

# Our commitment to audit quality

Information for audit committees,  
investors and other stakeholders

Ernst & Young LLP | November 2019

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow chevron shape is positioned above the 'Y'.

Building a better  
working world



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# Audit committees, investors and other stakeholders

We are pleased to present the 2019 audit quality report of Ernst & Young LLP (EY US or the Firm), demonstrating our commitment to continuously improving the quality of our audits and strengthening our system of quality control.

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

As part of our commitment to serving the public interest, we have a responsibility to provide our stakeholders with a better understanding of how we conduct our audits, how we monitor our performance and what we are doing to continuously improve the quality of our audits. This annual report, which we have been producing since 2012, is one way we provide that transparency.

Our report highlights our continued investment in technology that is transforming our audits and enabling our people to spend more time focusing on the key risks in an audit. It also describes our investments in attracting, retaining and developing highly skilled professionals who share our values, and why we seek the views of our recently established Independent Audit Quality Committee (IAQC) to get a fresh perspective on what more we can do to strengthen audit quality.

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

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

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

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

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



A handwritten signature in black ink that reads "Kelly J. Grier".

**Kelly J. Grier**  
US Chair and Managing Partner  
Ernst & Young LLP



A handwritten signature in black ink that reads "John L. King".

**John L. King**  
US Vice Chair of Assurance  
Ernst & Young LLP



# A snapshot of key metrics

## Our audit portfolio

We audit  
**six of the top 10**  
companies in the Fortune 500

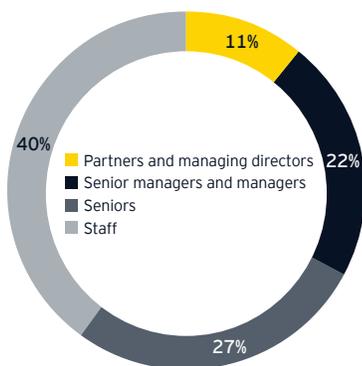
and  
**30%**  
of Fortune 500 companies

Public companies we audit  
**931**

## Our people

**10,690**

US audit professionals, by rank



Percentage of our new US audit partners and managing directors who are women or minorities

**54%**

Retention of top-rated professionals

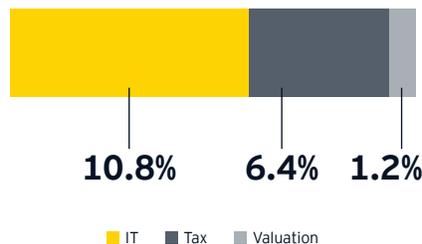
**88%** senior managers and managers

**78%** seniors and staff

## Executing high-quality audits

Percentage of US public company audit hours generated by specialists

**18.4%**



Ratio of Quality Network and Professional Practice partners to audit partners

**1:6**

## Innovating the audit

Percentage of teams using EY Canvas

**100%**

Percentage of teams on large US public company audits incorporating EY Helix data analyzers into their audits

**90%**

Percentage increase in the number of teams on US public company audits using data-driven audit procedures to obtain evidence

**+50%**

from the previous year



# Our commitment to audit quality

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

## How we define audit quality

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

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

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

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

We are proactively implementing the most significant change in auditor reporting in decades – describing critical audit matters (CAMs) in our reports for the public companies we audit, as required by the Public Company Accounting Oversight Board (PCAOB or Board). To make sure our descriptions are clear and useful to investors and others who rely on financial statements, we have developed detailed guidance for our professionals, along with special training and coaching that will continue into 2020 as the requirement to report on CAMs is phased in.

Throughout the year, our professionals provide robust communications to the audit committees of the companies we audit on topics such as key business issues, our risk assessments,

the company's progress implementing major new accounting standards, engagement-level audit quality indicators and how our digital audit transformation is improving audit quality.

### Leadership, tone at the top and mindset

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

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

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

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

#### Our values

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

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

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

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

### Delivering high-quality audits across the globe

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

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

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

The EY global organization's **Sustainable Audit Quality (SAQ) program**, which reflects our collective commitment to conducting globally consistent high-quality audits over time, continues to be the top focus for the Assurance practice at EY member firms around the world. It establishes a strong governance structure that enables each member firm to provide high-quality audits. It is implemented locally and coordinated and monitored globally. The word "sustainable" in SAQ is used to demonstrate that this is not a one-off, short-term initiative, but a process of continuous improvement.

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

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

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

The Global Audit Quality Committee, which includes executives from our US audit practice, works with EY Global Assurance leaders to monitor and oversee quality globally. It also considers strategy and policy decisions, highlights leading practices, and identifies and addresses emerging quality issues.

### Our system of quality control

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

We continuously review our system of quality control and make changes to our policies and our processes when necessary. The EY global organization said in a recent comment letter that it generally supports the International Auditing and Assurance Standards Board's proposed standard on quality control. We are also evaluating the potential effects of the proposed standard and beginning to develop an implementation plan.

Over the past year, the PCAOB has increased its focus on each audit firm's system of quality control in its inspection program, and

the Board has publicly indicated it is considering whether to update its quality control standards in a way that prompts audit firms to improve their quality control systems and be more proactive in identifying and addressing emerging risks and deficiencies.



We view our system of quality control as the foundation for consistently performing high-quality audits. That's why we continuously review our processes and controls and make investments in enhancing them.



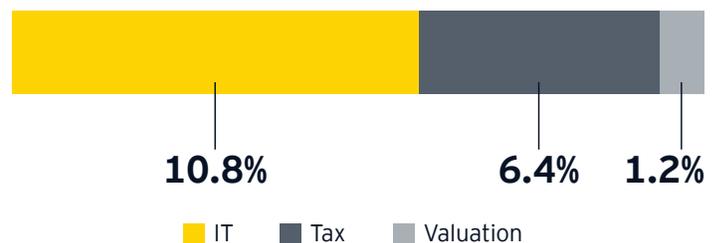
John L. King  
US Vice Chair of Assurance

### Our multidisciplinary strategy

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

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

In fiscal 2019, our specialists accounted for a total of 18.4% of our US public company audit hours, up 0.5 percentage points from 2018. IT specialists accounted for 10.8% of US public company audit hours. Tax and valuation specialists' time represented 6.4% and 1.2% of total US public company audit hours, respectively.



# Independent advice on audit quality

We value independent perspectives and are committed to incorporating them into our efforts to further strengthen audit quality, risk management and our system of quality control. Leaders of the US Firm meet regularly with our three-member Independent Audit Quality Committee (IAQC) and seek the IAQC's feedback and advice about aspects of our business, operations, culture, talent strategy, governance and risk management that affect audit quality.

