer products companies and a claims analyzer for use in audits of insurance entities.

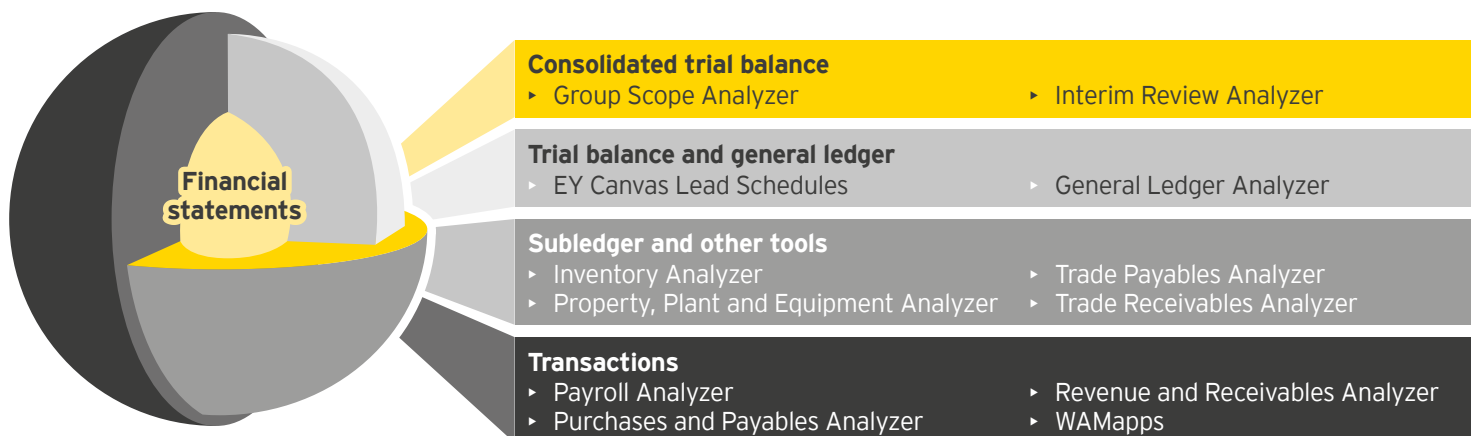
Over the past year, our teams have focused on developing detailed plans to expand our use of these tools on their audits. Our teams are now discussing these plans with audit committees. To support their efforts, we have a network of technology specialists to capture company data and transform it for use with our tools. We also have dedicated analytic professionals who help our teams use our tools most effectively on their engagements. We also have revamped our guidance and our training to incorporate the use of these tools.

Our global audit tool

All US audit teams on public company audits use EY Canvas to apply our audit methodology, better identify and respond to risk, manage their day-to-day audit work and customize their audit approach. EY Canvas enables our auditors to monitor the progress of their audits in real time. Because it is a global tool, EY Canvas allows US teams on multinational audits to better coordinate and supervise the work of auditors overseas. We are continuing to invest in EY Canvas to enable our teams to execute high-quality audits.

EY Canvas also allows us to communicate with the companies we audit and more easily track our requests for more information and the responses we receive. Our auditors are now able to access EY Canvas on their mobile devices, enabling them to check the status of work or update our files at any time from anywhere.

Our analyzers accommodate a range of data types





Other audit technology

We are incorporating the latest digital technologies into our audit tools and enhancing our audit software applications in an effort to further enhance audit quality. We are also investing in emerging technologies such as robotic process automation, drones, artificial intelligence and blockchain.

We are testing the use of robotic process automation to perform repetitive tasks such as sending out and tracking confirmations of accounts receivable, investment accounts and other balances.

For example, certain engagement teams are now testing a program to send emails seeking confirmation of receivable balances and reminders at specified times. The program can also update the log of confirmations received each day. We can then perform checks to make sure the confirmations are authentic. This automation eliminates the administrative task of sending hundreds of emails manually and tracking the responses, allowing our teams to focus on aspects of the audit that require judgment.

“We want to take the robot out of the human, extending how powerful our people can be. We have made our people more efficient and more effective simultaneously through innovation and leveraging technology to deliver high-quality audits. We’ve also allowed them the space to ask and answer better questions.”



Jeff Wong
Global Chief Innovation Officer

We are also exploring the use of specially equipped drones to improve the accuracy and frequency of inventory counts so our auditors can focus on identifying and addressing risks rather than performing manual counts. The drones are equipped with sensors that can read labels on products, such as automobiles at a manufacturing plant or retail goods in a warehouse, and feed the information directly into our electronic audit files.

We continue to invest in expanding our use of technology. We are exploring the use of machine learning (i.e., enabling computers to act without being explicitly programmed) to help us identify certain key terms in contracts, such as leases. This allows us to start grouping contracts together based on their characteristics, which can then be analyzed more effectively.

