

Transparency Report 2023

EY US

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. Above the 'Y' is a yellow chevron shape pointing to the right.

Building a better
working world

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Message from our leaders



Julie A. Boland
US Chair and
Managing Partner
Ernst & Young LLP



Dante D'Egidio
US Vice Chair – Assurance
Ernst & Young LLP

Welcome to the Transparency Report 2023 of Ernst & Young LLP (EY US). We believe that what we are doing to continuously improve audit quality, how we identify and mitigate risk, and how we maintain our independence as auditors should be transparent to stakeholders.

The execution of high-quality audits with independence, integrity and objectivity in accordance with professional standards is a top priority for EY US and the EY Global organization. High-quality audits build trust and confidence in capital markets, which drives investment and economic growth, creating long-term value for society.

Companies, regulators and other stakeholders count on us to deliver high-quality audits, and to support this, we are committed to continuous improvement and providing an environment in which auditors can thrive. This includes recruiting, developing and retaining talented people and nurturing their careers, embracing innovation, encouraging simplification and critically evaluating the work of audit teams to identify areas for improvement. At EY US, our reputation is based on and grounded in providing high-quality professional audit services.

We embrace the transparency objectives of the European Union's Regulation 537/2014 (the Regulation), which requires statutory auditors of EU public interest entities (PIEs) to publish annual transparency reports. The EY US Transparency Report 2023 complies with the Regulation and covers the fiscal year ended 30 June 2023, as well as any more recent relevant events.

This report highlights how we have implemented the International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, to drive further audit quality improvements. The new standard, which became effective 15 December 2022, requires audit firms to design, implement and monitor a system of quality management. EY US performed its first annual evaluation as of 30 June 2023 and concluded that the System of Quality Management provides reasonable assurance that the system's objectives are being achieved. You can find more detail on this evaluation in the **System of Quality Management** section of this report.

This report is intended to be read in conjunction with EY US' annual audit quality report, which can be found [here](#). EY US publishes an audit quality report voluntarily to provide more information about how we manage our US public company audit practice, support our people, and take actions to improve audit quality and maintain our independence.

We encourage all EY stakeholders to continue to engage with us on our strategy and any of the matters covered in this report.

Julie A. Boland
US Chair and Managing Partner
Ernst & Young LLP

Dante D'Egidio
US Vice Chair – Assurance
Ernst & Young LLP



About us

About us



Legal structure, ownership and governance

In the US, Ernst & Young LLP and its affiliate Ernst & Young U.S. LLP are limited liability partnerships organized in Delaware and are member firms of Ernst & Young Global Limited (EYG), a UK company limited by guarantee. In this report, we refer to ourselves as “EY US,” “we,” “us” and “our.” EY refers collectively to the global organization of the member firms of EYG.

EYG member firms are grouped into three geographic Areas: Americas; Asia-Pacific; and Europe, Middle East, India and Africa (EMEIA). The Areas comprise multiple Regions. Regions are groupings of member firms (and in the case of EY US, within that member firm) along geographical lines with the exception of the Financial Services Organization (FSO) Regions, which comprise the financial services activities of the relevant member firms within an Area.

EY US is part of the Americas Area, which comprises member firms in 33 countries. Within the Americas Area, there were eight Regions and as of 1 July 2023 that number was reduced to seven through a combination of two Regions. EY US comprises four of the seven Regions.

EY US is a member of Ernst & Young Americas LLC (EY Americas), the coordinating entity for the Americas Area.

Partners and principals (referred to collectively as “partners”) of the EYG member firms in the Americas are also members of EY Americas. EY Americas has no financial operations and does not provide services to clients.

The coordinating body for EY Americas is the Americas Operating Executive (AOE). It oversees the execution of EY global strategy in the Americas and comprises: the Americas Area Managing Partner; the Americas Deputy Managing Principal; the Area Leaders for Accounts, Office of Strategic Execution, and Talent; the Area Leaders for Assurance, Consulting, Strategy and Transactions, and Tax; and the Managing Partners of each of the Regions in the Americas.

Each Region elects a Regional Partner Forum (RPF), whose representatives advise and act as a sounding board for Regional leadership. Most partners elected as Presiding Partners of their respective RPF also serve as their Region’s representative on the Global Governance Council. Some Regions and National Service Lines of EY US have more than one representative on the Global Governance Council.



Americas Ethics Oversight Board

With membership drawn from the EY Americas leadership, the service lines and the member firms of the Americas Area, the Americas Ethics Oversight Board (AEOB) strives to create an environment that encourages all personnel to act responsibly, including reporting misconduct without fear of retaliation. The AEOB, in conjunction with leadership of the Regions in the Americas, also evaluates the findings of investigations and disciplinary actions taken by the Americas member firms involving alleged or actual violations of the EY Global Code of Conduct or other ethical standards applicable to the member firms of the Americas, and their partners and employees, for fair and consistent enforcement and imposition of consequences for violations thereof.



EY US governance

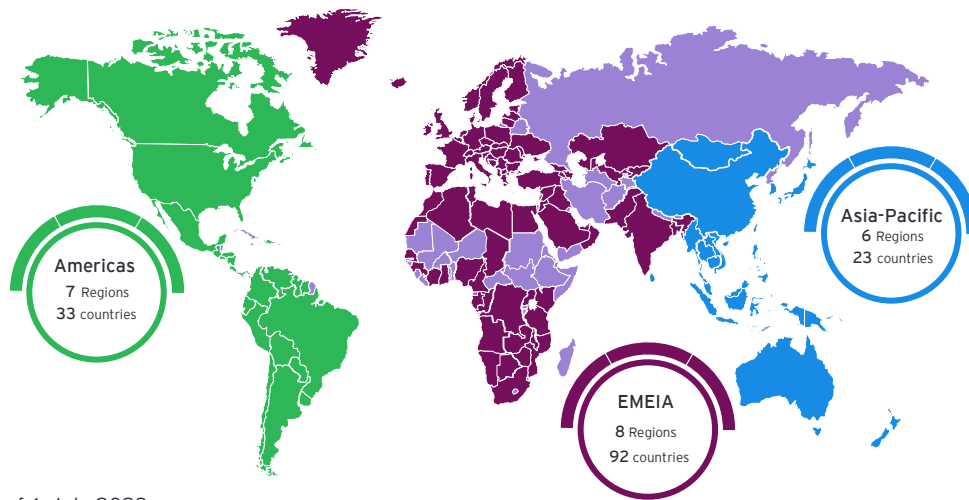
The EY US Executive Committee (Executive Committee), which is responsible for managing EY US, comprises the Chair and Managing Partner; the Deputy Chair; the US Regional Vice Chairs; the Vice Chairs for Assurance, Consulting, Strategy and Transactions, and Tax; the Vice Chairs of Accounts, Office of Strategic Execution, and Talent; and the Diversity, Equity & Inclusiveness Officer. Among other basic matters, the Executive Committee is responsible for certain partner matters (e.g., partner admissions, separations, disciplinary matters, earnings allocations).

In addition, 25 EY US partners, none of whom serve on the Executive Committee, are elected by the EY US partners to serve as the Partner/Principal Council (PPC). The PPC's approval is required for the nomination of the EY US Managing Partner and the appointment of the Deputy Chair, among other things, and the PPC serves in an advisory role to the Executive Committee.

During fiscal year 2023, we established a new executive role, the US Chief Ethics & Compliance Officer (CECO), who reports directly to the Chair and Managing Partner. The CECO is responsible for developing and maintaining our ethics and compliance programs to support having a culture of compliance and a focus on integrity. Our CECO oversees our risk management processes and chairs the US Ethics Oversight Committee and the aforementioned AEOB.

