Audit committees, investors and other stakeholders

We are pleased to present the 2021 audit quality report of Ernst & Young LLP (EY US or the Firm), which reaffirms our commitment to continuously improving the quality of our audits and strengthening our system of quality control.

Our top priority continues to be serving the public interest by executing high-quality audits with integrity, independence and professional skepticism. We’re especially proud of the role our auditors played in promoting trust and confidence in the capital markets over the past year, in a period of great uncertainty and increased audit complexity. We’re also proud of the sustained improvements in audit quality we continue to make.

Our 2021 report highlights the resilience of our people and their important role in driving audit quality. Throughout the pandemic, we have supported the well-being of our people, while continuing to prioritize career growth, training and development. Despite the challenges of working remotely, we have remained focused on fostering a culture of belonging and reimagining how and where we will work in the future.

The report also highlights our commitment to diversity, equity and inclusion, which creates higher-performing teams, and the expansion of our efforts to fight racism in all forms. This year, for example, the Firm expanded its commitments to drive meaningful change by launching the EY Social Justice Fund and becoming an inaugural donor of the Ascend Impact Fund, which aims to raise awareness about anti-Asian racism.

We’re also proud of how we have used data and technology to transform the audit. In fiscal 2021, we made significant progress in our journey to realize the full potential of the digital audit. In the current audit cycle, 95% of our teams on US public company audits are fully implementing our digital audit methodology. That means they are analyzing digital data about a full population of a company’s transactions to enhance their risk assessments throughout the audit and make more-informed choices about which items to test. They’re also using our suite of EY Helix data analyzers to obtain audit evidence.

Despite the disruptions of the past year, we continued to look ahead and consider how the audit will evolve and what we need to do to prepare for the future. We identified and addressed emerging risks, such as the growth in the number of new public companies we audit. We are also actively engaging with regulators, standard setters and other stakeholders about the changing expectations for corporate reporting on topics such as environmental, social and governance (ESG) matters.

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.

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

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

Kelly J. Grier

John L. King
Key focus areas in 2021

- Fully implementing our digital audit methodology on US public company audits
- Continuing to focus on sustainable audit quality
- Reimagining how we attract, retain and support our people
- Enhancing our focus on learning and project management
- Implementing our EY Way of Working model to determine where and how we work
- Reemphasizing our values and culture
- Enhancing our use of data and analytical tools to manage risks in our audit portfolio
- Expanding our efforts to promote diversity and stand against racism
- Continuing robust engagement with our Independent Audit Quality Committee
- Underscoring the importance of independence and professional skepticism
- Continuing to focus on audit quality
- Supporting our teams
- Monitoring
- External inspections
- Appendix
A snapshot of key metrics

Our audit portfolio

We audit **6 of the top 10** companies in the Fortune 500 and have the **leading market share** among auditors of companies in the Fortune 500, Fortune 1000 and Russell 3000.

Public companies we audit: **1,009**

Our people

- **10,935** US audit professionals, by rank
  - 10% Partners and managing directors
  - 24% Senior managers and managers
  - 66% Seniors and staff

Percentage of our new US audit partners and managing directors who are women and racially and ethnically diverse professionals: **56%**

More than **190,000** hours of digital audit training completed in 2021

Executing high-quality audits

- Percentage of US public company audit hours generated by EY US specialists: **18.8%**
  - 11.1% IT
  - 5.4% Tax
  - 1.3% Valuation
  - 1.0% Other

- Ratio of Quality Network and Professional Practice partners and managing directors to audit partners and managing directors is **1:6**

- Percentage of US public company teams fully implementing our digital audit methodology: **95%**

- Percentage of US teams using EY Canvas: **100%**

- Nearly **7,000** EY Helix data analyzers delivered for US audits of 2020 financial statements
Our commitment to the public interest

Our mission will always be to serve the public interest by performing high-quality audits. We continue to innovate and are using the lessons of the pandemic to reimagine how to deliver high-quality audits and serve the public interest in the future.

How we define audit quality
We define audit quality as providing reliable and independent audit opinions and informative communications that promote trust and confidence in financial reporting and the capital markets. Our auditors use innovative technologies to take a data-first approach; apply consistent processes; and act with integrity, objectivity and professional skepticism.