In their discussions with the IAQC, the leaders of the US Firm focus on gaining fresh insights on areas to drive improvements in audit quality and whether we should consider taking additional actions.

The inaugural members of our IAQC have extensive experience with public company audits and financial reporting and provide us with a range of valuable perspectives represented in the financial reporting ecosystem.

In its first year, the IAQC has focused on gaining an understanding of our operations as well as insights into audit quality measurement, audit technologies and our talent strategy. The IAQC has also focused on the nature and effect of our engagement with selected key stakeholders in the capital markets ecosystem.

Our approach of obtaining input from the IAQC complements the EY global organization's approach of working with independent non-executives (INEs), who have been part of the EY Global Governance Council since 2011. The US IAQC and the global INEs will have regular touch points to share insights with each other.

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We respect the work EY US is doing and welcome the opportunity to provide independent perspectives to EY US as a part of the Firm's continued focus on enhancing the quality of audits on which our capital markets, investors and other stakeholders rely.

In our early efforts, we are seeking to engage across EY US and with EY stakeholders to better understand the Firm's system of quality control, risk management approach and culture.

F. William McNabb III, Jeanette M. Franzel and Charles H. Noski

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We believe in diverse points of view in all aspects of our business. In a dynamic and fast-paced world, audit quality is not static, and the IAQC's independent perspective is an important contributor to continuously strengthening audit quality, which is central to our mission.



Kelly J. Grier  
US Chair and Managing Partner



IAQC chair **F. William (Bill) McNabb III** is a former chairman of the board of directors and board of trustees of Vanguard Group Inc. and is currently a board member of UnitedHealth Group and IBM.



IAQC member **Jeanette M. Franzel** is a certified public accountant and a former board member of the PCAOB and served for over 20 years at the Government Accountability Office.



IAQC member **Charles (Chuck) H. Noski** is chairman of the board of trustees of the Financial Accounting Foundation and serves on the boards of directors of Booking Holdings Inc., Microsoft Corp. and Wells Fargo & Company. He is a retired vice chairman of Bank of America Corp., a former chief financial officer at several public companies and a former partner at another Big Four public accounting firm.

## Engagement with stakeholders

Our leaders actively engage in discussions with officials at the PCAOB and the Securities and Exchange Commission (SEC) as a critical part of our efforts to improve audit quality. We recognize that audit quality has improved significantly since the PCAOB was created by the Sarbanes-Oxley Act in 2002. Investor confidence in the reliability of financial reporting has also increased.

Issuing this annual report and finding ways to provide additional data and context about our audit practice each year is one way we work to make the audit process more transparent to investors, audit committees and other stakeholders. Our leaders have also worked with their counterparts across the profession to develop a framework for reporting on audit quality to increase the consistency of the data firms include in reports like this.

Our US Chair and Managing Partner, Kelly Grier, is deeply committed to audit quality and now serves as chair of the governing board of the Center for Audit Quality, which focuses on public policy issues affecting the profession.

We also continue to issue thought leadership aimed at improving the quality of financial reporting and helping audit committees and management understand new accounting standards and emerging technologies, such as blockchain technology.

## Information security and privacy

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

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

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

## Financial information

Total revenue for EY US (which includes expenses billed to the companies we audit and revenue for work we performed for other EY member firms) for our fiscal year ended 28 June 2019 was \$15.2 billion.

Our Assurance service line generated 29% of EY US revenue. Our other service lines, Advisory, Tax and Transaction Advisory Services, generated 32%, 28% and 11% of our revenue, respectively, but a portion of the revenue of those service lines relates to work on our audits. Including that revenue in our Assurance service line would bring total Assurance revenue to 34% of EY US revenue.

In our previous fiscal year, total revenue for EY US was \$14.0 billion, and the breakdown by service line was 31% from Assurance, 32% from Advisory, 28% from Tax and 9% from Transaction Advisory Services.



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

#### **Leveraging technology to improve audit quality**

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

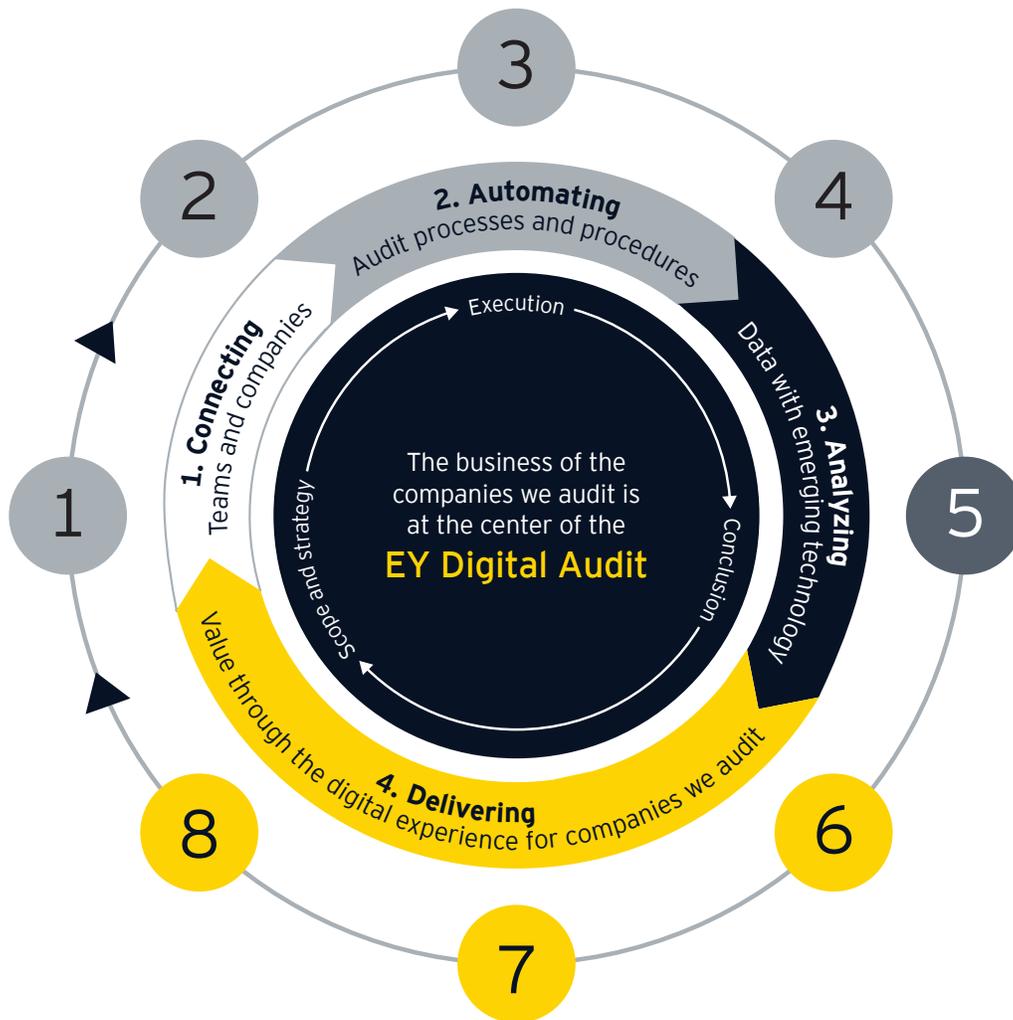
Our people are excited that we are automating administrative processes where it makes sense and using data to help our teams identify risks and appropriately allocate resources. They are excited to work differently through a combination of global