The US Ethics Oversight Committee comprises the EY US members of the AEOB and one US PPC representative. It was established at the direction of the US Executive Committee to promote fairness, consistency and best practices within EY US with regard to investigations and disciplinary actions under the EY Global Code of Conduct and other ethical standards applicable to EY US.

EY Areas, Regions and countries*



*Figures are as of 1 July 2023.



Network arrangements

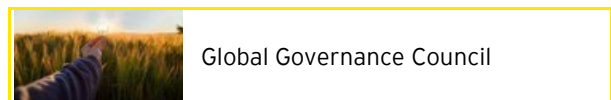
EY is a global leader in assurance, consulting, strategy and transactions, and tax services. Worldwide, more than 390,000 people in member firms in 148 countries share a commitment to building a better working world, united by shared values and an unwavering commitment to audit quality and acting with integrity. In today's global market, the integrated EY approach is particularly important in the delivery of high-quality multinational audits, which can span nearly every country in the world.

This integrated approach enables EYG member firms to develop and draw upon the range and depth of experience required to perform such diverse and complex audits.

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 EY, as a global 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 needs.



Global Governance Council

The Global Governance Council (GGC) is a key 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 (INEs). The Regional representatives, who otherwise do not hold senior management roles, are elected by their RPFs 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 EY.



Independent non-executives

Up to six global INEs are appointed from outside EY. The global INEs 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 the GGC, the significant benefit of their varied perspectives and depth of knowledge. The global INEs also form a majority 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 INEs 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 Chairman 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 EYG 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, and a representative from the Emerging Markets practices.

The GE and the GGC approve nominations for the Chairman and CEO of EYG and ratify appointments of the Global Managing Partners. The GE also approves appointments of Global Vice Chairs. The GGC ratifies the appointments of any Global Vice Chair who serves as a 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, 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 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.



Global Practice Group

The Global Practice Group brings together the members of the GE, GE committees, Regional leaders and sector leaders. It seeks to promote a common understanding of EY strategic objectives and helps drive consistency of execution across the organization.



EYG member firms

Under the regulations of EYG, member firms commit themselves to pursue EY 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 maintain the prescribed 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, EYG 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.

Besides adopting the regulations of EYG, member firms enter into several other agreements covering aspects of their membership in the 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 EY organization.

For more information, see the EY US audit quality report.



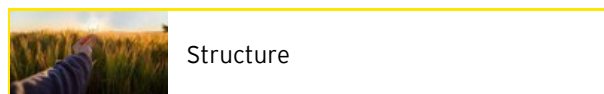
System of Quality Management

System of Quality Management

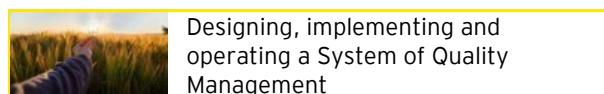


This year, we finalized the implementation of ISQM 1, issued by the International Auditing and Assurance Standards Board, which became effective 15 December 2022.

In 2023, we performed our first annual evaluation of our System of Quality Management (SQM) in accordance with ISQM 1. We evaluated the results of tests of our controls in our system of quality management, internal and external inspections, personal independence compliance testing, and other inputs.



EY US aims to provide high-quality professional audit services independently, objectively and ethically. We continue to invest in initiatives to promote objectivity and independence in accordance with professional standards. These are fundamental attributes of a high-quality audit. Designing, implementing and operating an effective System of Quality Management is essential to these efforts.



ISQM 1 requires a 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 firms to evaluate, at least annually, the effectiveness of their 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 firms' attention on mitigating risks that may impact engagement quality. It also requires more extensive monitoring of the System of Quality Management to identify deficiencies that require corrective actions 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 EYG member firms.

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

For example, EY has established an approach to the required risk assessment process that includes input and feedback from across EY services 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 key controls) assumed to be applicable to EYG member firms. In addition, EY has developed global tools to enable the System of Quality Management processes.

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

- Understand policies, technologies, strategies, programs and baselines provided to them
- Determine if they need to be supplemented by the member firm to be appropriate for use



System of Quality Management roles

To enable the design, implementation and operation of EY US' System of Quality Management, individuals are assigned to SQM roles. The individuals in these roles have the appropriate experience, knowledge, influence and authority – and sufficient time – to fulfill their System of Quality Management roles and are accountable for fulfilling their responsibilities. SQM roles and responsibilities are defined in the Global SQM policies to drive consistency in the execution of the EY US System of Quality Management.

Key roles within the EY US System of Quality Management include:

Ultimate responsibility and accountability: The US Managing Partner is the individual assigned ultimate responsibility and accountability for the System of Quality Management, including concluding on its effectiveness.

Operational responsibility for the System of Quality Management: The US Assurance Managing Partner is assigned operational responsibility for the System of Quality Management. This includes recommending the System of Quality Management annual evaluation conclusion to the US Managing Partner.

Operational responsibility for compliance with independence requirements: The US Independence Leader is assigned operational responsibility for compliance with independence requirements.

Operational responsibility for monitoring the System of Quality Management: The US Professional Practice Director is assigned operational responsibility for monitoring the SQM. This includes concurring with or proposing changes to the recommended System of Quality Management annual evaluation conclusion.



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

The US Managing Partner is required to evaluate the System of Quality Management on an annual basis, as of 30 June, and conclude on its effectiveness. The evaluation process is executed annually based on the Global SQM Annual Evaluation policy.

This evaluation is based on whether EY US' System of Quality Management provides reasonable assurance that:

- EY US and its personnel are fulfilling their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and engagements are being conducted in accordance with such standards and requirements.

- Reports being issued by EY US are appropriate in the circumstances.

The evaluation of the effectiveness of the System of Quality Management uses information gathered from monitoring activities performed over a period. The evaluation considers the results of the following:

- Tests of System of Quality Management key controls
- Internal and external engagement inspections
- Other monitoring activities (e.g., tests of EY US 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).

Professional judgment is used in evaluating the results of monitoring activities, including in determining whether findings, individually or in combination with other findings, rise to the level of a deficiency. Any deficiencies identified require a root cause analysis to be performed, remedial action(s) to be designed and implemented, and an evaluation of the severity and pervasiveness of the deficiency. When determining the System of Quality Management annual evaluation conclusion, if a severe deficiency is identified, EY US would need to assess whether the effect of the deficiency was corrected and whether the remedial actions taken by 30 June were effective.

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

The annual evaluation conclusion for EY US as of 30 June 2023 is that the System of Quality Management provides reasonable assurance that the objectives of the system of quality management are being achieved.

For more information, see the EY US audit quality report.



Components of our System of Quality Management

Components of our System of Quality Management

In the following sections, we describe the principal components of our System of Quality Management:

- System of Quality Management risk assessment process
- Governance and leadership
- Relevant ethical requirements
- Client and engagement acceptance and continuance
- Engagement performance
- Resources
- Information and communication
- System of Quality Management monitoring and remediation process



EY US has designed and implemented a risk assessment process to establish quality objectives, identify and assess quality risks, and design and implement responses to address the quality risks as required by ISQM 1. The risk assessment process is executed at least annually to drive consistency in the execution of the EY US System of Quality Management.

In order to drive consistency while providing EYG member firms an approach that is scalable and adaptable based on their facts and circumstances, representatives of Global Assurance Leadership developed Global SQM baselines.

EYG member firms have the responsibility to understand and determine whether the Global System of Quality Management baselines need to be supplemented or adapted by the member firm to be appropriate for use (e.g., additional quality risks, customization of responses).

EY US reviewed the Global System of Quality Management baselines and considered the facts and circumstances of EY US, including the nature and operating characteristics of EY US, the types of engagements performed and systemic trends from monitoring activities within the SQM. Further, EY US performed its own analysis and developed its own objectives, risks and responses that exceed the global baselines.