We understand and take seriously the important role we play in the financial reporting ecosystem, and we embrace our responsibility to serve the public interest. We view audit quality through the lens of the audit committees and investors we serve, and we continuously innovate and strive to audit more effectively while strengthening our system of quality control.

We also understand the importance of providing transparency about how we conduct our audits. In this report, we describe the factors that drive audit quality for EY US and how we measure our performance at the individual partner level, the engagement level and firmwide.

We also describe how our focus on technology and sustainable audit quality is helping us reimagine what audits look like.

Leadership, tone at the top and mindset
We set a clear tone from the top that executing high-quality audits and maintaining independence and professional skepticism are our key priorities. Our communications emphasize our focus on demonstrating integrity, respect, teaming and inclusiveness.
Our leaders consistently deliver these messages, and our partners and managing directors reinforce them at the team level.

In the spring, Kelly Grier, US Chair and Managing Partner, sent a video message to all EY US professionals asking them to join her in signing a new annual pledge “to live our values every single day in everything we do.” In the video, Ms. Grier talked about why she joined the firm 30 years ago and described the pledge as a tangible manifestation of being a part of the EY family.

The pledge preceded the annual affirmation professionals at all EY member firms around the world are required to make to uphold our Global Code of Conduct, as discussed below.

Our values: who we are

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

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

Our partners 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, their level of consistent and direct involvement in the audit, the results of inspections and their mentoring activities.

Our culture focuses on always doing the right thing and never compromising the quality of our work. We align our actions and behaviors with our purpose of building a better working world.

Kelly J. Grier
US Chair and Managing Partner
Our focus on sustainable audit quality

EY US is a member of a global organization that is committed to conducting high-quality audits and requires each member firm to maintain a system of quality control that meets high standards. This structure provides 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 use the same audit technology and the same foundational audit methodology, and they are evaluated against common quality objectives. The EY global organization also regularly tracks audit quality indicators at each member firm.

The EY global organization’s Sustainable Audit Quality (SAQ) program continues to be the top focus for each EY member firm’s audit practice. The six pillars of the SAQ program are tone at the top, people capabilities, simplification and innovation, audit technology and digital, enablement and quality support, and accountability.

As part of the SAQ program, the EY global organization continues to deploy world-class technological solutions that enhance the quality and value of audits, including enhancements to the EY Canvas online audit platform, EY Helix data analytics and the EY Atlas research tool.

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

The EY global organization has also committed to reducing its carbon footprint as another way to serve the public interest and build a better working world. EY US and other EY member firms plan to achieve this goal, in part, by having professionals commute less and, when possible, travel less than they did before the pandemic.
Our system of quality control

Our system of quality control is designed to prevent and detect risks to audit quality. It's also designed to promote a culture that emphasizes audit quality and our responsibility to be accountable for the quality of our work.

We continuously monitor our system of quality control and make changes to our policies and processes when necessary. We continue to expand our use of data analytical techniques and technology to evaluate information about our audit practice and innovate how we identify, manage and respond to audit quality risks. We also monitor significant issues that arise in audits performed by all firms around the world and analyze whether there are similar risks we should address in our US audit practice.

Over the past year, we continued to invest in our system of quality control, focusing on implementing changes to our documentation and processes to comply with the International Auditing and Assurance Standards Board’s new quality control standard that will be effective 15 December 2022 and enhancing our monitoring of these processes. In doing so, we also considered the changes the Public Company Accounting Oversight Board (PCAOB) is contemplating making to its quality control standards.

We monitor external risk factors and develop guidance and training to help our professionals address challenges such as how to evaluate fraud risk factors in the current environment and risks related to the increase in private companies going public by merging with a special purpose acquisition company (SPAC). Over the past year, for example, we enhanced our fraud procedures and provided our teams with additional guidance and training on identifying fraud risks that was developed with the input of our EY US forensic accounting specialists.

Our audit portfolio

We continue to have the leading market share among auditors of Fortune 500 companies (28%), Fortune 1000 companies (29%) and Russell 3000 companies (27%). We also audit six of the top 10 companies in the Fortune 500, giving us the largest market share among auditors of that group.