and engagement-specific solutions that simplify our processes and help teams focus on the key risks in an audit.

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

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

The EY global organization continues to add features to EY Canvas that reduce the effort required to perform administrative tasks and help our teams spend more time focused on areas of the audit that require professional judgment and insight based on experience. The EY Canvas platform now features solutions that automate routine audit procedures and processes, such as a solution that sends out and receives requests to confirm the Trade Receivables balances with customers and Intelligent Checklists that help streamline the preparation and review of financial statement disclosure checklists.



## One technology platform. One global audit.

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

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

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

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

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

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

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

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



For example, one of our teams used a company's historical data to develop an independent estimate of the dollar value of sales incentives the company will offer.

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

In a 2019 survey conducted for the EY global organization by an independent research firm, business leaders ranked the EY US audit practice No. 1 among the Big Four in "expertise in advanced technologies and data analytics."

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Having access to a company's data allows us to proactively identify unusual transactions or events and discuss them with management. We now have the ability to focus on issues in real time and consider the audit implications immediately.



Thomas J. Kornya  
US Deputy Vice Chair of Assurance

### Supporting our teams with the 10x Accelerator

To accelerate our use of technology in our audits, EY US continues to invest in the centralized service delivery model we call our 10x Accelerator. It is designed to help our teams realize the power of our technology. By providing our teams with access to more than 500 data analytics professionals who can help them efficiently capture data from the companies we audit and effectively use it in the audit, our 10x Accelerator has inspired confidence in our teams and sparked a cultural shift.

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

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

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

brainstormed about how to effectively support our teams and learned about emerging technologies.

To make sure our people are well-equipped to use our digital solutions, we have expanded our digital training. We recently provided our interns with an opportunity to participate in a Digital Ambassador Program in which they learned digital skills and applied them to solve real-world audit challenges. We are also driving quality by integrating Quality Network professionals into our digital support network activities and developing training and materials to make sure we consistently execute high-quality digital audits.

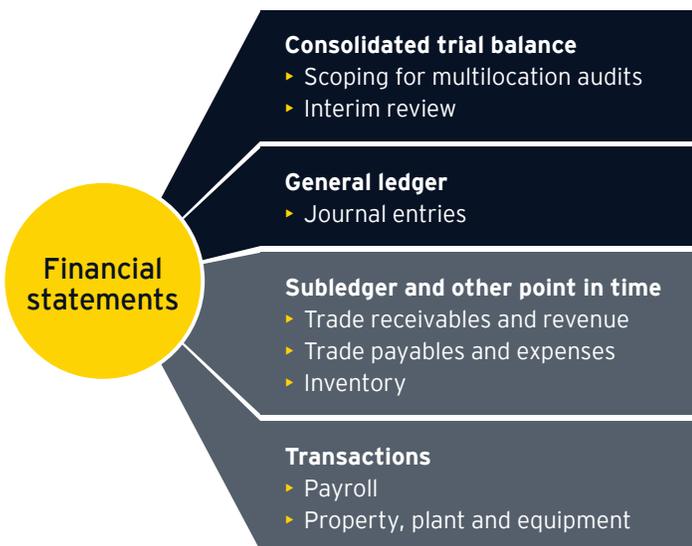
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The power of technology is its ability to unlock the talents of our people as we strive toward our overarching ambition to provide trust and confidence in the capital markets. That’s why we invest heavily in training to expand the skills of our people.



Scott Zimmerman  
Assurance Innovation Digital Leader

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



In our latest audit cycle (mostly audits of 2018 financial statements), 90% of our teams on large public company audits incorporated the use of these analyzers into their audit plans, and the number of teams using data-driven audit procedures to obtain substantive evidence increased by 50% from the previous year.

### Emerging audit technology

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

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

Our experience with the EY Blockchain Analyzer and blockchain business solutions is helping us prepare for the day when companies will embed groundbreaking technologies, such as blockchain, into their financial processes.

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



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

#### **Attracting exceptional talent**

We recruit talented people who share our values and our commitment to executing high-quality audits. We stress the importance of the work we do as auditors and the value of the EY brand in our campus recruiting and internships. This year, our audit practice hired over 2,000 people from college and university campuses, roughly the same number as in previous years.

We increased our emphasis on hiring people who have both an accounting degree and a major or minor in data analytics, management information systems or computer information systems. These recruits now represent close to 10% of our campus hires in our audit practice, and we plan to increase that percentage over time. Because of their academic studies, they are uniquely positioned to help us realize the benefits of a digital

audit. We've assigned them to audits where they can leverage their advanced technology skills to help us accelerate our use of our data analytics tools.

More than 70% of our campus hires this year have first-hand experience with EY, having previously worked with us as interns. The fact that they want to work with us full-time underscores the strength of our business, our culture and our ability to retain talented professionals.

Our reputation as a great place to work and our culture of belonging enhance our ability to attract exceptional people. For example, we are the only Big Four firm to have made Fortune magazine's 100 Best Companies to Work For list for 21 consecutive years.

EY US continues to be a top professional services firm in Universum's annual Most Attractive Employer rankings, having been recognized as the No. 1 firm in two of the past three years and ranking among the top 10 employers overall for business graduates. Given our strong people culture, we are using the survey feedback to take actions to improve the experience of our people and increase our standing.