In addition to reviewing the Global System of Quality Management baselines, EY US evaluated whether additional quality objectives, quality risks or responses were necessary.



Governance and leadership



Tone at the top

EY US' leadership is responsible for setting the right tone at the top and demonstrating the EY commitment by performing audits that promote confidence in financial reporting. While the tone at the top is vital, EY people also understand that quality and professional responsibility start with them and that within their teams and communities, they are leaders too. EY shared values, which inspire EY people and guide them to do the right thing, and the EY commitment to quality are embedded in who we are and in everything we do.

The EY culture strongly supports collaboration and emphasizes the importance of consultation in dealing with complex or subjective accounting, auditing, reporting, regulatory and independence matters.

The consistent stance of EY US has been that no client is more important than the firm's professional reputation and the reputation of each of our professionals.

The EY Global Code of Conduct and other policies describe the EY approach to business ethics and integrity, which 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, EYG member firms assess the quality of professional services provided as a key metric in evaluating and rewarding EY professionals.



EY Global Code of Conduct

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

1. Working with one another
2. Working with clients and others
3. Acting with professional integrity
4. Maintaining our objectivity and independence
5. Protecting data, information and intellectual capital

Through our procedures to support compliance with the EY Global Code of Conduct and through ongoing communications, we encourage all personnel to act responsibly, including reporting misconduct without fear of retaliation.



Relevant ethical and legal requirements



Independence

Compliance with relevant ethical requirements, including independence, is a key element of the System of Quality Management. It involves determining that we are independent in fact, as well as appearance. The ethical requirements relevant to our audits and professional services are included in the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code). We also comply with local ethical requirements and codes in the jurisdiction of our audits and professional services, including the U.S. Securities and Exchange Commission (SEC) and Public Company Oversight Accounting Board (PCAOB) auditor independence requirements. Refer to the **Independence practices** section for information on policies, tools and processes relating to maintaining independence.



Rotation and long association

EY US complies with the audit partner rotation requirements of the IESBA Code, as well as the SEC, where required. EY US supports audit partner rotation because it provides a fresh perspective and promotes independence from company management, while retaining experience and knowledge of the business. Audit partner rotation, independence requirements, enhanced systems of internal quality controls and independent audit oversight are important safeguards of audit quality.

For PIEs, the EY Global Independence Policy requires the lead engagement partner, the engagement quality reviewer and other audit partners who make key decisions or judgments on matters significant to the audit (together, the key audit partners) to be rotated after seven years. For a new PIE, (including a newly listed company), key audit partners may remain in place for an additional two years before rotating off the team if they have served the company for six or more years prior to the listing.

Upon completing the maximum service period for rotation, a key audit partner may not lead or coordinate professional services to the PIE we audit until after completing a cooling-off period. This period is five years for a lead audit engagement partner, three years for an engagement quality reviewer and two years for other partners subject to rotation.

In addition to the key audit partner rotation requirements applicable to PIE companies we audit, EY has established a long association safeguards framework. This is consistent with the requirements of the IESBA Code and includes consideration of the threats to independence created by the involvement of professionals over a long period of time and a safeguards framework to address such threats.

We employ tools to monitor compliance with internal rotation, and requirements for audit partners and other professionals who have had a long association with the audited entity. There is also a process for rotation planning and decision-making that involves consultation with, and approvals by, our Professional Practice and Independence professionals.



External rotation

For EU PIEs, we comply 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 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 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. Depending on the content of the report, appropriate individuals from the General Counsel's office, Talent, Ethics & Compliance, or other functions are also involved in addressing the report. EYG member firms are encouraged to log into the EY Ethics Hotline matters that are reported locally outside of the EY Ethics Hotline.



Noncompliance with laws and regulations

In accordance with the IESBA Code, EY has adopted a policy designed to meet its obligations to report noncompliance with laws and regulations (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, EY 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 EY.



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 securities while in possession of material non-public information.

The EY Global Insider Trading Policy reaffirms the obligation of EY people not to trade 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 international economic and trade sanctions regulations. 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.



Data protection and confidentiality

The EY global policy on data protection and confidentiality sets out the principles to be applied to the collection, use and protection of all information that EY 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 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. EY also has binding corporate rules approved by UK and EU regulators in place to facilitate the movement of personal data within the EY network. Furthermore, we have a policy to address US data privacy requirements and business needs.



Client and engagement acceptance and continuance



Global policy on client and engagement acceptance and continuance

The EY global policy on client and engagement acceptance sets out principles for member firms to determine whether to accept a new client, a new engagement with an existing client, or to continue with an existing client or engagement. The EY global policy on client and engagement acceptance is an example of a policy issued by EYG to help ensure the adherence to EY values, to address network risk and to drive consistency in the System of Quality Management.

The objectives of the policy are to:

- ▶ Establish a rigorous process for evaluating risk and making decisions to accept or continue clients or engagements
- ▶ Meet applicable independence requirements
- ▶ Identify and deal appropriately with any conflicts of interest
- ▶ Identify and decline clients or engagements that pose excessive risk
- ▶ Highlight clients or engagements that are inconsistent with EY values
- ▶ Require consultation with designated professionals to identify additional risk management procedures for specific high-risk factors
- ▶ Comply with legal, regulatory and professional requirements

In addition, the EY global policy on conflicts of interest defines global standards for addressing categories of potential conflicts of interest and a process for identifying them. It also includes provisions aimed at mitigating potential conflicts of interest as quickly and efficiently as possible, using appropriate safeguards. Such safeguards may include obtaining client consent to act for another party where a conflict of interest may exist, establishing separate engagement teams to act for two or more parties, implementing appropriate separations between engagement teams or declining an engagement to avoid an identified conflict.

The EY global policy on conflicts of interest and associated guidance considers the increasing complexity of engagements and client relationships, and the need for speed and accuracy in responding to clients. They also align with the IESBA Code.



Putting policy into practice

We use the EY Process for Acceptance of Clients and Engagements (PACE) to coordinate 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 EYG 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, we carefully consider the risk characteristics of a prospective client or engagement, and the results of due diligence procedures. Before taking on a new engagement or client, we also determine whether we can commit sufficient and appropriate resources to deliver quality service, especially in highly technical areas, and whether the services the client is requesting are appropriate for us to provide. The approval process provides that new audit engagements may not be accepted without the appropriate levels of approval from Assurance leadership and Regional Professional Practice Directors.

In the EY annual client and engagement continuance process, we review our ability to continue providing a quality service and confirm that clients share EY US' commitment to quality and transparency in financial reporting. The lead audit engagement partner of each audit annually reviews our relationship with the entities we audit to determine whether continuance is appropriate.

As with the client and engagement acceptance process, our Regional Professional Practice Directors and Assurance Managing Partner (AMP), or their delegates, must approve the continuance of audit engagements. Certain audit engagements are identified as requiring additional oversight procedures during the audit (close monitoring), and some audit relationships are discontinued.



Engagement performance

There is continuous EY investment in improving audit methodologies and tools, with the goal of consistently delivering high-quality audits.



The EY Digital Audit

The EY Digital Audit helps EY teams meet evolving stakeholder expectations.

It supports EY professionals in driving quality across all phases of the audit by pairing advanced capabilities with the right digital skill sets and a culture of continued innovation.

The EY Digital Audit is deployed globally and is well-established and proven in the market:

- ▶ **EY Canvas** facilitates secure and cloud-based workflow, communication and documentation.
- ▶ **EY Canvas Client Portal** connects EY professionals with client users.
- ▶ **EY Atlas** serves as the central repository of accounting knowledge for EY teams and audited entities.
- ▶ **EY Smart Automation** capabilities drive automation of core activities and are directly integrated in EY Canvas.
- ▶ **EY Helix** enables EY teams to analyze large amounts of journal entry data.