“

We continuously review our quality control processes and enhance them because our system of quality control is the foundation for performing high-quality audits.

John L. King
US Vice Chair – Assurance
Number of public companies we audit

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>1,009</td>
</tr>
<tr>
<td>2020</td>
<td>966</td>
</tr>
<tr>
<td>2019</td>
<td>931</td>
</tr>
</tbody>
</table>

Over the past two years, the number of companies we audit increased, partly because more of the private companies we audit went public than in recent years. Consequently, we have adjusted the 2020 number in the table above for changes that occurred after we issued our 2020 audit quality report.

**Independence and objectivity**

Independence from the companies we audit, in fact and appearance, is foundational to our ability to provide trust and confidence to the capital markets.

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

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 daily feeds from their brokers to keep their records updated in a timely fashion. We have 51 partners and managing directors 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. In the most recent reporting year, we tested more than 3,600 US partners and other professionals for their compliance with our independence policies, as part of our firmwide system of quality control.

Our policies include a requirement that audit teams make audit committee communications at least quarterly, affirming their independence and matters that may bear on independence. They also address how we compete for audit work, including both new business and proposals to continue auditing a company we currently audit, and how many years certain of our professionals can work on a particular audit.
Independent advice on audit quality

Leaders of the 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. The IAQC was created in January 2019 and comprises external leaders with extensive experience in the financial reporting ecosystem.

These independent experts provide actionable advice and valuable insights we use in our decision-making about how to continue to improve audit quality. For example, we’ve held meaningful discussions with the IAQC about our digital audit transformation, audit quality indicators and our talent strategy, among many other topics.

We have also sought the IAQC’s input on the risks relating to our participation in the EY global network and the execution of audits of global companies.

Over the past year, we held regularly scheduled quarterly meetings with the IAQC and several additional meetings to address, among other things, emerging issues associated with the pandemic.

As part of its effort to engage with other stakeholders, the IAQC also met this year with the PCAOB and audit committee chairs who are members of the Audit Committee Leadership Network organized by Tapestry Networks with the support of EY US.

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 (CPA), a former board member of the PCAOB and a former managing director at the Government Accountability Office. She is currently a board member of the North Carolina Association of CPAs.

IAQC member
Dina Dublon is a former chief financial officer at JPMorgan Chase & Co. and currently serves on the boards of directors of PepsiCo, T. Rowe Price and Motive Capital Corp.
While we are an advisory committee, EY US has asked us to think like a board of directors when we evaluate the Firm’s business, talent strategies and audit quality risks.

Over the past year, we spent a lot of time understanding and monitoring the use of technology in the audit process and how it’s changing the way the audit is done, including insights gained. In frequent discussions about the Firm’s talent strategy, we focused on how the Firm is addressing the well-being of its professionals in addition to topics such as diversity and inclusiveness, training, performance management, workload management and retention.

We continued to discuss various matters related to the Firm’s culture and governance and the results of internal and external monitoring of audit quality and the outlook for ESG reporting and how it may affect the profession. We also focused on the Firm’s system of quality control in light of risks related to the pandemic and other external factors such as the growth in the number of private companies going public.

We believe we have had a positive impact on audit quality at EY US, and we look forward to continuing our interactions with the Firm’s leadership and staff.

The IAQC’s advice has been especially valuable as we embraced a data-first mindset, enhanced our risk assessments with data analytics and reimagined our talent strategy.
Engagement with stakeholders

Our leaders actively engage in discussions with regulators and standard setters such as the PCAOB, the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB) as a critical part of our efforts to improve audit quality. For example, we continue to engage with the PCAOB as it explores revamping its quality control standards, with the SEC as it considers requiring companies to make disclosures about climate change and other ESG matters, and with the FASB as it considers topics to address with standard setting and address changes in the capital markets.

We also engage with investors and other groups that are interested in financial reporting and auditing. For example, we are engaging with groups involved in standardizing the voluntary disclosures companies are making outside of the financial statements about ESG matters.