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

- ▶ Fortune magazine's 100 Best Companies to Work For® list for the 21st consecutive year
- ▶ DiversityInc's Top 50 Hall of Fame recognition for companies that have achieved a No. 1 ranking on the publication's Top 50 Companies for Diversity list

### Leveraging diversity and promoting inclusiveness

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

To measure our progress, we look at various metrics, including the percentages of women and minorities we recruit and promote into leadership positions. This year, 54% of the audit professionals we promoted to partner or managing director were women or minorities. In our campus hiring, 48% of our recruits in fiscal 2019 were women and nearly 32% were minorities.

Our retention rates for women or minorities at the senior manager and manager ranks and at the senior and staff ranks have improved over the past three years and are now the same

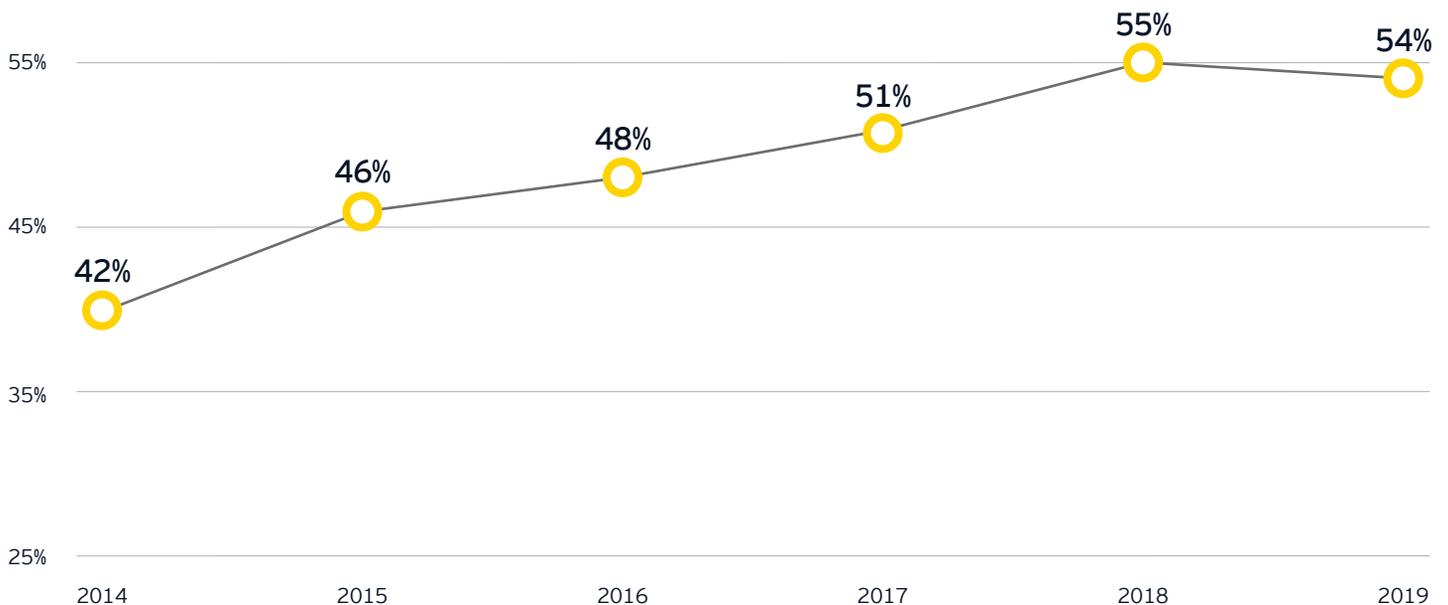
as our overall retention rates of 82% and 76% for these groups, respectively. To sustain momentum, we actively monitor these percentages and focus on initiatives, such as sponsorship and mentoring programs.

We also monitor the percentage of partners and managing directors in leadership positions who are women or minorities, including those who are in charge of audits. The percentage of women or minority partners in charge of audits rose to 26% from 23% last year. The percentage of women partners who lead our most complex multinational audits is also rising. We expect women to lead 23% of these audits for periods beginning in 2020, up from 11% three years earlier.

Our commitment to D&I is also reflected in our leadership. Kelly Grier is the chair of EY US, and seven of the 16 members on our US Executive Committee are women or minorities.

We sponsor a wide variety of professional networks to provide opportunities for our people to connect with one another and Firm leadership; foster a sense of belonging by meeting with peers, role models and allies; share their experiences; and get advice. They include our Black Professional Network, EY AccessAbilities, Unity (lesbian, gay, bisexual and transgender), Latino Professional Network, Pan Asian Professional Network, Central and Eastern European Professional Network, Professional Women's Network, Today's Families Network and Veteran's Network.

Percentage of new US partners and managing directors who are women or minorities



We are proud of the recognition we have received for our efforts, especially from DiversityInc, a leading source of business information on diversity and inclusion management. We are an inaugural member of DiversityInc's Top 50 Hall of Fame made up of companies that have achieved a No. 1 ranking in its list of Top 50 Companies for Diversity.

We are proud to rank first among professional services firms on DiversityInc's 2019 specialty lists for talent acquisition, executive women, mentoring, sponsorship, people with disabilities, employee resource groups and diversity councils.

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

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

in the profession, we are beginning to promote top performers when they're ready, rather than requiring them to complete a specified number of years of service in each rank.

We've also launched a program to recognize audit teams and individuals who exhibit the behaviors we believe contribute to audit quality. Any partner or managing director can nominate a team or individual for this honor, which includes recognition in communications from our leaders. We anticipate that hundreds of professionals will be recognized through this program, which will reinforce the behaviors we see associated with audit quality.

#### Number of US audit professionals\*

	Fiscal 2019	Fiscal 2018	Fiscal 2017
Partners and managing directors	1,164	1,123	1,116
Senior managers and managers	2,387	2,289	2,230
Seniors and staff	7,139	7,078	7,335
<b>Total</b>	<b>10,690</b>	<b>10,490</b>	<b>10,681</b>

\*On a full-time equivalent basis

The table above does not include professionals at shared service centers who work on US audits. The number of hours they worked on US public company audits was the equivalent of having another 862, 701 and 556 full-time auditors in fiscal years 2019, 2018 and 2017, respectively.

To further support our people, we use an approach to career development and performance management that provides our people with meaningful career conversations that enhance their experience, along with regular and useful feedback and ongoing insight into their performance.

We also want to make sure our people are engaged, which we define as a combination of factors – pride, advocacy, commitment and satisfaction, which we assess through an internal people survey. We combine these factors into an "engagement index." This year, the engagement index for our US audit practice was 77%, the same as last year. This showing is impressive, given the unprecedented levels of accounting and auditing change our people are facing.

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

We also use an online survey of all our teams to evaluate how our people feel about their engagement team's culture, flexibility and communication. Team members then discuss the findings and develop action plans to improve their experience.