We are assessing the effect on the audit of blockchain technology, the distributed ledger technology that can be used to process transactions and store them in secure, sequential blocks. As we prepare for the broad application of blockchain technology, we are developing capabilities to allow our professionals to audit blockchain systems.

Enhancing our audit approach

Through our root cause process, we continue to identify the factors that lead to best-in-class audits as well as those that contribute to audit deficiencies. We are leveraging that information to drive further improvements in audit quality across our practice.

For example, to monitor timely executive involvement, which is a key part of executing a quality audit, we are using statistical benchmarks to identify in-process audits with lower levels of executive involvement and determine whether any additional actions are required.



We've also developed a new approach to gain an understanding of and document the flow of data in key business processes and the related internal controls over financial reporting. By simplifying the process we use to perform these procedures, we're promoting greater team collaboration and more effective risk assessments. We are also incorporating more team-based events into the audit to provide timely executive involvement and more supervision and on-the-job coaching.



In our recent survey, **89%** of our US audit professionals said that they have the tools (e.g., technology, knowledge and information) to do their job effectively.

"At EY, we are committed to continuous improvement. Whether through innovating the audit by leveraging technology or taking fresh approaches to how we assess audit risks, we are always looking for ways to improve audit quality and deliver the highest-quality audits. Investors deserve nothing less."



David Kane
Vice Chair of Professional Practice

3

Our people



Our people are the key to performing high-quality audits, and we are committed to building high-performing teams. That is why we focus on attracting and inspiring great people and on promoting an inclusive culture that values each individual. We also focus on retaining and developing our professionals to prepare them for the audit of the future. To support these efforts, we have launched a new performance development and management approach that gives our people more frequent feedback and more meaningful career conversations.

Attracting exceptional talent

Delivering quality audits begins with having the right people with the right skills in the right place at the right time. Our expectations about technological innovations and demographic changes over the next few years will affect the way we recruit and develop our people and how we structure our teams. We view these changes as an opportunity to recruit professionals with a wider range of skills for the audit of the future and to develop new ways to attract young professionals to our mission of serving the public interest by performing quality audits.

Our audit practice recruits primarily on college and university campuses, where we actively promote the EY brand and the value of an audit career both in person and through social media. Our reputation as a great place to work enhances our ability to attract top talent.



Ten EY US professionals were recognized recently by the American Institute of Certified Public Accountants (AICPA) for achieving exceptional results on the CPA exam.

For the second year in a row, EY US was named the world's most attractive professional services employer in Universum's annual World's Most Attractive Employer rankings. We also ranked seventh among employers offering the best internship opportunities in a survey by careers website WayUp. In our 2017 Global People Survey, 89% of our EY US audit professionals said they are proud to work for EY US.

This year, our audit practice hired nearly 2,200 people from campuses, which is consistent with our fiscal 2016 hiring. Improvements in retention in recent years at our non-partner ranks, especially among top performers, led us to hire fewer experienced professionals than we have in previous years.

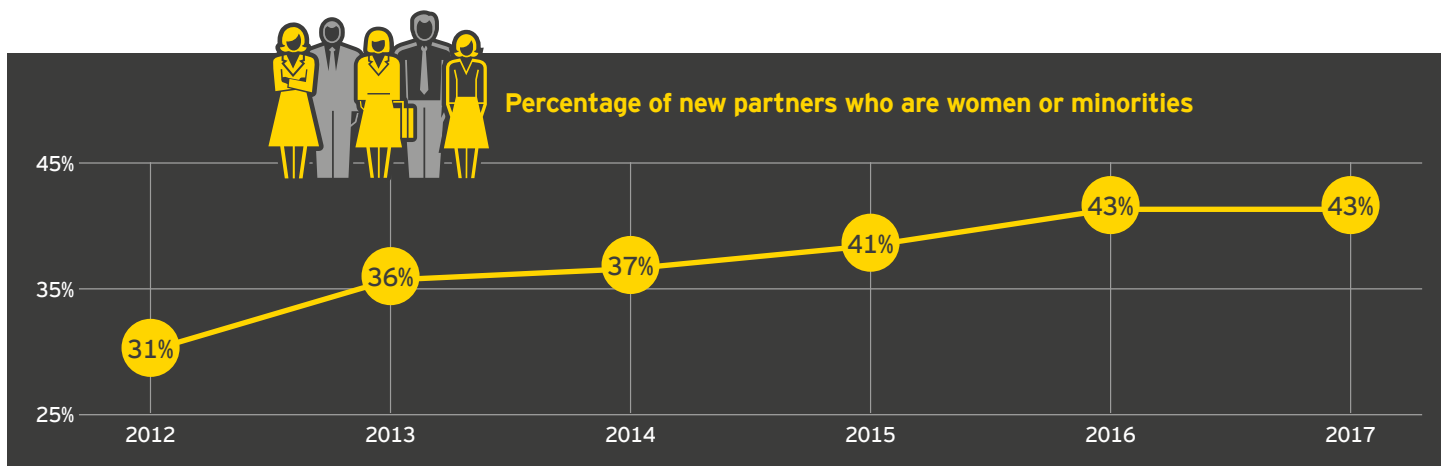
EY is widely recognized as a great place to work, as demonstrated by the following:

- ▶ Universum's annual World's Most Attractive Employer rankings (EY US was ranked 1st for professional services)
- ▶ DiversityInc's 2017 Top 50 Companies for Diversity (EY US was ranked 1st overall)
- ▶ Fortune magazine's 100 Best Companies to Work For® for the 19th consecutive year (EY US was ranked 29, up from 49 in 2016)

Leveraging diversity and promoting inclusiveness

Diversity and inclusiveness (D&I) is central to our ability to deliver high-quality audits. We believe we create high-performing teams when we maximize the power of diversity and bring together professionals with different opinions, perspectives, skill sets and cultural references. When our people feel that their ideas matter and are able to be themselves at work, they bring out the best in each other.

To measure our progress on diversity and inclusiveness, we look at a number of metrics, including the percentages of women and minorities we recruit and promote into leadership positions. Diversity is reflected in our leadership. Today, seven of the 17 members on our US Executive Committee (the governing body of EY US) are women or minorities. Our Chairman and Managing Partner communicates clearly and regularly about our commitment to diversity and inclusiveness. He is also a steering committee member on the CEO Action for Diversity and Inclusion initiative and has joined 300 other CEOs in pledging to promote diversity and inclusiveness in their organizations.



We are proud that 43% of our partner promotion class in 2017 are women or minorities, up from 21% 15 years ago. In addition, 44% of our campus hires in fiscal 2017 are women and nearly 30% are minorities.

To help with our recruiting efforts, we host our Discover EY conference for high-achieving, ethnically diverse college freshmen and sophomores from more than 90 US schools to hone their leadership potential. And new hires who are minorities participate in EY Unplugged events that are intended to empower these individuals to feel confident about their contributions and their opportunities for advancement.

Another example of our commitment to D&I is the national Navigating My Career program we have recently launched to support top-performing minorities and help them develop into leaders. Through this program, we will match promising minority auditors with mentors and advisor/sponsors who help guide the minority auditors to opportunities that will build skills and help them to gain the experiences they need to succeed.

Our inclusive culture is evident in the wide variety of professional networks we sponsor to provide opportunities for our people to connect with each other and Firm leadership, share their experiences and get advice. They include our Black Professional Network, EY AccessAbilities, Unity (lesbian, gay, bisexual and transgender), Latino Professional Network, Pan Asian Professional

Network, Central and Eastern European Professional Network, Professional Women's Network, Today's Families Network and Veteran's Network.

We are proud of the recognition we have received for our efforts, especially from DiversityInc, a leading source of business information on diversity and inclusion management. We are **number one on DiversityInc's 2017 Top 50 Companies for Diversity list**, after being among the top 10 companies for the past eight years. This year, we also ranked first on several DiversityInc specialty lists, including those for mentoring, diversity councils, employee resource groups and people with disabilities.

We have also been recognized for D&I efforts by the following organizations:

- ▶ **Working Mother magazine**
100 Best Companies (Hall of Fame, Top 10)
- ▶ **National Association for Female Executives**
Top Companies for Executive Women
- ▶ **Human Rights Campaign**
100% rating for Corporate Equality Index reflecting our inclusive workplace for lesbian, gay, bisexual and transgender people



Percentage of women in our US audit practice (headcount)

	Fiscal 2017	Fiscal 2016*	Fiscal 2015*
Partners	24%	24%	23%
Executive directors	52%	52%	50%
Senior managers and managers	43%	43%	44%
Seniors and staff	47%	47%	46%
Total	44%	44%	43%

*Minor changes to prior-year metrics have been made to reflect our current classification of audit professionals.

Engaging and retaining our best people

We focus on making sure our top performers are engaged so we have the continuity of skills and experience we need to perform high-quality audits, especially on our most complex engagements. Retaining top performers also gives us a strong pipeline of future leaders.

Our number of US audit professionals is consistent with last year.

Number of US audit partners and professional staff (on a full-time equivalent basis)

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Partners	975	973	944
Executive directors	141	128	104
Senior managers and managers	2,230	2,184	2,104
Seniors and staff	7,335	7,444	6,966
Total	10,681	10,729	10,118





To help us attract and engage talented professionals, we launched a new performance development and management approach called LEAD. Our professionals now meet with a counselor more frequently to discuss their progress and the skills they need to focus on to perform high-quality audits and advance in their careers.

They will also receive more feedback from more sources, along with a clearer picture of how they compare with their peers. These more frequent touchpoints are intended to provide more meaningful feedback than backward-looking year-end performance reviews.