US Chair and Managing Partner Kelly Grier serves as chair of the governing board of the Center for Audit Quality, which focuses on issues that affect the profession, including going beyond what we do today to meet the evolving needs of investors and how to attract more racially and ethnically diverse individuals to the auditing profession.

We issue thought leadership aimed at improving the quality of financial reporting. In the last year, for example, we addressed topics such as accounting issues companies need to consider if they are reducing their footprint of leased real estate and how companies should re-evaluate their climate disclosures in light of the SEC’s heightened focus on these disclosures in addition to new accounting standards and SEC rules.

The EY Center for Board Matters, meanwhile, collects and analyzes governance data on more than 3,000 US public companies and publishes articles and hosts webcasts to help board members address complex topics. The Center also provides resources to help audit committee members navigate evolving matters such as enterprise risk management, cybersecurity, data privacy and ESG.
Information security and privacy
Member firms in 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.

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.

Safeguarding the confidentiality of the information we receive from the companies we audit is critical. Data is transferred using industry standard solutions designed to securely transfer large files between EY US and the companies we audit. The EY Canvas Client Portal provides a secure platform for communication and file 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 2 July 2021 was $16.2 billion.

Our Assurance service line generated 27% of EY US revenue. Our other service lines, Consulting, Tax, and Strategy and Transactions, generated 33%, 29% and 11% of our revenue, respectively. A portion of the revenue of those service lines relates to their professionals' time spent on our audits. If that revenue were included in our Assurance service line, Assurance would have been our largest service line, accounting for 32% of EY US revenue.

In our previous fiscal year, total revenue for EY US was $15.8 billion, and the breakdown by service line was 28% from Assurance, 33% from Consulting, 29% from Tax, and 10% from Strategy and Transactions.

One of the most important elements of our strategy is maintaining a security-aware culture enabled by training and risk management communications.

For example, the EY global organization developed new training this year on working securely from home, and all US professionals were required to complete it.
The future of the audit

Innovation
Our Transformation Office helps us focus on strategy, innovation and change management to accelerate growth and continue to drive improvements in audit quality. It builds on our earlier transformation efforts and helps us be as effective as possible by using a data-first mindset, leveraging new and existing technology, investing in our people through learning and experiences that develop outstanding leaders, and delivering insights for the companies we audit and other stakeholders in the financial reporting ecosystem.

ESG
We are sharing our perspective with policymakers and others and considering how we might provide assurance on any disclosures the SEC may require public companies to make. We believe such disclosures would be useful to investors because they address long-term value, and we already provide assurance on voluntary ESG disclosures made by some companies. EY US also has sustainability specialists who advise companies on reporting on these topics.

Cybersecurity
Cybersecurity is routinely identified as one of the top risks corporate boards are concerned with, and we are continuing to enable our audit teams to discuss and respond to these risks as part of our audits. We are also monitoring developments at the SEC, which plans to consider requiring disclosures about a company's cybersecurity risk governance. In addition, we continue to offer the companies we audit separate cyber-related services that provide an independent and objective assessment of a company's cyber-risk management activities to support board and management oversight of this issue.
Our people

Our people are critical to our ability to deliver high-quality audits, and we continue to focus on diversity, equity and inclusion and developing transformative leaders who can help us realize our purpose of building a better working world.

The EY Way of Working

We’re proud of the resilience our people have demonstrated while working from home during the pandemic, and we seized the once-in-a-lifetime opportunity to reimagine how and where we would work after the pandemic.

The result is our new hybrid model of remote and in-person working that we are now implementing. We call it the EY Way of Working, and it requires our teams to consider the needs of the companies we audit and their personal needs when determining where to work.

The model combines the best of our pre-pandemic way of working with the lessons we learned during the pandemic. It allows us to continue performing high-quality audits while providing more flexibility for our people and more opportunities for them to contribute to engagements outside their geography.

The Firm is supporting these efforts by making sure our people receive the training and tools they need to succeed. We are also prioritizing time together for activities that are most impactful in person, such as engaging with EY leaders, coaching and celebrating the achievements of our people.
Putting our people first
We continue to focus on ways to enhance the experience of working at the Firm and empower our people, which leads to higher audit quality.