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

	Fiscal 2019	Fiscal 2018	Fiscal 2017
Partners and managing directors	36%	35%	33%
Senior managers and managers	59%	57%	57%
Seniors and staff	60%	60%	60%
<b>Total</b>	<b>57%</b>	<b>56%</b>	<b>57%</b>

\*Headcount

#### The right people at the right time

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

Identifying and developing partners who can lead our most complex and most challenging multinational audits when more senior partners retire is critical to our ability to deliver high-quality audits. We are strengthening and expanding this group of partners by making sure they have the appropriate experiences to develop their skills.

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

Our counseling families meet periodically with an executive and discuss topics such as career development. We have nearly 375 of these families in the US audit practice. We also have a mechanism for our people to share their opinions on topics such as quality, people and operational matters with leadership and work together to implement their ideas.

An integral part of our talent strategy is our focus on our professionals' well-being and vitality. We introduced two one-week office closures this year – a summer break and winter break, when our professionals can disconnect because everyone is out of the office at the same time. In addition, we launched a pilot platform called Well-being Communities, which connects audit teams to renowned experts in fields such as positive psychology, digital well-being, the power of gratitude, finding balance and optimizing energy.

We also believe that flexibility is important when creating high-performing teams. Most of our people work flexibly on an informal basis, but we also offer formal flexible work arrangements. We reinforce the importance of flexibility in our leadership communications.

#### Average annual hours in excess of 40 hours per week by rank

	Fiscal 2019	Fiscal 2018	Fiscal 2017
Partners and managing directors	423	431	443
Senior managers and managers	312	289	284
Seniors and staff	253	227	225

Many of our professionals worked more hours throughout the year than they did in the previous year to audit the implementation of certain new accounting standards, to prepare for reporting on critical audit matters and to implement our new approach for understanding key business processes. We continue to assess workloads of our executives to make sure they have the time to execute high-quality audits and continue to put in place measures to reduce hours.

To promote retention at our more junior ranks, we launched a “bank your bonus” program that offers newly promoted seniors the option to defer their \$5,000 promotion bonus and instead receive a \$25,000 bonus if they stay with the Firm for three additional years.

Our retention rate for top-rated senior managers and managers and for seniors and staff far exceeded the overall retention rates for both of those groups.

#### US audit overall staff through senior manager retention rate by rank

	Fiscal 2019	Fiscal 2018	Fiscal 2017
Senior managers and managers	82%	83%	82%
Seniors and staff	76%	76%	73%

#### Fiscal 2019 retention for top-rated US audit staff through senior manager exceeds overall retention

	Top rated	Overall
Senior managers and managers	88%	82%
Seniors and staff	78%	76%

### Developing our people

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

On-the-job coaching and supervision for less-experienced staffers is critical to delivering high-quality audits. That’s why we focus on maintaining our ratios of executives to less-experienced members of our audit teams. Our partners and managing directors who coach, mentor and supervise more junior professionals have on average 21.5 and 19.3 years of service, respectively.

#### Ratios of audit executives to other audit professionals

	Fiscal 2019	Fiscal 2018	Fiscal 2017
Partners and managing directors to staff through senior managers	1 to 8.2	1 to 8.3	1 to 8.6
Senior managers and managers to seniors and staff	1 to 3.0	1 to 3.1	1 to 3.3

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

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



We proactively invest in EY professionals to inspire them and help them deliver at the highest levels. This involves building future leaders, encouraging diversity and inclusiveness, recognizing and rewarding teams and individuals for their commitment to quality, and fostering vitality.



Becky Burke  
Assurance Talent Leader

We made significant investments this year in training our people on the effective use of data analytics, delivering a total of 132,000 hours of training on this topic, up 36% from the previous year. We provided accounting and auditing training on the new leases standard and used our training to reinforce our messaging about the behaviors associated with high-quality audits.

We also continue to look for ways to enhance our culture of learning and promoting instructor excellence. For example, we recently implemented a recognition program for executives who facilitate training sessions and receive top ratings from

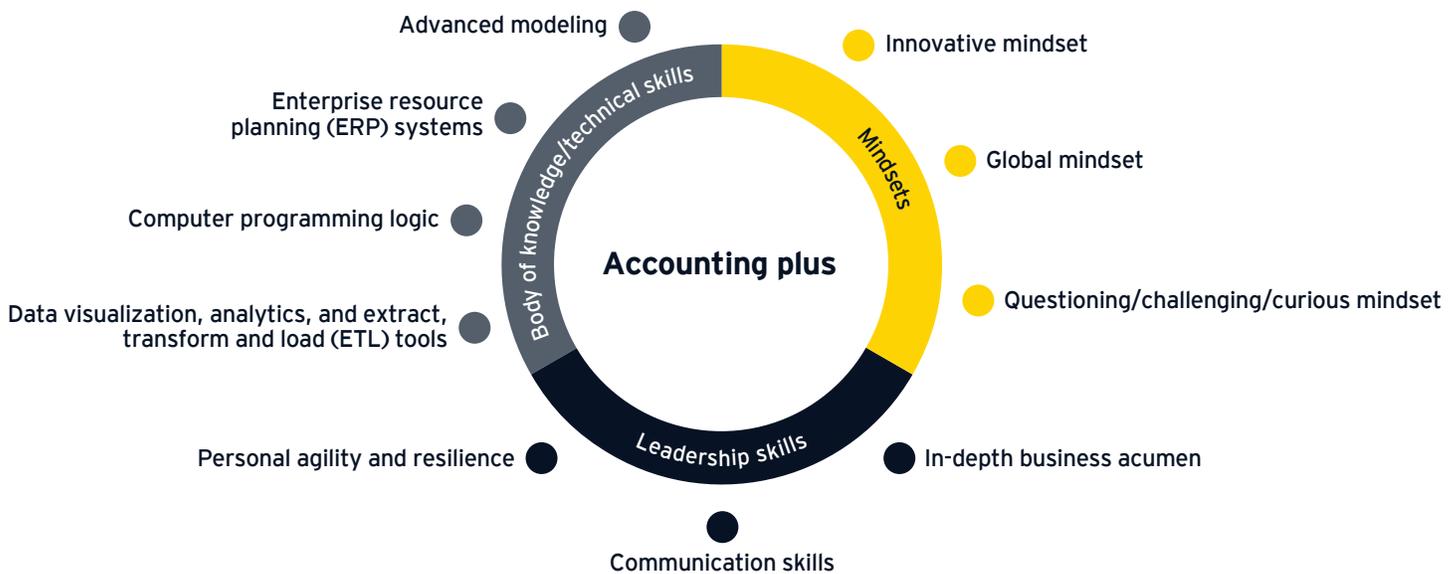
participants. They are celebrated in firm-wide communications and are eligible for monetary awards. In addition, they receive opportunities such as teaching at the International Intern Leadership Conference or traveling overseas to train professionals who work on US audits.