These technologies support EY teams in driving quality by **connecting** companies and teams, **automating** audit procedures and processes, and **analyzing** data using advanced technologies.



Connecting

Seamlessly connecting entities and audit teams to each other, as well as to the right information, is the foundation of a high-quality audit.

Deployed globally, EY Canvas is hosted safely in the cloud, and leverages industry-leading technology for web applications. This allows the provision of data security and the ability to update the software to respond to changes in the accounting profession and regulatory environment.

Through the use of profile questions, audit engagements in EY Canvas are automatically configured with information relevant to an entity's type (e.g., listed, PIE) and industry. This helps our teams customize audit plans and keep them up-to-date, and provides direct linkage to audit guidance, professional standards and documentation templates. The majority of forms that enable audit documentation are integrated into EY Canvas. With the Milestones program as discussed in the **Infrastructure supporting quality** section, EY Canvas enables effective project management. EY Canvas is built with a user interface that allows the team to visualize risks and their relationship to the planned response and work performed in key areas. It also enables a linkage for audit teams on what are known as group audits to communicate relevant information and instructions to component auditor teams so that the primary team can direct execution and monitor performance of the group audit.

EY Canvas includes the EY Canvas Client Portal to assist teams in communicating with entities' management and streamlining their requests. EY Canvas also includes EY Canvas Oversight, which provides real-time oversight and tracking of audit progress globally to enhance visibility and facilitate proactive collaboration throughout all phases of the audit.

EY Canvas is further supplemented by the EY Atlas global research platform that provides access to the latest accounting knowledge for both EY professionals and the entities they audit.

Automating

Smart technologies help to enable greater levels of automation, centralization and standardization throughout the audit.

The EY Smart Automation Hub provides a centralized access point for automation capabilities that is fully embedded in EY Canvas. These capabilities utilize large-scale automation and other advanced technologies to both enhance project management and support audit testing.

Automating and accelerating routine procedures enables audit teams to focus on the most prominent risks and complex judgment areas. At the same time, audit support activities are streamlined – significantly reducing the administrative support effort required from entities' management, finance and accounting teams.

Analyzing

The deployment of end-to-end analytics enables a smarter, data-driven approach that supports EY teams in identifying risk, detecting anomalies and generating insights.

The EY Helix global analytics suite (EY Helix) comprises data analyzers for core business and accounting processes, alongside industry and transaction-specific analyzers.

This allows audit engagement teams to deploy targeted data analytics specific to the entity being audited and drill down across operating cycles to better understand financial activities and business processes. The result is an enhanced risk-based approach that supports higher-quality audit evidence, effective identification of trends and anomalies, and deeper levels of insight and business intelligence. Refer to **Audit methodology** in the **Resources** section for additional information on how the data-driven, end-to-end audit approach is central to delivering a quality audit.

The use of EY Helix is supported through seamless and secure data access enabled by a standardized and centralized data delivery processes, a range of extraction and connection methods, and leading-edge security protocols.

There is continued investment in new analyzers across a range of sectors and accounting areas to enhance the quality of audit procedures.

Investment in next generation Assurance technology

The EY Digital Audit advances audit quality by helping us understand a company's key business processes and focus on risks of material misstatement. It also allows us to identify anomalies and understand how they occur and how prevalent they are.

As noted in the [Infrastructure supporting quality](#) section, the EY organization is investing in next-generation Assurance technology to facilitate trust, transparency and transformation.

Building on the strengths of the existing EY global audit technology suite, this four-year investment program is driving the future of Assurance technology via the integration and transformation of leading-edge capabilities into one seamless platform—powering the next generation of data-driven Assurance services.

Investment is focused across three core transformation areas to drive continued quality and value:

- ▶ User experience and collaboration
- ▶ Data access and analytics
- ▶ Business intelligence



Fraud

At a global level, EY is committed to leading the profession to address stakeholders' questions about the auditor's role in fraud detection.

Companies have never been as data rich as they are today, providing new opportunities to detect material frauds through data mining, analysis and interpretation. Auditors are increasingly using data analytics to identify unusual transactions and patterns of transactions that might indicate a material fraud and exercising professional judgment when following up on these transactions.

Additional actions taken to address this important area of the audit include:

- ▶ Using additional internal and external data and information to respond quickly to external risk indicators, such as short selling and whistleblowers
- ▶ Utilizing electronic confirmations for audit evidence wherever possible
- ▶ Developing a proprietary fraud risk assessment framework for use with audit committees and those charged with governance
- ▶ Mandating annual fraud training for all audit professionals that incorporates the experience of EY forensics professionals



Reviews of audit work

EY policies describe the requirements for timely and direct senior professional participation, as well as the level of review required for the work performed and the requirements for documenting the work performed and conclusions reached. Supervisory members of an audit engagement team perform a detailed review of the audit documentation for technical accuracy and completeness. Senior audit executives and engagement partners perform a second-level review to determine the adequacy of the audit work as a whole and the related accounting and financial statement presentation. Where appropriate, and based on risk, a tax professional reviews the significant tax and other relevant working papers.

The nature, timing and extent of the reviews of audit work depend on many factors, including:

- ▶ Risk, materiality, subjectivity and complexity of the subject matter
- ▶ Ability and experience of audit engagement team members preparing the audit documentation
- ▶ Level of the reviewer's direct participation in the audit work
- ▶ Extent of consultation employed

EY policies also describe the critically important role of the partner in charge (PIC) in managing and achieving quality on the audit and reinforcing the importance of quality to all members of the audit team.

For listed and certain other companies, an engagement quality reviewer (described in the [Engagement quality reviews](#) section) reviews important areas of accounting, financial reporting and audit execution, as well as the financial statements of the audited entity and the auditor's report.



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. Consultation requirements and related policies are designed to involve the right resources, so that audit engagement teams reach appropriate conclusions.

The EY culture of consultation helps audit engagement teams deliver high-quality services that meet the needs of all of our stakeholders.

For complex and sensitive matters, there is a formal process requiring consultation outside of the audit engagement team with other personnel who have more experience or specialized knowledge, 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 not participate in 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 formal consultations are documented, including written concurrence from the person or persons consulted, to demonstrate their understanding of the matter and its resolution.



Engagement quality reviews

EY engagement quality review policies address the qualifications of engagement quality reviewers. Engagement quality reviewers are experienced professionals with significant subject-matter knowledge. They are independent of the audit engagement team and provide an objective evaluation of the significant judgments the audit engagement team made, and the conclusions reached thereon. The performance of an engagement quality review, however, does not reduce the responsibilities of the PIC for the engagement and its performance. In no circumstances may the responsibility of the engagement quality reviewer be delegated to another individual.

EY policies and practices related to the assignment and eligibility of professionals to serve as engagement quality reviewers have been enhanced to conform with the requirements of ISQM 2, *Engagement Quality Reviews*. These enhancements focus on assigning an engagement quality reviewer who has the appropriate competence and capabilities, including sufficient time, as well as sufficient authority and objectivity to achieve an effective engagement quality review. Training and enablement support the execution of the engagement quality review.

The engagement quality review spans the entire engagement cycle, including planning, risk assessment, audit strategy and execution. Policies and procedures for the performance and documentation of engagement quality reviews provide specific guidelines on the nature, timing and extent of the procedures to be performed, and the required documentation evidencing their completion. In all circumstances, the engagement quality review is completed before the date of the auditor's report.

The assignment of the engagement quality reviewer is approved by either the regional AMP or Regional Audit Leader (AL) and the Regional Professional Practice Director, in accordance with the EY US policy.



Audit engagement team resolution process for differences of professional opinion

EY has a collaborative culture that encourages and expects people to speak up, without fear of reprisal, if a difference of professional opinion arises or if they are uncomfortable about a matter relating to an engagement. Policies and procedures are designed to empower members of an audit engagement team to raise any disagreements relating to significant accounting, auditing or reporting matters.