As part of our new approach, we evaluate the quality of each professional's work and measure it against a "gold" standard that we apply for each level of responsibility. Performance and pay are linked, and non-partners are required to meet quality thresholds to be eligible to receive payment under our variable compensation program. This promotes accountability. Each of EY's member firms around the globe is applying this new approach.

We also promote accountability by making the quality of an audit partner's work a key criterion in his or her evaluation and compensation.

"LEAD offers an exciting, new approach to talent and career development. By focusing on better conversations and more frequent feedback, we are able to attract and retain top talent. Research suggests that today's talent, particularly millennials, is seeking the opportunity to be engaged in a meaningful career where they can aim higher, and LEAD enables us to deliver this experience for our people."



Sandra Oliver
Americas Assurance Talent Leader

We believe audit quality depends on appropriate supervision, and our partners and other audit executives provide our junior professionals with on-the-job coaching to help them develop the skills they need to succeed. That's why we have maintained our ratios of executives to professional staff despite our significant investment in hiring and improvements we have made in retaining high-performing professionals below the rank of partner.

Ratios of audit executives to other audit professionals

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Partners to all professional staff	1 to 10	1 to 10	1 to 9.7
Senior managers and managers to seniors and staff	1 to 3.3	1 to 3.4	1 to 3.3

We expect the number of auditors we employ to remain steady over the next few years as we expand our use of technology, make other changes to our audit approach and adapt to the changing expectations of our professionals.

In our view, flexibility is a key to retaining top talent and developing high-performing teams. That is why most of our people are able to work flexibly when they need to, and we offer a wide array of formal flexible work arrangements for those who need to flex more consistently.

Average overtime hours for our non-partners have declined nearly 30% from fiscal 2014, primarily due to our strategy to reduce our professionals' workload and give them a better work-life balance. Average overtime hours for our partners were consistent with fiscal 2016.

Making sure our people feel connected also promotes engagement. We continued to use online surveys to help our teams assess the level of engagement of team members in areas that include team culture, flexibility and communication. Teams then discuss the findings and develop action plans to improve their experience. One partner reported that the process, called Rate My Engagement, allowed all of the members of his team to participate in a discussion about what the team did and didn't do well and "how we could leverage those learnings to improve the team environment for all of us."

To create a greater sense of community, we assign our professionals to small groups called counseling families that meet periodically with an executive and discuss Firm performance, career management, progress against strategic priorities and other important topics. Consistent with last year, we have nearly 400 of these families in the US audit practice.

We also promote engagement by encouraging our people to volunteer. To provide more opportunities for volunteering, we recently introduced a program that allows professionals to take short sabbaticals to work with local non-profit organizations.

We value the opinions of our people. We get together seniors through senior managers to discuss quality, people and operations matters, present their ideas to Assurance leaders and work together to implement these ideas.

Average overtime hours by rank

■ Fiscal 2015

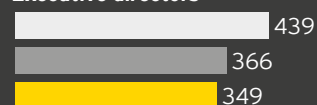
■ Fiscal 2016

■ Fiscal 2017

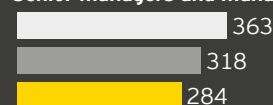
Partners



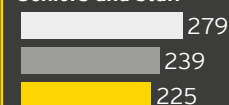
Executive directors



Senior managers and managers



Seniors and staff

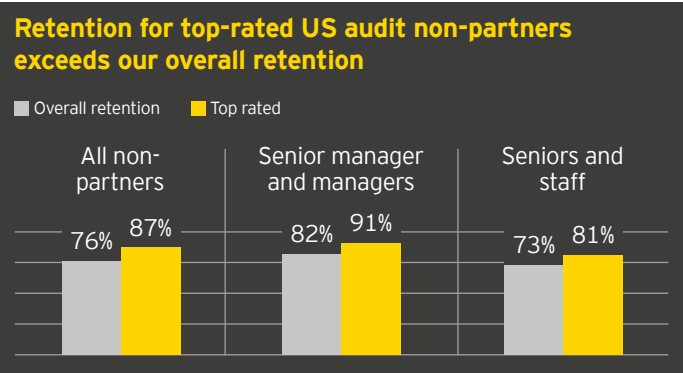




We believe these efforts are working. Our retention rate for non-partners who received our top performance rating rose by one percentage point to 87% over the past two years, and our retention rate for top-rated senior managers and managers during that time period increased by two percentage points to 91% in fiscal 2017. Those numbers far exceed our overall retention rate for non-partners of 76%.

US audit overall non-partner retention rate by rank			
	Fiscal 2017	Fiscal 2016*	Fiscal 2015*
Executive directors	99%	97%	97%
Senior managers and managers	82%	82%	80%
Seniors and staff	73%	76%	75%
Total	76%	78%	77%

*Minor changes to prior-year metrics have been made to reflect our current classification of audit professionals.



Developing a world class workforce

To create a pipeline of future auditors with technological skills, our university relations team works with college and university faculty to further promote accounting students' training in subjects such as data analytics and information technology. We also share our thought leadership on accounting and auditing topics with these academics.