The EY Way of Working was developed by design councils made up of professionals throughout our ranks and service lines, and it builds on our longstanding commitment to delivering high-quality audits and focusing on flexibility and the well-being of our people.

Throughout fiscal 2021, our leaders communicated regularly with our professionals and asked for their feedback on returning to work. We ran a year-long Resilience in Action program to express our appreciation for our people and promote resilience, sending care packages, sponsoring activities and reminding our people of benefits aimed at helping them recharge.

In January, we provided midyear raises, and we doubled to $1,000 the annual reimbursement available for each employee for health, fitness and other well-being activities. We also offered 24 days of backup child/adult or self-care, up from 12 days before the pandemic, and increased the number of free counseling sessions our people and their families can receive.

In addition, we increased the number of paid holidays to 20 days in 2021, up from 12, allowing our people to disconnect at the same time. We also instituted a flexible vacation policy that allows our professionals to decide how much vacation time they need.

Our teams also figured out new ways to stay connected while working remotely. Some created virtual audit rooms online or established informal touch points. Our audit executives also made a point of discussing how they maintain a work-life balance while working from home and encouraged team members to find ways to disconnect from work. For example, some of our teams physically put their computers in their computer bags as if they were signing off for the day, while others banned meetings on Fridays or set quiet hours.

“We’re proud of the way our people not only adapted to working in a remote environment but seized the opportunity to innovate and drive audit quality. Moving forward, the lessons learned through the pandemic will help today’s auditors become tomorrow’s transformative leaders.”

Rebecca A. Burke
US Assurance Talent Leader
Anti-racism and social justice

EY US continues to stand against racism and promote equality inside our organization, in our communities and through public policy. After contributing $4 million to historically black colleges and universities, the Firm expanded its commitments to drive meaningful change by launching the EY Social Justice Fund and becoming an inaugural donor of the Ascend Impact Fund, which aims to raise awareness about anti-Asian racism.

We highlight these activities when we talk to high school and college students and describe how the Firm is leveraging its human and financial capital to be a change agent in corporate America.

We continue to focus on developing a pipeline of racially and ethnically diverse accounting professionals through our many partnerships with organizations such as the National Association of Black Accountants and the Association of Latino Professionals For America and our work in conjunction with the Center for Audit Quality.

Leveraging diversity and promoting equity and inclusion

Diversity, equity and inclusion (DEI) is a key pillar of the US Firm’s strategy and our commitment to delivering high-quality audits. Diverse perspectives, combined with an equitable and inclusive culture, drive better decision-making, stimulate innovation and increase our agility.

We focus on fostering a sense of belonging for all of our people through inclusive leadership practices like making sure everyone’s voice is heard at the team level. We staff our audits with diverse teams and at times also leverage the skills of the individuals in our Neuro-Diverse Centers of Excellence. We also sponsor various employee resource groups that provide opportunities for all of our professionals to form a community. For example, Unity is our employee resource group supporting lesbian, gay, bisexual, transgender and other professionals (LGBT+) and their allies.

Diversity, equity and inclusion are core to our values and have never been more important to us. We are committed to accelerating our progress and cultivating a culture where everyone experiences a sense of belonging.

Leslie D. J. Patterson
US Diversity, Equity and Inclusiveness Leader
We measure our results and recognize individuals who serve as role models and sponsors, live our values and demonstrate inclusive leadership. This year, 56% of the audit professionals we promoted to partner or managing director were women and racially and ethnically diverse (R&ED) professionals. R&ED includes individuals who identify as American Indian/Alaskan Native, Black or African American, Asian, Hispanic or Latinx, Native Hawaiian or other Pacific Islander or two or more races or ethnicities.

In our campus hiring, 48% of our recruits in fiscal 2021 were women and 36% were R&ED individuals, consistent with the previous year.

Our retention rates for women and R&ED professionals at the senior manager and manager ranks and at the senior and staff ranks are consistent with our overall retention rates of 72% and 69% for professionals in both groups, respectively.