These policies are made clear to people as they join EY, and we continue to promote a culture that reinforces a person's responsibility and authority to make their own views heard and seek out the views of others.

Differences of professional opinion that arise during an audit are generally resolved at the audit engagement team level. However, if any person involved in the discussion of an issue is not satisfied with the decision, they refer it to the next level of authority until an agreement is reached or a final decision is made, including consultation with Professional Practice, if required.

Furthermore, if the engagement quality reviewer makes recommendations that the PIC 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.



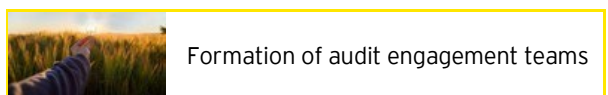
Documentation retention

The Records and Information Retention and Disposition Global Policy supports and builds upon provisions within the EY Global Code of Conduct regarding acting with professional integrity in terms of documenting work and respecting intellectual capital. This policy and the Global Retention Schedule (GRS) establish records and information management (RIM) requirements for the management of records and information and documents throughout their life cycle including the requirement to securely discard or delete records for which the retention period has expired, unless special and acceptable circumstances apply.

This policy, the GRS and the RIM requirements are in accordance with applicable professional standards and are based on regulatory, legal, and business requirements and obligations. They apply to all engagements and personnel and address US legal requirements applicable to the creation and maintenance of workpapers.

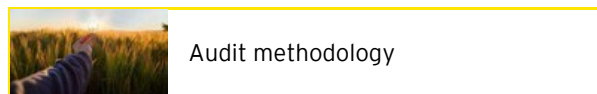


EY US is committed to investing in talent to drive further advances in audit quality.



The assignment of professionals to an audit engagement is made under the direction of our Assurance leadership. The factors considered when assigning people to audit engagement teams include engagement size and complexity; engagement risk; specialized industry knowledge and experience; timing of work; continuity; and opportunities for on-the-job training. For more complex engagements, consideration is given to whether specialized or additional knowledge is needed to supplement or enhance the audit engagement team.

In many situations, professionals with experience in a specialized area of accounting or auditing, such as tax or information technology, are assigned as part of the audit engagement team to assist in performing audit procedures and obtaining sufficient appropriate audit evidence. Additionally, internal specialists who have knowledge outside of accounting or auditing, such as forensics, asset valuation, actuarial analysis and environmental, social and governance (ESG) matters, may perform work in their field that is used by the audit engagement team to assist in obtaining sufficient appropriate audit evidence.



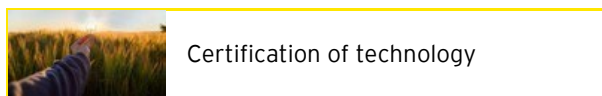
The EY Global Audit Methodology (EY GAM) provides a global framework for delivering high-quality audit services through the consistent application of thought processes, judgments and procedures in all audit engagements, regardless of the size. EY GAM also requires compliance with relevant ethical requirements, including independence from the audited entity. Making risk assessments; reconsidering and modifying them as appropriate; and using these assessments to determine the nature, timing and extent of audit procedures are fundamental to EY GAM. The methodology also emphasizes applying appropriate professional skepticism in the execution of audit procedures. EY GAM is based on International Standards on Auditing (ISAs) and is supplemented in EY US to comply with the PCAOB and American Institute of Certified Public Accountants (AICPA) auditing standards and regulatory or statutory requirements.

EY Digital GAM, which is part of EY GAM, focuses on simplifying tasks and improving connection from one audit procedure to the next by leveraging full populations of entity data. All procedures, including risk assessment and substantive procedures, start with a data-first mindset, by analyzing relevant financial and nonfinancial data and supplementing this with traditional audit techniques, such as inquiries, observations and inspection. The ability to analyze disaggregated data using the EY Helix global analytics suite enhances audit engagement teams' understanding of the entity's business and focuses on the identification of entity-specific risks, key transactions and trends and anomalies that may be indicators of misstatement or fraud. A data-driven audit approach focuses on the audit of higher-risk transactions and enables a dynamic audit strategy that is reactive to readily identifiable changes in the data.

EY auditors access EY GAM via EY Atlas, an online proprietary tool. EY GAM is organized by topic and helps EY auditors focus on financial statement risks. EY GAM consists of two key components: requirements and guidance; and supporting forms and examples. The requirements and guidance reflect both auditing standards and EY policies. Examples in EY GAM supplement the requirements and guidance with leading-practice illustrations.

EY GAM is regularly updated for changes in requirements due to new PCAOB, AICPA and ISA standards. Recently, EY GAM was updated for the requirements of ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*; ISQM 1; and new independence requirements of the IESBA Code of Ethics for pre-concurrence of non-assurance services and disclosure of fees. A suite of enablement to implement the new and revised requirements was issued.

We have also issued accounting and auditing guidance for teams to consider in order to address emerging risks, such as auditing entities that are exposed to risk due to the recent failures and near-failures in the banking sector, as well as responding to evolving economic conditions, including increases in inflation and interest rates.



EY has a robust global certification process to help ensure technology used in audit engagements is fit-for-purpose (i.e., that the solution meets its objectives, is appropriate for use in the audit circumstances and that EY people have the appropriate competencies to use the solution).

Certification addresses a range of aspects, including that the solution has a clear audit evidence objective and has been appropriately tested; that methodology, enablement and learning are available to support its application; and relevant legal and regulatory requirements have been managed (e.g., data privacy).



ISQM 1 requires obtaining, generating or using information and communicating information to enable the design, implementation and operation of the System of Quality Management. The quality objectives within the information and communication component address the effective two-way communication between the member firm and:

- Its personnel
- Member firms within the EY network
- External parties
- Service providers

Effective two-way communication is essential to the operation of the System of Quality Management and the performance of audit engagements. The Global SQM policy provides the requirements for EYG member firms to communicate internally and externally about the member firm's System of Quality Management.



EY US has established an SQM monitoring and remediation process to:

- Provide relevant, reliable and timely information about the design, implementation and operation of EY US' 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 EY US' System of Quality Management is evaluated to conclude on the effectiveness in achieving the objectives of EY US' System of Quality Management.

System of Quality Management monitoring activities include:

- Tests of System of Quality Management key controls
- Internal and external engagement inspections
- Other monitoring activities, including:
 - Tests of compliance with ethical requirements related to independence by EY US and its personnel
 - 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 SQM Monitoring and Remediation policy. The monitoring and remediation process is monitored by representatives of Global Professional Practice Director (PPD), with oversight by the Global Assurance leadership.



Tests of System of Quality Management key controls

System of Quality Management key controls have been designed and implemented to mitigate quality risks. The objectives of performing tests of System of Quality Management key controls within EY US' System of Quality Management include determining whether the System of Quality Management key 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/Control Operator specified in the design of the System of Quality Management key control
- ▶ 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 key control is complete and accurate)

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



Audit quality reviews

EY US executes an Audit Quality Review (AQR) program in accordance with the Global AQR policy, and reports results and develops responsive action plans. The AQR program complies with the requirements and guidelines in US professional standards and regulatory requirements and is supplemented, where necessary, to comply with ISQM 1. It also aids EY US' continual efforts to identify areas where we can improve our performance or enhance our policies and procedures.

Audit quality reviews include the inspection of at least one completed engagement for each PIC on a cyclical basis. For each PIC, the engagements selected are based on a risk-based approach, emphasizing audit engagements that are large, complex or of significant public interest, including elements of unpredictability. The AQR program includes detailed file reviews covering a large sample of listed and non-listed audit engagements, and PIEs and non-PIEs, to measure compliance with internal policies and procedures; EY GAM requirements; and professional standards and regulatory requirements.