We recently donated \$1 million to establish the EY Analytics Collaboratory at the Eli Broad College of Business at Michigan State University (MSU) and develop online courses and case studies on advanced business analytics. MSU students will be able to take these courses to complement those offered in the school's Master's in Business Analytics program or to receive a separate certification.

We believe auditors of the future will need to have all of the following skills and attributes:

- ▶ Ability to analyze large data sets
- ▶ Analytical mindset
- ▶ Innovative
- ▶ Confidence to use emerging technologies
- ▶ Curious to ask better questions
- ▶ Communication
- ▶ Emotional intelligence
- ▶ Business acumen

Our Academic Resource Center (EYARC), sponsored by the Ernst & Young Foundation, collaborates with faculty members to develop coursework to address these skills.

To encourage our professionals to develop these skills, we are launching a program to provide digital credentials we call EY Badges in subjects such as data visualization, artificial intelligence, data transformation and information strategy. Our professionals will receive this recognition for acquiring skills by taking courses or having certain experiences. They can also earn badges by coaching colleagues, presenting to the companies we audit, or publishing an article that educates others about the acquired skill.

We plan to accelerate our hiring of professionals with degrees in science, technology, engineering and mathematics (STEM) to help us prepare for the audit of the future. We also support STEM initiatives such as STEM Advantage, a not-for-profit program created by one of our executives that prepares and inspires young women and minorities to pursue STEM careers through paid internships, mentorships and scholarships. More than 1,000 young people have been through the program to date.



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

We also continue to shift our technical accounting training to online courses that our people can access on demand, when they need to know more about a particular topic, such as fair value accounting, accounting for debt and equity and foreign currency. We're also requiring our professionals to take online training in tax accounting and auditing. In addition, we provide industry-specific training to our professionals.



In our recent survey, **92%** of our US audit professionals said the experiences they have at EY are valuable for their growth and professional development, and **88%** said we provide them with learning opportunities to build the skills they need to be successful.

Our US audit professionals are required to complete 120 hours of continuing professional education over a three-year period, with a minimum of 20 hours each year. On average, our US audit professionals significantly exceeded this requirement.

Average hours of continuing professional education by fiscal year

2017	2016	2015
108	109	107

As discussed above, we have increased our emphasis of on-the-job coaching, mentoring and providing feedback, especially to more junior professionals. Our partners and executive directors who coach, mentor and supervise more junior professionals have on average 21.8 and 19.6 years of service, respectively.

4

Executing high-quality audits



Our system of quality control provides the foundation for our people to execute high-quality audits. We focus on understanding the risks involved in every audit and building teams that have the competencies and capacity to address those risks. We analyze our portfolio throughout the year to identify audits that may pose additional risks and provide support to individual teams. All of our audit teams use EY Canvas to execute audits, manage their work and track their progress on meeting milestones throughout the audit. We also use the information we collect in our inspections and other reviews of our performance to make changes to our training and guidance to further improve audit quality.

Choosing the companies we audit

We believe it is important for the companies we audit to share our commitment to quality and transparency in financial reporting. We have a rigorous process to assess risk and identify companies we want to work with, considering factors such as the company's financial condition, management's integrity and approach to meeting its financial reporting responsibilities and the strength of the audit committee. Our Professional Practice group, which operates independently of our regional audit practices, approves the decisions about which companies we will audit.

During 2017, we launched an enhanced continuance and acceptance tool to help us better identify risks associated with



The results of a brand survey conducted for us by an independent research firm indicate that business leaders recognize our commitment to audit quality. Our EY US audit practice ranked first or second among the Big Four in categories such as (1) best mix of talent, knowledge and skills, (2) strongly recognized for technical quality, (3) industry/sector expertise, (4) solving complex problems and (5) diverse teams and culture.

companies we audit. We are continuing to enhance the statistically based risk assessment metrics we use to improve our ability to assess and respond to risk in the audit portfolio.

Market share

We continue to have the leading market share in auditing Fortune 500 companies (29%), Fortune 1000 companies (30%) and Russell 3000 companies (26%). In 2017, we also continued to audit five of the top 10 companies on Fortune's list of most admired companies.

Number of public companies we audit

2017	2016	2015
963	986	1,060

The number of public companies we audited declined in 2017 due largely to acquisitions. Consolidation was also a factor in the overall decline in the number of public companies listed on US exchanges.

Our total audit hours in fiscal 2017 were consistent with fiscal 2016, which means we devoted more hours on average to our public company audits.

Building high-performing teams

Executing high-quality audits requires a commitment to having the right people with time to conduct the audit.

Assignment of audit partners

We believe a partner's leadership of the audit team is vital to audit quality. The partner in charge of the audit has overall responsibility for the direction, supervision and performance of the audit and sets the tone for the team. For public companies,

Assurance and Professional Practice leadership annually approves partner in charge assignments. We also assign an engagement partner to approximately 40% of our public company audits to assist the partner in charge in our larger or more complex audits.