As they have in years past, our audit professionals exceeded our requirement to complete 40 hours of continuing professional education in any given year.

Average hours of continuing professional education by fiscal year		
2019	2018	2017
107	112	108

Our professionals are rewarded financially for passing the certified public accountant (CPA) exam early in their careers. We also reward professionals who are recognized by the American Institute of Certified Public Accountants (AICPA) for achieving exceptional results on the CPA exam. We are proud to report that 17 EY professionals were among the 110 people who received this honor this year.

## The skills and mindsets we need





# Executing high-quality audits

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

## **Working with the right companies**

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

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

## **Market share**

We continue to have the leading market share among auditors of Fortune 500 companies (30%), Fortune 1000 companies (30%)

and Russell 3000 companies (25%). We also audit six of the top 10 companies in the Fortune 500, giving us the largest market share among auditors of that group.

Number of public companies we audit		
2019	2018	2017
931	939	963

While the number of public companies we audit remained relatively consistent with 2018, the number has declined over time, reflecting the overall decline in the number of public companies listed on US exchanges. Total audit hours on US public company audits increased slightly in fiscal 2019 from the prior year, which means we devoted more hours on average to our public company audits.

The results of the latest brand survey conducted by an independent research firm for the EY global organization indicate that business leaders recognize our commitment to audit quality. Our EY US audit practice ranked first among the Big Four in categories such as (1) best mix of talent, knowledge and skills, (2) strongly recognized for technical quality, (3) deep industry expertise, (4) globally connected and consistent, (5) diverse teams and culture, and (6) proud to bring to the boardroom. As discussed earlier, we also ranked No. 1 among the Big Four in the category of “expertise in technologies and data analytics.”

### Establishing the right team

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

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

All assignments of partners in charge of public company audits and engagement quality reviewers on these audits are approved

by both Assurance and Professional Practice leadership. About 54% of our audit partners serve as the partner in charge of a public company audit, and they each lead an average of two public company audits. If audit partners who serve as engagement quality reviewers on public company audits are included, the percentage rises to 73%.

Our other audit partners serve as engagement partners to gain experience, in quality or leadership roles, or as partners in charge of private company audits. We have engagement partners on one-third of our public company audits to assist the partner in charge of our larger or more complex audits.

To make sure our partners and managing directors have enough time to execute quality audits, we also review their workloads semiannually and when the scope of an audit changes significantly due to a major transaction or when there is significant turnover on the team. We also perform a comprehensive annual review of each team to make sure we are staffing our audits with audit professionals and specialists who have the right skills and capacity to execute quality audits, given the risk factors identified in each engagement.

We believe that timely executive involvement is a key driver of audit quality, and as a key element in our system of quality control, we track and evaluate hours incurred by key audit, IT and tax executives at various points during the audit. Professionals at the rank of manager and above are considered audit executives.

### Shared services

The professionals in shared service centers that support the EY global organization perform certain audit procedures and other tasks under the supervision of our US audit teams. Our shared service center personnel execute less-complex audit procedures to help our audit teams devote more time to more complex aspects of the audit. In fiscal 2019, shared service center professionals accounted for 12% of US public company audit hours.

### Managing the audit

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

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

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

Scope of the audit	Jun 30
Audit strategy	Aug 31
Understanding key business processes	Sept 30
Interim control testing	Nov 30
Interim testing of account balances	Dec 15

While a significant amount of audit work needs to be completed at or after year end, our milestones program helps our teams perform as many tasks as possible before that busy period. In recent years, our teams have been able to perform 35% of their work three months before the fiscal year end of the company under audit and about 60% of their work before the fiscal year end. Performing work earlier in the audit cycle gives teams more time to address any issues that arise before the year-end crunch.

Our people say the milestones program has helped them see the big picture, contributing to higher-quality audits. "It was about changing how we thought about what we were doing each day," one senior manager said. He adds that his team used milestone

status meetings to discuss what was going on with the company at each stage of the audit and how audit technology could be used to help drive better insights.

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



## Performing the audit

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

Under the approach, which we implemented last year as Project Insight, all of our teams that perform integrated audits meet early in the audit cycle and collaborate with IT, tax and valuation professionals to drive a deeper understanding of key business processes and risks. Our senior executives provide timely on-the-job coaching and supervision when the work is being performed. As a result, our teams are able to resolve issues earlier in the audit and enrich the experience of our professionals.

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

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

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

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

“

We are committed to supporting our people and providing the resources and training they need to improve the quality of their audits and exercise professional skepticism. That's why we are leveraging technology and have reimagined our approach for understanding the risks in key business processes.



James R. Estes  
US Vice Chair of Professional Practice



## Supporting our teams

Our Quality Network focuses on proactively improving audit quality by coaching our audit teams, advising them on audit methodology matters, providing training and executing various risk management and quality control procedures, such as analyzing workloads and reviewing staffing. Members of the Quality Network identify teams that need help partly by leveraging the risk designation and risks identified during our firmwide assessment process.

Because the roughly 150 professionals who make up our national Quality Network are embedded in our Regions, they have frequent contact with teams and are able to identify and proactively address emerging risks, including industry-specific risks. They're also able to share that knowledge across the practice.

“

We focus on proactive risk management and providing the necessary support and enablement to our audit teams to execute with high quality. Our processes are designed so that we can get in front of potential issues.



Linda Lam  
US Director of Quality Implementation

Over the past year, our Quality Network coaches continued to support our professionals in applying audit standards and our methodology for assessing risks and understanding the flow of transactions, including data, in key business processes. They also focused on coaching teams on the digital audit, the application of new accounting standards and nonrecurring events.

In the upcoming audit cycle, our Quality Network plans to engage with approximately half of our teams on public company audits by providing coaching or advice. Additionally, frequent informal discussions occur between Quality Network professionals and audit teams. Our monitoring of the effectiveness of this coaching indicates that it helps our teams execute well and it promotes high-quality audits.

“

We leverage key audit quality indicators and other data about our teams' progress toward meeting milestones and providing timely executive involvement, so we can proactively identify those that may need additional help.