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

AQR reviewers and team leaders are selected for their skills and professional competence in accounting and auditing, as well as their industry specialization. Team leaders and reviewers are independent of the engagements and teams they are reviewing and are normally assigned to inspections outside of their home location.

The AQR program is supplemented by a program that covers inspections of other assurance and related services engagements regardless of the service line performing the work. This is referred to as the Other Assurance Quality Review (OAQR) program.

The results of the AQR and OAQR processes are summarized globally, along with any key areas where the results indicate that continued improvements are required. Summarized results are shared within the network. Measures to resolve audit quality matters noted from the AQR program, regulatory inspections and peer reviews are addressed by US Assurance leadership and the US PPD. This program provides important practice monitoring feedback for our System of Quality Management and continuing quality improvement efforts.



External quality assurance reviews

EY US' Audit practice is subject to annual inspection by the PCAOB. As part of its inspections, the PCAOB reviews selected engagements and evaluates EY US' quality control system.

We respect and benefit from the PCAOB's inspection process. We thoroughly evaluate the points raised during the inspection to identify areas where we can improve audit quality and the relevance to the System of Quality Management. Engagements with findings and certain other engagements are subject to root cause analysis (see next section). Together with the AQR process, inspections provide valuable insights into the quality of EY audits. These insights help us to improve the quality of our audits.

We expect the PCAOB to issue Part I of its report on the 2022 inspection of EY US in the coming weeks.

EY US also participates in the peer review program of the AICPA that requires a triennial review of our system of quality control for EY US' accounting and auditing practice for non-SEC filers. In a peer review, firms can receive a rating of pass, pass with deficiency(ies) or fail.

Information on the PCAOB, along with publicly available inspection reports, can found at www.pcaobus.org.

Grant Thornton LLP completed its 2022 peer review of EY US' accounting and auditing practice for these engagements (primarily audits for the year ended 31 December 2021) and concluded that our system of quality control for these engagements was suitably designed and complied with to provide EY US with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. EY US received a peer review rating of pass.



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 enables a better understanding of the drivers behind both positive and negative outcomes. It also allows us to focus on key 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, we assess whether there are pervasive issues that require firmwide responsive actions.



Audit quality indicators

Assurance leadership also monitors the execution of the EY strategy and quality priorities through a combination of metrics or audit quality indicators (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.

The AQIs are embedded in our quality control processes and provide early warnings of issues that we may need to address across our audit practice. They 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 targets, with outliers requiring an evaluation and remediation plan. The AQIs are also aligned to aspects of the EY accountability framework to reinforce priorities for the country leadership network and are subject to an annual review to help ensure they remain relevant and responsive to quality initiatives.

Examples of EY AQIs include:

- Internal and external inspection results
- Adherence to engagement pacing milestones
- Executive involvement and workload
- Composition of audit teams
- Retention
- Independence
- Deployment of mandatory learning

Elements reported through a Global AQI dashboard are subject to an annual review to help ensure they remain relevant and responsive to quality initiatives.

The Global AQI dashboard helps inform leadership about whether particular actions are having the intended effect.



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

Findings from various monitoring activities provide information about the design, implementation and operation of the System of Quality Management which indicates that one or more deficiencies may exist. EY US evaluates each finding or aggregation of findings to determine whether a deficiency exists.

If any deficiencies are identified, a root cause process 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 review the results of monitoring activities to drive consistency in the application of the framework for identifying and assessing findings and evaluating deficiencies and performing root cause analyses as described in the Global SQM Monitoring and Remediation policy.



System of Quality Management remedial actions

For any identified deficiencies, EY US remedial actions are designed and implemented to:

- Correct the effect of the identified deficiency
- Remediate identified deficiencies in a timely manner
- Evaluate the effectiveness of the remediation actions

Quality improvement plans are reviewed by the Vice Chair of Assurance and the PPD to help ensure the appropriateness of the actions designed.

Subsequently, we monitor the effectiveness of the remedial actions implemented.

For more information, see the EY US audit quality report.



Infrastructure supporting quality

Infrastructure supporting quality



Strategy

NextWave is the EY global strategy and ambition to deliver long-term value to clients, people and society. It has put EY in a strong position to adapt and innovate, while the EY purpose of building a better working world continues to inspire EY people to use EY knowledge, skills and experiences to support the communities in which they live and work. The insights and quality services EYG member firms deliver help enhance trust in business and the capital markets in support of sustainable, long-term value creation.

For EY Assurance services, the NextWave strategy is informed by a recognition that markets are being reshaped profoundly by data and technology disruptions, climate change, demographics shifts and globalization.

EY continues to harness the inherent strengths of its member firms' greatest asset in delivering quality and building trust – EY people. By enhancing their skills and experiences, while also transforming the way EY teams work, EY delivers on its commitment to promoting confidence in the capital markets.

Through a data-driven approach, enabled by the transformation and integration of our digital technology capabilities, EY teams aim to deliver high-quality audits with independence, integrity and objectivity in accordance with professional standards. EYG member firms provide their audit professionals with additional training and enablement to help detect fraud. The data-first approach and enhanced training elevates EY teams' experiences, so they can spend more time addressing risks and exercising professional judgment.

Data and technology continue to transform the audit and support the changing needs of the capital markets. In June 2022, the EY organization announced a US\$1b investment in evolving a next-generation technology platform. This integrated platform builds on the already strong foundations of the EY Assurance leading-class technology suite, driving audit quality and greater value for audited entities by facilitating trust, transparency and transformation. It will provide new data access capabilities and advanced analytics, incorporate new forms of business intelligence, and enhance the user experience for audited entities and EY people – all important components of delivering high-quality audits.



Global Audit Quality Committee

The EY Global Audit Quality Committee (GAQC) comprises senior leaders from across the EY organization with extensive, diverse and highly relevant experience. The GAQC advises EY Assurance leadership on the many aspects of the organization's business, operations, culture, talent strategy, governance and risk management that affect audit quality.

The committee develops innovative ideas and approaches to delivering high-quality audits, so that leading practices can be shared across the organization.



Quality Enablement Leaders

The EY Quality Enablement Leaders (QEL) network is a group of senior Assurance leaders around the world who drive improvements in audit quality by empowering engagement teams and driving operational excellence within the global Assurance network.



Sustainable audit quality

To support auditors in fulfilling their purpose, the EY organization created the Sustainable Audit Quality (SAQ) program, which provides a framework to help address the evolving risks of the audit. SAQ is a globally consistent approach to achieving and sustaining high-quality audits across the EY network.



Professional Practice

The Global Vice Chair of Professional Practice, referred to as the Global PPD, is overseen by the Global Vice Chair of Assurance and works to establish global audit quality control policies and procedures. Each of the Area PPDs, as well as the Global Delivery Service PPD, is overseen by the Global PPD and the related Area Assurance Leader.

The Global PPD also leads and oversees the Global Professional Practice group. This is a global network of technical subject-matter specialists in accounting and auditing standards who are consulted on accounting, auditing and financial reporting matters; and perform various practice monitoring and risk management activities. In addition, the Professional Practice group is expanding its capacity on nonfinancial reporting in anticipation of the finalization of the inaugural standards by the International Sustainability Standards Board.

The Global PPD oversees the development of EY GAM and related audit policies and technologies so that they are consistent with relevant professional standards and regulatory requirements. The Global Professional Practice group also oversees the development of the guidance, training and monitoring programs, and processes used by member firm professionals to execute audits consistently and effectively. The Global, Area, Regional and Country PPDs, together with other professionals who work with them in each member firm, are knowledgeable about EY people, audited entities and processes. They are readily accessible for consultation with audit engagement teams.