We also monitor the percentage of partners and managing directors in leadership positions who are women and R&ED professionals. The percentage of women and R&ED partners in charge of public company audits was 30%, up from 23% three years earlier, and the percentage of women and R&ED partners who lead our most complex multinational public company audits is also rising. We expect women and R&ED partners to lead 28% of these audits for periods beginning in 2022, up from 19% three years earlier.

In our latest survey, 87% of our US auditors said they feel included and supported by the people they work with every day.
We are proud of the recognition we have received for our efforts, including recognition from DiversityInc, a leading source of business information on diversity management.

Our commitment to DEI is also reflected in our leadership. Nine of the 16 members on our US Executive Committee are women and R&ED professionals.

### Other DEI accolades we have received

- Seramount (formerly Working Mother) – 100 Best Companies (Hall of Fame, Top 10)
- Seramount Inclusion Index – Leading Inclusion Index Organization
- Human Rights Campaign – Best Places to Work for LGBTQ Equality
- Disability Equality Index – Best Places to Work (100% score)

### Percentage of women and R&ED professionals in our US audit practice

<table>
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<th>Fiscal 2021</th>
<th>Fiscal 2020</th>
<th>Fiscal 2019</th>
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<tbody>
<tr>
<td>Partners and managing directors</td>
<td>39%</td>
<td>38%</td>
<td>36%</td>
</tr>
<tr>
<td>Senior managers and managers</td>
<td>60%</td>
<td>59%</td>
<td>59%</td>
</tr>
<tr>
<td>Seniors and staff</td>
<td>63%</td>
<td>61%</td>
<td>60%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60%</strong></td>
<td><strong>58%</strong></td>
<td><strong>57%</strong></td>
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</table>

In 2021, we were once again recognized as a member of DiversityInc’s Top 50 Hall of Fame made up of companies that have achieved a No. 1 ranking in its annual list of Top 50 Companies for Diversity. We were also recognized on several of DiversityInc’s 2021 specialty lists, including mentoring and sponsorship, where we held the No. 1 spot.

**The right people at the right time**

We analyze macroeconomic data and information about our audit practice to forecast the number of people at each rank we will need in various locations to deliver high-quality audits. During the pandemic we assigned professionals to work remotely on audits in other locations, and we’re incorporating this flexibility into our planning.

Identifying and developing partners who can lead our most complex and challenging multinational audits continues to be a priority. We are strengthening and expanding this group of partners by making sure they have the appropriate experiences.

We recognize and reward our top performers to help us retain professionals with the skills and experience we need to perform high-quality audits. We also promote top performers when they’re ready and when the Firm needs them, rather than using the traditional approach of requiring them to complete a specified number of years of service in each rank.
Number of US audit professionals (on a full-time equivalent or FTE basis)

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<th>Fiscal 2021</th>
<th>Fiscal 2020</th>
<th>Fiscal 2019</th>
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<tbody>
<tr>
<td>Partners and managing directors</td>
<td>1,142</td>
<td>1,181</td>
<td>1,164</td>
</tr>
<tr>
<td>Senior managers and managers</td>
<td>2,575</td>
<td>2,564</td>
<td>2,387</td>
</tr>
<tr>
<td>Seniors and staff</td>
<td>7,218</td>
<td>7,325</td>
<td>7,139</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10,935</strong></td>
<td><strong>11,070</strong></td>
<td><strong>10,690</strong></td>
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</table>

The table above does not include professionals at shared service centers that support the EY global organization. The number of hours these professionals worked on US public company audits was the equivalent of having another 1,214, 1,040 and 862 full-time auditors in fiscal years 2021, 2020 and 2019, respectively.

Like many employers, especially accounting firms, we saw an increase in turnover due to strength in the job market. We’re addressing it by continuing to invest in our culture and our people. For example, we are providing more opportunities for our professionals to work on teams outside their location and on more challenging work as we expand our focus on analyzing data and experiment with opening shared delivery centers in the US to handle certain routine tasks. We are also providing substantial increases in annual compensation and performance bonuses in fiscal 2022, among other things.