To assign partners in charge of audits, we consider their competency and availability to perform quality work and the audit partner rotation requirements. Our leaders review the workloads of audit partners semiannually to make sure they have enough time to execute quality audits. As part of these reviews, audit partners first evaluate their responsibilities and ability to lead the audit. Our leaders then discuss workloads with partners, emphasizing the need to focus on audit quality and the executives' responsibilities to raise any concerns.

About 57% of our audit partners serve as the partner in charge of a public company audit, and they each lead an average of two audits. Our partners who lead audits of mutual funds have a higher average number of audits because they often handle audits of multiple funds in the same complex.

Assignment of the engagement quality reviewer

Engagement quality reviews are an important element in our system of quality control. We assign a partner as an engagement quality reviewer (EQR) for each public company audit. The EQRs evaluate the significant judgments made by an audit team, including those made by the partner in charge of the audit. EQRs participate in key meetings in all phases of the audit, beginning with planning, and they evaluate both the team's risk assessment and responses to the risks the team identifies.

We require EQRs to undergo focused training. We also provide our EQRs with guidance on practice issues and areas on which they should focus. During 2017, for example, a key area of



focus for EQRs is what our teams are doing to audit companies' implementation of the new revenue recognition standard.

We provide incentives for partners to take on these important assignments and perform quality reviews. Professional Practice approves the selections of partners for this role.

Staffing engagements

We annually review the staffing of audit professionals from the senior through senior manager levels for each public company audit. As part of that review, we evaluate whether those professionals have the appropriate competencies and availability for their assignments. We subsequently conduct monthly reviews to determine whether there have been changes that could affect audit quality (e.g., changes in workloads of key members of the audit team, a change in the scope of the audit) and that require changes to staffing.

Integrating specialists into the team

EY specialists are integrated into our audit teams to help us address complex information technology (IT) environments used to prepare the financial statements, technical tax matters and valuation issues. These members of the engagement team receive annual training on how to execute the required audit procedures.



Our IT specialist time represented **7.9%** of total audit hours, up one percentage point from two years earlier. Tax and valuation specialist time represented **5.7%** and **1.6%** of total audit hours, respectively. This level of involvement has been consistent in recent years.

Sector specialization

We believe that having our professionals develop a deep understanding of industry-specific issues improves the quality of our audits. To help them do that, our 16 sector leaders provide communications and training on industry developments.

Our sector leaders work with our industry specialists in Professional Practice to anticipate issues and develop thought leadership and enablement on industry-specific financial reporting and auditing topics.

Multinational audits

We often involve professionals from other EY member firms when we audit multinational companies. Our auditors on the lead team in the US use EY Canvas to monitor the execution of audits and connect with team members in other EY member firms around the world. They can also use EY Canvas to get real-time status updates on audit processes and issues.

We also promote audit quality around the globe by rotating professionals from other EY member firms into our US audit practice so they can take those experiences back to their local practices. We also send high-performing professionals to help those local practices drive further improvements in audit quality.

Shared services

Some members of our audit teams are located in shared service centers. These professionals contribute to audit quality by specializing in certain routine audit procedures, which they perform under the supervision of our audit team members. As a result, our more experienced professionals are able to focus more of their attention on areas of higher risk in the audit.

Because our shared service center personnel focus on handling certain tasks, they also can bring to bear a heightened level of skill and knowledge. All of our shared service personnel receive the same training and supervision and review of their work as other members of our audit teams. They are also required to follow our policies on confidentiality and privacy and adhere to our ethics and independence requirements. In fiscal 2017, their work accounted for 6.9% of public company audit hours.

Managing the audit

Timely and direct executive participation is critical to the execution of a quality audit. Our experience indicates that teams that complete audit work, including reviews by executives, at the appropriate time execute higher-quality audits. Our milestones program helps us promote strong project management by focusing on meeting completion dates for each phase of the audit.



Our milestones program also helps our audit teams accelerate the pace of their work. Our public company audit teams are performing 60% of their work before the fiscal year end of the company under audit. Taking work out of the busiest time of year leads to higher audit quality and enhances our people's career experience.

EY Canvas facilitates communication with team members in other locations around the US and the world and makes it easier to share files and check the status of work. EY Canvas also facilitates communication with the companies we audit, making it easier for both our teams and the companies to keep track of audit requests.

Teams track their progress on milestones through EY Canvas, which also allows partners and other engagement executives to monitor the audit team's progress, supervise and coach the team and respond more quickly as needed.

EY Atlas, our new accounting and auditing research tool that is mobile accessible, provides our professionals with faster, better and more relevant research capabilities to more easily find the information they need to deliver quality audits. EY Atlas is integrated with EY Canvas to provide our professionals with the most relevant up-to-date accounting, auditing and industry information they need to execute quality audits.