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

Among other things, the Global RM 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 (ERM) framework. The ERM priorities are communicated to EYG member firms.

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

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.

Global Risk Management has placed more focus on business resiliency in business continuity planning efforts in EY. A key 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 EYG 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. Our process goes 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, sustained cyberattacks).

For more information, see the EY US audit quality report.



Independence practices

Independence practices

The EY Global Independence Policy requires EY US and our people to comply with the independence standards applicable to specific engagements (e.g., the IESBA Code and AICPA Code of Professional Conduct along with the SEC, PCAOB, and other federal and state regulations). The EY Global Independence Policy is an example of a policy issued by EYG to enable the operation of the SQM and the performance of ISQM 1 engagements.

We consider and evaluate independence with regard to various aspects, including our financial relationships and those of our people; employment relationships; business relationships; the permissibility of services we provide to companies we audit; applicable firm and partner rotation requirements; fee arrangements; audit committee preapproval, where applicable; and partner remuneration and compensation.

Failure to comply with applicable independence requirements will factor into decisions relating to a person's promotion and compensation, and may lead to other disciplinary measures, including separation from EY US.

EY US has implemented EY global applications, tools and processes to support us, our professionals and other employees in complying with independence policies.



EY Global Independence Policy

The EY Global Independence Policy contains the independence requirements for EYG 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 an example of an intellectual resource provided by a global function to drive consistency in the System of Quality Management.

The EY US Independence Policy sets forth the requirements for EY US and its professionals with respect to independence matters and is designed to comply with or exceed the applicable independence requirements of SEC Rule 2-01 of Regulation S-X, the PCAOB independence standards, and the AICPA Code of Professional Conduct. EY US and its professionals, by following the US Independence Policy and Guidance, will be in compliance with the EYG Independence Policy. Both the EY Global and the EY US Independence policies are readily accessible and easily searchable on the EY intranet.



Global Independence System

The Global Independence System (GIS) is an intranet-based tool that helps EY professionals identify the entities from which independence is required and the independence restrictions that apply. 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 our people determine the type of services that can be provided or other interests or relationships that can be entered into.

GIS 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. When a proscribed security is entered or if a security a professional holds becomes proscribed, that professional receives a notice and is 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 EYG member firms to drive consistency in the System of Quality Management.



Independence compliance

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



Independence confirmation

Annually, EY US is included in an Area-wide process to confirm compliance with the EY Global Independence Policy and process requirements, and to report identified exceptions, if any.

EY professionals, and certain others, are required to confirm compliance with independence policies and procedures at least once a year. 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

EY 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 we audit and financial relationships of EYG member firms.



Personal independence compliance testing

Each year, the EY Global Independence team establishes 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 will 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 whether there are unreported interests. Any unreported interests are evaluated with consequences assigned as deemed appropriate. In the most recent reporting year, we tested more than 2,250 US partners and other professionals for their compliance with our independence policies, as part of EY US' system of quality control.



Non-audit services

EY 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 **PACE** 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

EY 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 EYG member firms' audit.

The goal is to help EY people understand their responsibilities and to enable 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.

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

Service Offering Reference Tool (SORT) serves as the master list of approved EY services. We assess and monitor our portfolio of services on an ongoing basis to confirm that they are permitted by professional standards, laws and regulations, and to make sure that we have the right methodologies, procedures and processes in place as new service offerings are developed. We restrict 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 we audit 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 EYG member firms to drive consistency in the System of Quality Management.



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 we audit, thereby supporting our compliance with independence requirements.

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



Audit committees and oversight of independence

We recognize 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. We are committed to robust and regular communication with audit committees or those charged with governance. Through the EY quality review programs, we monitor and test compliance with EY standards for audit committee communications, as well as the pre-approval of non-audit services, where applicable.

For more information, see the EY US audit quality report.



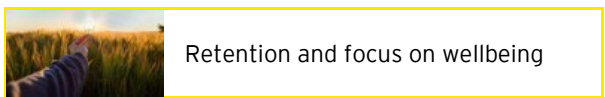
Investing in
exceptional
talent and
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education

Investing in exceptional talent and continuing education



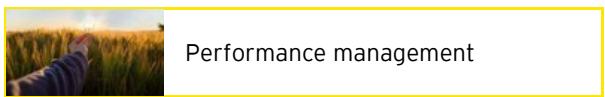
EY US is committed to investing in our No. 1 asset – our talent – to help ensure we keep our promise to them, while advancing audit quality.

Talent investment needs to 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.



Retaining talent is a key contributor to the delivery of high-quality audits.

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 enables EY people to be the best they can be.

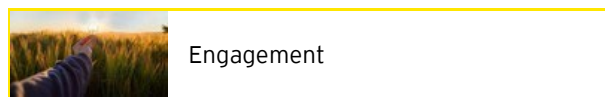


EY US has a performance management framework that supports our people’s careers, inspires their growth and recognizes the value they bring to EY US. Through ongoing feedback, counselor insights and development conversations, it helps align individuals with the EY strategy and enables a focus on the future. 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, managing directors and directors (PPMDDs), and applies to all EYG 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 PPMDDs’ recognition and reward. Documenting PPMDDs’ goals and performance is the cornerstone of the evaluation process. A member firm PPMDDs’ goals are required to reflect various global and local priorities across six metrics, the most important one being quality.



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

The EY Team Experience survey is another critical element of our employee listening strategy, aimed at improving the day-to-day experience for our engagement teams. Team members provide feedback on their experience of an engagement across a variety of questions, rated on a five-point scale. This feedback provides actionable insights and pathways for tangible change at the engagement team level.

EY Assurance runs an initiative known as “Global Voices,” which unites 200 high-performing junior professionals from around the world and all sub-service lines. Its purpose is to empower and engage the EYG member firms’ workforces by seeking 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 retention, technology and innovation, and ESG and societal impact.



Professional development

The EY Badges program supplements our required learning program and enables professionals to gain knowledge on future-focused topics, including artificial intelligence, blockchain, robotic process automation, innovation and cybersecurity, as well as other capabilities that are in high demand, such as sustainability.

Our people can also earn an EY Tech MBA or master's in Business Analytics or master's in Sustainability. These are online qualifications awarded by Hult International Business School, an accredited university, that are available free of charge to all EY people.

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 engagement team members undertake learning to become IFRS-accredited.

EY US requires audit professionals to obtain at least 40 continuing professional education (CPE) hours each year and at least 120 hours over a three-year period. Of these hours, 16 must cover technical subjects related to accounting and auditing, if the audit professional satisfies certain criteria in accordance with the EY US CPE policy.



Knowledge and internal communications

In addition to professional development and performance management, we understand the importance of providing audit engagement teams with up-to-date information to help them perform their professional responsibilities. There is significant EY investment in knowledge and communication networks to enable the rapid dissemination of information to help people collaborate and share best practices. Some EY resources and tools include:

- EY Atlas, which includes local and international accounting and auditing standards, as well as interpretive guidance
- Publications, such as *US GAAP vs IFRS: the basics*, Financial reporting developments and Technical Lines
- Accounting and Auditing News, a weekly update covering assurance and independence policies, developments from standard-setters and regulators, and internal commentary thereon
- Practice alerts and webcasts, covering a range of global and country-specific matters, designed for continuous improvement in EYG member firms' Assurance practices

For more information, see the EY US audit quality report.



Revenue and remuneration

Revenue and remuneration



Financial information

Revenue includes expenses billed to clients and revenues related to billings to other EYG member firms. Revenue amounts disclosed in this report include revenues from both audit and non-audit clients.