US audit overall staff through senior manager retention rate by rank

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<th>Fiscal 2021</th>
<th>Fiscal 2020</th>
<th>Fiscal 2019</th>
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</thead>
<tbody>
<tr>
<td>Senior managers and managers</td>
<td>72%</td>
<td>85%</td>
<td>82%</td>
</tr>
<tr>
<td>Seniors and staff</td>
<td>69%</td>
<td>79%</td>
<td>76%</td>
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</table>

Our retention rate for top-rated senior managers and managers is 79%, which is higher than the overall retention rate for professionals at these ranks. Our retention rate for top-rated seniors and staff is similar to the overall retention rate for professionals at these ranks.
Our professionals’ average annual hours in excess of 40 hours per week by rank are generally consistent with the previous year.

<table>
<thead>
<tr>
<th>Average annual hours in excess of 40 hours per week by rank</th>
<th>Fiscal 2021</th>
<th>Fiscal 2020</th>
<th>Fiscal 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners and managing directors</td>
<td>401</td>
<td>393</td>
<td>423</td>
</tr>
<tr>
<td>Senior managers and managers</td>
<td>290</td>
<td>298</td>
<td>312</td>
</tr>
<tr>
<td>Seniors and staff</td>
<td>212</td>
<td>226</td>
<td>253</td>
</tr>
</tbody>
</table>

We track how our professionals feel about their experience by surveying them three times a year. In our latest survey in July 2021, 70% of our people said “my EY experience is exceptional.” While we expect the percentage to increase, we believe that this result is reassuring, considering the disruptions of the past year.

Our professionals continue to meet in small groups, which we call EY Circles, to connect and discuss matters that impact them. We have nearly 400 of these circles in the US audit practice, and many of them met more often than usual during the pandemic to give our people a way to support one another.

**Developing our people**

We have a deep commitment to enhancing the growth and development of our professionals. We focus on making sure they have the right skills to succeed and become transformative leaders who can continue to innovate and drive audit quality.

Our approach to performance management supports the growth of our professionals by providing them with meaningful career conversations, along with regular feedback about their performance. We recently enhanced our performance management framework for our audit partners and managing directors to make the process more transparent and drive greater accountability.

On-the-job coaching and supervision for less-experienced professionals is critical to delivering high-quality audits. That’s why we focus on maintaining appropriate 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 20.9 and 18.4 years of service, respectively.
Our learning program is designed to make sure our audit professionals get the right training at the right time and can absorb the material. This year, we set aside half days each quarter for all of our people to focus on completing their learning requirements. We also created a calendar of requirements and deadlines by rank to help our professionals plan to complete their training throughout the year.

Starting this year, our employees can earn EY master’s degrees online from Hult International Business School, free of charge, in Business Analytics and Sustainability in addition to the EY Tech master’s degree we began offering in 2020.

This year, our audit professionals completed more than 190,000 hours of digital audit training, much of it in the spring when they began planning their audits for the current cycle. We also required audit executives to complete training on fraud, cybersecurity and ESG reporting.

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

### Average hours of continuing professional education by fiscal year

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>97</td>
<td>96</td>
<td>107</td>
</tr>
</tbody>
</table>

### Attracting exceptional talent

We continue to recruit talented and diverse people who share our values and our commitment to executing high-quality audits. In our campus recruiting, we stress the importance of the work we do as auditors and the value of the EY brand. In fiscal year 2021, we hired more than 2,000 people from college and university campuses, roughly the same number as in previous years.

Our professionals are rewarded financially for passing the CPA exam early in their careers. We also reward professionals who are recognized by the American Institute of Certified Public Accountants (AICPA) with Elijah Watt Sells Awards for achieving exceptional results on the CPA exam. We are proud to report that 14 EY US professionals were among the 89 people who received this honor this year.
We expose potential candidates to the Firm and the audit profession before they enter the business world through a variety of initiatives, including accounting awareness programs. In the 2021 calendar year, about 600 winter interns and more than 1,200 summer interns worked for our audit practice. Although they worked virtually, our interns were able to gain experience with our data analytics tools and audit work.

To help our interns meet the CPA licensing requirement to have more than four years of college credits and be considered for jobs in our audit practice when they graduate, we launched the EY Career Path Accelerator, a program that makes a career as a CPA more accessible and affordable. Our program allows them to enter the workforce faster, at a lower cost than earning a master’s degree, and provides them with a practical and relevant curriculum and personal learning support.