Randall Duncan  
Quality Implementation Leader - US-Central Region

Our Professional Practice group, which includes approximately 120 partners, supports our audit practice by consulting with our teams on difficult accounting, auditing, and SEC and other regulatory matters. Our Professional Practice group also provides audit teams and the companies we audit with guidance and thought leadership, develops materials to help our teams deliver high-quality audits, performs risk management activities, evaluates our quality control system and operates our monitoring and internal inspections programs.

“

I have regular contact with our teams in the field on emerging or challenging audit issues and provide real-time guidance to help teams resolve difficult auditing questions.



Kaki Giaque  
Control and Audit Methodology Leader - US-West Region

Over the last three years, our Professional Practice partners have conducted an average of 2,300 formal consultations annually with audit teams. Revenue recognition and income taxes were the top accounting consultation topics in fiscal 2019, consistent with the previous year.

Our ratio of Quality Network and Professional Practice partners to audit partners remained consistent in fiscal 2019 at 1 to 6. We continuously monitor and evaluate the level of support our teams need to consistently deliver the quality we expect.

### Engagement with audit committees

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

### Cybersecurity

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

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

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



# Monitoring

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

## **Early monitoring of in-progress audits**

Our reviews of certain public company audits prior to the issuance of the related audit report are an important early monitoring component of our system of quality control. We conduct these pre-issuance reviews to provide timely feedback to teams and to help us determine whether the actions we are taking to improve audit quality are achieving our objectives or whether enhancements to our training, guidance or tools are required during the current audit cycle.

In the current audit cycle, we are focusing on how our teams are using our approach for performing and documenting our risk assessment procedures, nonrecurring events, auditing the

company's reporting under the new leases standard, and our reporting on critical audit matters.

## **Internal inspections of completed audits**

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

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

During our 2019 inspection year, we reviewed approximately 105 public company audits (generally of financial statements for the year ended 31 December 2018). We conducted reviews of approximately 110 public company audits in our 2018 inspection year and approximately 120 public company audits in our 2017 inspection year.

### Turning root cause analyses into actions

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

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

In fiscal 2019, 100% of our professionals who were involved in positive quality events received recognition for their contribution to audit quality.

### Independence monitoring

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

Our policies require managers through partners to record securities and other financial relationships held by them and their immediate family members in the Global Monitoring System, which initially assesses and then monitors the permissibility of the securities and financial relationships. Managers through partners are required to have automated feeds from their brokers to make sure the records are updated in a timely fashion. We have 39 partners in our EY US independence group to support our audit teams.

All EY US professionals who work on audits and certain others, based on their role, are also required to confirm compliance with our independence policies and procedures each quarter.

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

We tested nearly 2,400 partners and other professionals across the US in the most recent reporting year for their compliance with our independence policies.

### Restatements

We monitor restatements of the financial statements of the companies we audit and evaluate whether there are any trends that require additional action or changes to our system of quality control.

The data below is based on the approximately 1,500 issuers that we audit, which includes SEC registrants and mutual funds. The number of mutual fund issuers was approximately 550 funds in each of the past three years.

Year of filing	Number of restatements	% of issuers we audit
2016	8	0.5
2017	9	0.6
2018	5	0.3





# External inspections

The PCAOB conducts annual inspections of the audit work we perform and aspects of our Firm’s quality control system. We value the PCAOB inspection process and believe that it has led to improvements in audit quality.

## The role of the PCAOB

Since its creation in 2002, the PCAOB has played an important role in improving audit quality. Through annual inspections and standard setting, the PCAOB has helped the profession to identify areas for further attention and to develop processes to determine the root cause of audit deficiencies. PCAOB inspections have helped us confirm areas we have identified for improvement in our internal inspections and identify other areas where we can continue to improve our performance.

We support the PCAOB’s efforts to innovate and explore new ways to prevent audit deficiencies and report on its inspection findings, including increasing its focus on a firm’s system of

quality control. As discussed earlier, we have been focusing on enhancing our system of quality control over the past few years. We agree with the PCAOB’s emphasis in this area.

## Part I of the PCAOB report

This section of a PCAOB report, which is released to the public, describes the procedures the PCAOB staff performed during the inspection and certain observations regarding audit deficiencies on these engagements.

The PCAOB cautions that its inspection results are not intended to serve as a balanced report card or an overall rating of the quality of audits performed by a firm because the inspections primarily focus on higher-risk audits and are designed to identify deficiencies in audit work. That is, the Board cautions against using the number of audits with deficiencies in this portion of the report to draw conclusions about a firm’s entire practice.

The PCAOB has noted that deficiencies vary in nature and severity, and that is why the Board is considering providing more information about the types of deficiencies identified in its inspections. Some deficiencies require us to perform more work on a particular audit, and for others, we reconsider elements of our system of quality control. Regardless of the severity, we learn from every deficiency identified in inspections.

The table and discussion below reflect results of our PCAOB inspections through the 2017 inspection cycle, which generally covers our audits of 2016 financial statements and is the latest report the PCAOB has released.

Inspection year	Fiscal year of audits inspected (generally ended in December)	Number of inspected audits	Number of audits identified in Part I
2015	2014	55	16
2016	2015	55	15
2017	2016	55	17

Our 2017 inspection results were generally consistent with those in the previous two years. We had findings related to auditing internal control over financial reporting in 16 of the 17 issuer audits cited in Part I of our 2017 inspection year report. We also had findings related to deficiencies in substantive testing in 16 of the 17 audits cited in Part I of our 2017 report. The most frequent areas of findings included:

- ▶ Testing the design and/or operating effectiveness of controls
- ▶ Testing controls over both the accuracy and completeness of data or reports and testing the accuracy and completeness of the information
- ▶ Testing significant assumptions or data used in developing an estimate

Revenue (including accounts receivable), inventory, business combinations and investments were the audit areas in which findings were most common.

As discussed earlier in this report, we have taken and continue to take robust actions to drive further improvements in audit quality, including how we gain an understanding of the data flows in companies' key business processes, how we perform our related risk assessments and how we use data analytics. We are already seeing the benefits of these approaches and are pleased with the results to date.

## Part II of the PCAOB report and status of inspection reports

This nonpublic section of the PCAOB's inspection report provides observations on a firm's system of quality control. The PCAOB's assessment of a firm's system of quality control is derived from both the results of its review of the firm's quality control policies

and inferences that can be drawn from deficiencies in the performance of individual audits. Certain firm practices, policies and processes related to audit quality are reviewed, including those in the following areas:

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

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

The PCAOB issued its 2017 report in October 2019, and we will submit our response no later than September 2020.