Supporting our teams

We continue to develop metrics to improve our ability to assess and respond to risk at the company and audit portfolio levels. For example, we use each team's annual risk assessment in the continuance process to differentiate engagements and identify those that might benefit from more coaching or oversight. We also are exploring advanced analytical techniques to identify factors that indicate a risk to audit quality so we can intervene early when those factors are present.

We provide our teams with coaching throughout the audit cycle before the audit is completed. This allows our teams to adjust their plans if necessary before we issue our auditor's report.

This year, the Quality Network plans to coach aspects of more than 300 audit engagements, up nearly 30% from last year. These coaching sessions include:

- ▶ How our teams are using our new approach to understand and document a company's key business processes and identify potential risks of material misstatement
- ▶ The audit team's risk assessment and audit plan
- ▶ How teams are applying the accounting and auditing guidance and training we have provided on the new revenue recognition standard

Members of our Quality Network have been able to coach more teams over the past year due to our investment in the network. We now have nearly 150 professionals in our Quality Network, up from nearly 130 last year. Members of the network also support a number of other activities, including training.

Members of the Professional Practice group:

- ▶ Consult with audit teams on financial reporting, auditing and SEC and other regulatory matters
- ▶ Provide audit teams and the companies we audit with guidance and thought leadership
- ▶ Provide tools that enable our teams to deliver high-quality audits, including sector-specific content
- ▶ Perform risk management activities
- ▶ Evaluate our quality control system on an ongoing basis
- ▶ Develop and operate our internal inspections program

We have approximately 120 partners in Professional Practice, who conducted an average of over 2,500 formal consultations annually with audit teams over the last three years. Revenue recognition and income taxes continue to be our top accounting consultation topics in fiscal 2017.

Our ratio of Quality Network and Professional Practice partners to audit partners remained constant in fiscal 2017 at **1 to 6**.



5

Monitoring



Monitoring is an important element of our system of quality control. It enables us to evaluate whether we have reasonable assurance that our work meets professional standards and regulatory requirements and whether the actions we are taking improve audit quality.

We are performing more monitoring earlier in the audit cycle to timely identify any changes to our training and guidance and to identify best practices that can be promoted across all of our audits. We also monitor our compliance with applicable independence requirements.

Evaluating our system of quality control

Maintaining an effective system of quality control is critical to our ability to perform quality audits. To make sure our system of quality control is effective, we test the design and operating effectiveness of key elements, such as our processes for engagement acceptance and continuance, partner assignments and evaluating the workloads of our audit executives. We continuously look for ways to improve our system of quality control.

Early monitoring

We monitor our performance in the early stages of an audit so we can provide timely feedback to our teams. These reviews also inform our thinking about whether the actions we have taken to drive further improvements are having the intended effect and whether we need to take additional actions to enhance our training, guidance and tools related to a particular topic.

Consistent with last year, we are conducting pre-issuance reviews of the work papers prepared by 60 audit teams as they plan and execute procedures to test the design effectiveness of a company's internal control over financial reporting, determine the scope of multilocation audits and/or identify and address risks related to information produced by the entity. In some cases, we are also validating that the teams' substantive audit strategies are commensurate with risks identified.



External inspections

We are inspected by the PCAOB annually because we audit more than 100 US public companies. In those inspections, the PCAOB reviews portions of audit work we performed and aspects of our Firm's quality control system. Because its inspections are designed to identify deficiencies in audit work, the PCAOB cautions that its inspection reports are not intended to serve as balanced report cards or an overall rating of the quality of the audits performed by a firm.

The PCAOB plays an important role to protect investors, and its independent oversight has led to improvements in audit quality. The PCAOB inspection process is rigorous and has helped us by not only confirming areas for improvement that we have identified through our root cause process but also identifying areas where we can continue to improve our performance.

Part I of the PCAOB report

This public section of a PCAOB report describes the procedures performed during the inspection and certain observations regarding audit performance deficiencies on selected engagements. The table and narrative below does not include results from the 2016 inspection cycle, which generally covers our audits of 2015 financial statements, because the results were not available at the time we issued this publication.

Inspection year	Fiscal year of audits inspected (generally December)	Number of inspected audits	Number of audits identified in Part I
2013	2012	57	28
2014	2013	56	20
2015	2014	55	16



While the improvement in our PCAOB inspection results reflects the actions we have taken in recent years to enhance audit quality, we recognize that we have more work to do.

The number of findings related to auditing internal control over financial reporting have declined from the prior year. We had these findings in 14 of the 16 issuer audits cited in Part I of our 2015 inspection year report; 14 audits included findings related specifically to deficiencies in substantive testing. The most frequent findings included:

- ▶ Testing the design and/or operating effectiveness of controls
- ▶ Testing significant assumptions or data used in developing an estimate

Identifying and testing controls that addressed the risks related to a particular account or assertion was also a frequent finding. Revenue (including accounts receivable), inventory and accounts affected by projected financial information (such as business combinations, goodwill, intangibles and related impairment) were the audit areas in which findings were most common.