Financial information for the period ended on 30 June 2023 expressed in US dollars

Service	Revenue (in billions)	Percentage
Audits and directly related services for companies we audit listed in the EU	\$0.04	0.2%
Other audits and directly related services (excl. clients listed in the EU)	5.4	25.1%
Non-audit services provided to companies we audit listed in the EU	0.0	0.0%
Non-audit services provided to other entities	16.1	74.7%
Total revenue	\$21.5	100%



Partner remuneration

Quality is at the center of the EY strategy and is a key component of EY performance management systems. EY US partners are evaluated and compensated based on criteria that include specific quality and risk management indicators. Equally, when EY US partners do not adhere to quality standards, remedial actions are taken. These may include performance monitoring, compensation adjustment, additional training, additional supervision or reassignment – or, in instances of repeated or particularly serious non-compliance, separation from EY US.

EY policies prohibit evaluating and compensating lead audit engagement partners and other key audit partners on an engagement based on the sale of non-assurance services to companies they audit. This reinforces to EY partners their professional obligation to maintain independence and objectivity.

Specific quality and risk performance measures have been developed to account for:

- Providing technical excellence
- Living the EY values as demonstrated by behaviors and attitude
- Demonstrating knowledge of, and leadership in, quality and risk management
- Complying with policies and procedures
- Complying with laws, regulations and professional duties

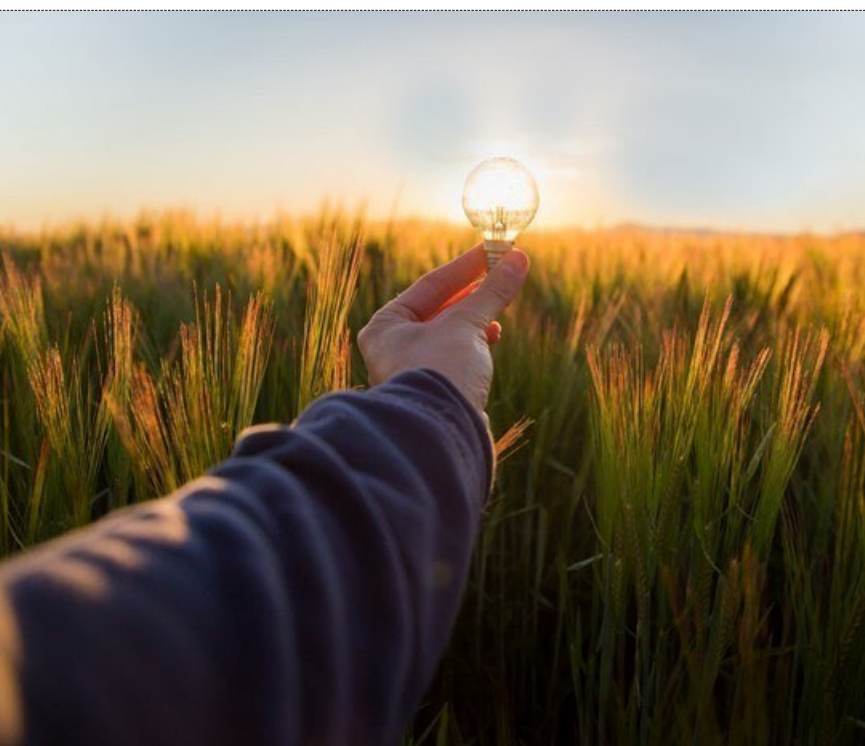
The EY partner compensation philosophy calls for meaningfully differentiated rewards based on a partner's level of performance, as measured within the context of the performance management framework. Partners are assessed annually on their performance in delivering high-quality, exceptional client service and people engagement, alongside financial and market metrics.

We operate under a system that requires quality to be a significant consideration in a partner's overall year-end rating.

To recognize different market values for different skills and roles, and to attract and retain high-performing individuals, the following factors are also considered when we determine our partners' total reward:

- Experience
- Role and responsibility
- Long-term potential

For more information, see the EY US audit quality report.



Appendix 1: list of PIE audit clients

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In the most recent EY US annual report filed with the PCAOB at the end of June 2023, we listed all audit reports issued during the annual period ended 31 March 2023 with respect to the financial statements of US SEC issuers. The information on such audit reports and PIEs was provided in Item 4.1 of PCAOB Form 2 – Annual Report Form. The PCAOB website can be found at pcaobus.org, where such information is available electronically. The list below includes EY US' relevant audit clients whose transferable securities are admitted to trading on a regulated market within the EU as of 30 June 2023:

IKB Funding Trust I

McDonald's Corporation

Nestlé Holdings, Inc.

Walmart, Inc.

Deutsche Postbank Funding Trust I



Appendix 2: approved EYG member firms

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List of approved EYG member firms in an EU or European Economic Area (EEA) Member state

As of 30 June 2023, the following EYG member firms are approved to carry out statutory audits in an EU or EEA Member State:

Member State	Statutory auditor or audit firm
Austria	Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.
Belgium	EY Assurance Services SRL
	EY Bedrijfsrevisoren SRL
	EY Europe SRL
Bulgaria	Ernst & Young Audit OOD
Croatia	Ernst & Young d.o.o.
Cyprus	Ernst & Young Cyprus Limited
	Ernst & Young
	Ernst & Young CEA (South) Services Ltd
	Ernst & Young CEA (South) Holdings Plc
Czech Republic	Ernst & Young Audit, s.r.o.
Denmark	EY Godkendt Revisionspartnerselskab
	EY Partnership P/S
	Komplementarselskabet af 1. januar 2008 A/S
	EY Grønland Godkendt Revisionsanpartsselskab
Estonia	Ernst & Young Baltic AS
	Baltic Network OU
Finland	Ernst & Young Oy
France	Auditex
	Ernst & Young Audit
	Ernst & Young et Autres
	EY & Associés
	Picarle et Associes
Germany	Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft
	Ernst & Young Heilbronner Treuhand-GmbH Wirtschaftsprüfungsgesellschaft
	EY Revision und Treuhand GmbH Wirtschaftsprüfungsgesellschaft
	Treuhand-Süd GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft
	TS GmbH Wirtschaftsprüfungsgesellschaft
	TS Treuhand GmbH Wirtschaftsprüfungsgesellschaft
	Schitag Schwäbische Treuhand GmbH Wirtschaftsprüfungsgesellschaft
Greece	Ernst & Young (Hellas) Certified Auditors Accountants S.A.

Member State	Statutory auditor or audit firm
Hungary	Ernst & Young Könyvvizsgáló Korlátolt Felelősségű Társaság
Iceland	Ernst & Young ehf
Ireland	Ernst & Young Chartered Accountants
Italy	EY S.p.A.
Latvia	Ernst & Young Baltic SIA
Liechtenstein	Ernst & Young AG, Basel
	Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Germany
	Ernst & Young AG, Vaduz
Lithuania	Ernst & Young Baltic UAB
Luxembourg	Ernst & Young Luxembourg S.A.
	EYL Luxembourg
	Ernst & Young S.A.
Malta	Ernst & Young Malta Limited
Netherlands	Ernst & Young Accountants LLP
Norway	Ernst & Young AS
Poland	Ernst & Young Audyt Polska sp. z o.o.
	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością Finance sp. k
	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością Doradztwo Podatkowe sp. k.
	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
	Ernst & Young Usługi Finansowe Audyt sp. z o.o.
Portugal	Ernst & Young Audit & Associados–SROC, S.A.
Romania	Ernst & Young Assurance Services SRL
	Ernst & Young Support Services SRL
Slovakia	Ernst & Young Slovakia, spol. s r.o.
Slovenia	Ernst & Young d.o.o.
Spain	ATD Auditores Sector Público, S.L.U
	Ernst & Young S.L.
Sweden	Ernst & Young AB

Total turnover for the year ended on 30 June 2023 for these EYG member firms, resulting from statutory audits of annual and consolidated financial statements was approximately €2.6 billion.

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