## Peer review

We participate in the AICPA peer review program that requires a review every three years of our system of quality control for our private company audit practice. Grant Thornton is performing our latest review (primarily of audits for the year ended 31 December 2018), and we expect to receive a report in December 2019.

In its 2016 report on our previous peer review, KPMG concluded that our system of quality control for our private company audits had been suitably designed and complied with during the peer review year to provide us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

# Appendix

## EY US Executive Committee



**Kelly J. Grier**  
US Chair and Managing Partner



**Michael J. Inserra**  
US Deputy Managing Partner



**Hank Prybylski**  
US Vice Chair - Advisory



**John L. King**  
US Vice Chair - Assurance



**William M. Casey**  
US Vice Chair - TAS



**Marna Ricker**  
US Vice Chair - Tax



**Sam R. Johnson**  
US Vice Chair - Accounts



**Karyn Twaronite**  
US Diversity and  
Inclusiveness Officer



**Robert C. Patton**  
US Vice Chair - Office of  
Strategic Execution



**Edwin Bennett**  
US Vice Chair - Operations



**Carolyn J. Slaski**  
US Vice Chair - Talent



**Jay Persaud**  
US Vice Chair - Risk Management



**Julie A. Boland**  
US Vice Chair and Regional  
Managing Partner, US-Central



**Richard Jeanneret**  
US Vice Chair and Regional  
Managing Partner, US-East



**Anthony Caterino**  
US Vice Chair and Regional  
Managing Partner, Financial  
Services Organization



**Francis C. Mahoney**  
US Vice Chair and Regional  
Managing Partner, US-West

## List of metrics in this report

Our commitment to audit quality	
Metric	New for 2019
Percentage of US public company audit hours accounted for by specialists' involvement (i.e., specialists in total).	
Percentage of US public company audit hours accounted for by specialists in IT, tax and valuation.	
Percentage of US revenue for our Advisory, Assurance, Tax and Transaction Advisory Services service lines.	
Percentage of US revenue for Assurance if work on audits by professionals in other service lines is included.	
Innovating the audit	
Metric	New for 2019
Percentage of audit teams that use EY Canvas to execute their audit.	
Number of data analytics professionals who support audit teams with their digital audit strategy (headcount).	
Number of data analytics professionals who attended the Digital Coaches Academy training program.	X
Percentage of teams on large US public company audits (i.e., those with more than 10,000 total audit hours) that have incorporated the use of EY Helix data analyzers into their audit plan.	
Percentage increase of teams on US public company audits using data-driven audit procedures to obtain substantive evidence.	X
Our people	
Metric	New for 2019
Number of US audit professionals hired from college and university campuses.	
Percentage of campus hires who have both an accounting degree and a major or minor in management information systems, data analytics or computer information systems.	X
Percentage of US audit professionals hired from college and university campuses who previously worked for EY US as interns.	X
Percentage of new US audit partners and managing directors who are women or minorities.	
Percentage of US audit professionals hired from college and university campuses who are women or minorities.	
Number of women or minorities on our 16-member US Executive Committee.	
Retention rate for women or minorities at the senior manager and manager ranks and at the senior and staff ranks.	
Percentage of women or minorities who lead a US public company audit, compared with three years earlier.	
Percentage of our most complex multinational audits that we expect to be led by women in 2020, compared with three years earlier.	
Percentage of US audit professionals who are women or minorities, by rank (headcount).	
Number of US audit partners and professionals by rank (on a full-time equivalent or FTE basis).	
Participation by shared service center personnel in US public company audits, expressed as FTEs for fiscal 2019, 2018 and 2017.	
Engagement index for our US audit practice, based on responses to our Global People Survey.	
Average annual hours in excess of 40 hours per week for US audit professionals, by rank.	
Number of US audit counseling families, which are small groups that meet periodically to discuss topics such as career development.	
Retention rates for top-rated (1) senior managers and managers and (2) seniors and staff.	
Overall retention rates for (1) senior managers and managers and (2) seniors and staff.	
Average years of experience at EY US for US audit partners and managing directors.	
Ratio of US audit partners and managing directors to all US audit professional staff (FTE).	
Ratio of US audit senior managers and managers to US audit seniors and staff (FTE).	
Total training hours delivered on data analytics and the percentage increase from prior year.	X

Average hours of continuing professional education training.	
Number of EY US professionals recognized by the AICPA for achieving exceptional results on the CPA exam.	
<b>Executing high-quality audits</b>	
<b>Metric</b>	<b>New for 2019</b>
Percentage of the Fortune 500, Fortune 1000 and Russell 3000 companies audited by EY US.	
Number of top 10 companies in the Fortune 500 that we are auditing this year.	
Number of public companies audited by EY US.	
Total audit hours on US public company audits for fiscal 2019 exceeded the total for the previous year.	
Results of an independent research firm's brand survey ranking EY US first among the Big Four in various categories.	X
Percentage of audit partners who serve as partner in charge of a US public company audit and the average number of companies each partner serves in this capacity.	
Proportion of US public company audits with at least two audit partners (i.e., a partner in charge of the audit and an engagement partner to assist him or her).	
Percentage of audit partners who serve as partner in charge or engagement quality reviewers of a US public company audit.	X
Percentage of US public company audit hours accounted for by shared service center personnel.	X
Percentage of US audit hours incurred three months before the fiscal year end of the company under audit.	X
Percentage of US audit hours incurred before the fiscal year end of the company under audit.	
Percentage of EY US teams on integrated public company audits that are using our new approach for understanding key business processes. (Integrated audits are those in which we opine on internal control over financial reporting in addition to the financial statements.)	
Number of professionals in the Quality Network (headcount).	
Percentage of teams engaged by the Quality Network through coaching or advice.	X
Number of partners in Professional Practice (FTE).	
Average number of annual consultations with US Professional Practice over the past three years.	
Ratio of US Quality Network and Professional Practice partners to US audit partners.	
<b>Monitoring</b>	
<b>Metric</b>	<b>New for 2019</b>
Number of internal inspections of our US public company audits.	
Percentage of professionals involved in a positive quality event who received recognition.	X
Number of US independence partners.	
Number of US partners and other professionals who were tested for independence compliance.	
Number of mutual fund issuers we audited for the past three years.	
Number and percentage of restatements by year as a percentage of EY US issuer audits, including 10-K filers and mutual fund issuers.	
<b>External inspections</b>	
<b>Metric</b>	<b>New for 2019</b>
Number of PCAOB inspections and Part I findings.	
Results of our 2016 AICPA peer review.	

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