Part II of the PCAOB report and status of inspection reports

This nonpublic section of the PCAOB's inspection report provides observations on a firm's system of quality control. The PCAOB's assessment of a firm's system of quality control is derived from both the results of its review of the firm's quality control policies and inferences that can be drawn from deficiencies in the performance of individual audits. Certain firm practices, policies and processes related to audit quality are reviewed, including those in the following areas:

- ▶ Management structure and processes, including tone at the top
- ▶ Practices for partner management, including assignment of partners to audits and partner evaluation, compensation, admission and disciplinary actions
- ▶ Policies and procedures for considering and addressing the risks involved in accepting and retaining the companies we audit, including the application of our risk-rating system
- ▶ Processes related to a firm's use of audit work performed by its foreign affiliates on the foreign operations of US issuers

- ▶ A firm's processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies, independence policies and procedures, and processes for responding to defects or potential defects in quality control

The PCAOB may make public any quality control deficiencies identified in this section of the report if they are not addressed to the PCAOB's satisfaction within 12 months of the report date.

The 2015 inspection report that was issued in November 2016 is the only open report. The PCAOB is currently reviewing our final response, which we filed in October 2017.

Peer review

We participate in the American Institute of Certified Public Accountants peer review program that requires a review every three years of our system of quality control for our private company audit practice. KPMG performed our latest review (reviewing primarily audits for the year ended 31 December 2015) and issued a report in December 2016 with a pass rating.

The report concluded that our system of quality control for our private company audits had been suitably designed and complied with during the peer review year to provide us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

International regulators

The International Forum of Independent Audit Regulators (IFIAR) has established a target for the six largest global network audit firms to reduce the number of audits with at least one significant finding as reported by the nine members of IFIAR's Global Audit Quality Working Group by at least 25% over four years. For the US, the period ends with the 2017 inspection cycle, which is in progress now. While those results will not be available until next year, the EY global network is on track to achieve this commitment.

Appendix

We are committed to providing transparency about our audit practice. The following are the metrics included throughout our 2017 audit quality report.

Section	Section name	Metric	Metric description
1	Our commitment to audit quality	1	Number of professionals in our revenue recognition network*
		2	Number of audit analytics coaches and coaching leads
		3	Revenue by service line
2	Innovating the audit	4	Extent of EY Canvas usage by US audit professionals on US public company audits
		5	Percentage of US audit professionals who said they have the tools to do their jobs effectively – Global People Survey*
3	Our people	6	Percentage of US audit professionals who said they are proud to work for EY – Global People Survey*
		7	Number of individuals recognized by the AICPA for achieving exceptional results on the CPA exam from EY*
		8	Number of people hired from campuses
		9	Percentage of women and minorities on the US Executive Committee
		10	Percentage of our new partners who are women/minorities and the percentage increase from fiscal 2002
		11	Percentage of campus recruits who are women/minorities
		12	Number of schools affiliated with our Discover EY conference*
		13	Percentage of women in US audit practice
		14	Number of US audit professionals by year
		15	Ratios of audit executives to audit professionals
		16	Percentage decrease in average overtime hours in aggregate*/average overtime hours charged by rank
		17	Number of counseling families
		18	Retention of the highest performers compared with overall retention
		19	Number of people who have been through the STEM Advantage program we support*
		20	US audit professionals that responded to the Global People Survey regarding valuable experience and learning opportunities*

*New for 2017



Section	Section name	Metric	Metric description
3	Our people	21	Average CPE hours
		22	Average years of experience of our audit executive directors and partners
4	Executing high-quality audits	23	Market share of Fortune 500 and 1000 and Russell 3000 companies
		24	Number of Fortune's most admired companies audited by EY
		25	Number of public company audits
		26	Brand survey results*
		27	Percentage of engagements with at least two audit partners*
		28	Percentage of partners who serve as partner in charge of an audit and average number of companies each partner serves in this capacity
		29	Percentage increase/total hours incurred by specialists on audits
		30	Percentage of total hours incurred by members of our shared service center on 2016 year-end audits*
		31	Hours charged before the fiscal year end of the companies we audit
		32	Number (and increase from prior year) of public company audits receiving coaching from the Quality Network on aspects of their work*
		33	Number of professionals in the Quality Network as compared to last year
		34	Number of Professional Practice partners (FTE)
		35	Average number of consultations per year
		36	Ratio of Quality Network/Professional Practice partners to audit partners
5	Monitoring	37	Number of pre-issuance reviews
		38	Number of inspections of public company audits performed in our Audit Quality Review*
		39	Number of US independence partners
		40	Number of independence compliance audits
		41	Number and percentage of restatements by year
		42	Number of mutual funds issuers for the past three years
6	External inspections	43	Number of PCAOB Inspections and Part I findings

*New for 2017

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