In our campus recruiting, we also stress our commitment to data-driven audits and technology and continue to actively recruit people who have both an accounting degree and a major or minor in data analytics, management information systems or computer information systems. These recruits represent close to 13% of our campus hires in our audit practice.

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 23 consecutive years. EY US also continues to be among the top 20 employers for business graduates in Universum’s annual Most Attractive Employers ranking.

In fiscal 2021, 90% of our audit interns who were offered full-time positions joined our audit practice. The fact that so many want to work with us full time underscores the strength of our culture.
Innovating and executing the audit

Our ability to analyze trends in full populations of data has transformed how we approach our audits, but our objectivity, professional skepticism and commitment to excellence remain at the core of everything we do.

Our data-first mindset

In fiscal 2021, we made significant progress in our journey to transform our audits and realize the potential of a digital audit.

“
We continue to focus on innovation and expanding our use of data and technology to drive audit quality and improve the audit experience for our people and the companies we audit.

William R. Strait
US Deputy Vice Chair – Assurance
Our journey: the data-driven audit

We’ve built a strong foundation to:
- Improve audit quality
- Enhance the audit experience
- Work more effectively
- Invest in our people

2009-2017
Develop and launch EY Digital Audit
Early adopters deployed data analytics in the audit; teams adopt and begin to leverage full capability of EY Canvas.

Centralized data capture
10x Accelerator enables vast majority of teams to deploy analytics in the audit.

Continuous innovation
- EY Global Analytics
- EY Helix analyzers
- Subledger analyzers
- EY Canvas Client Portal
- Blockchain Analyzer
- EY Canvas Automation
- Sector analyzers

2018
Accelerated digital adoption
90% of teams on large US public company audits used EY Helix analyzers.
Teams expanded use of data-driven procedures to obtain evidence.

2019
Data-first approach
99% of teams on US public company audits used the EY Helix general ledger analyzer.
Teams continued to expand use of data-driven procedures to obtain evidence.

2020
Full digital audit on US public company audits
US public company audit teams continued their digital journey in fiscal 2021, with training and coaching to develop a data-first mindset.
In the current year, 95% of teams on US public company audits are fully implementing our digital audit methodology.
Our teams on US audits of public companies expanded their use of our EY Helix suite of data analyzers, enabling them to develop a deeper understanding of the companies we audit and better identify anomalies. Our professionals at all ranks received more training, coaching and hands-on experience to help them develop a data-first mindset and prepare for a truly digital audit. Some of them also piloted the use of our full digital audit methodology.

We are now fully implementing our digital audit methodology on US public company audits. That means that, in the current audit cycle, 95% of our teams on US public company audits started their audit planning with a full population of data about a company’s transactions and are using it to enhance their risk assessments for all significant accounts and key business processes. They’re also using data-driven audit procedures to obtain substantive audit evidence about many of the company’s account balances.

This is a fundamentally different approach from the way we used to audit. While exercising professional skepticism and applying judgment continue to be critical, starting with data gives us a better understanding of how transactions are processed so we can better identify unusual journal entries and changes in processes that require follow up than if we used traditional sampling techniques.

Our data-first approach enhances audit quality because it helps us focus on the key risks in an audit and spot new risks, including potential fraud risks, that arise during the year. It allows us to see anomalies and understand how prevalent they are. As a result, we can ask better, more timely questions of management, improving the experience for both our professionals and the companies we audit.

**EY Helix data analyzers**

We have a robust library of EY Helix data analyzers that our teams use to perform risk assessments, identify anomalies and obtain audit evidence. They include our EY Helix general ledger analyzer and our subledger analyzers.

Teams also use a variety of sector-specific EY Helix data analyzers to help them evaluate transactions and metrics that are unique to the company’s industry. These analyzers were developed as custom solutions by EY auditors who wanted to address the needs of their own teams. We then tested the analyzers centrally and certified them for use by other US teams auditing companies in the same industry.

“

Our risk assessments are more dynamic now. We view the financial statement account and the process together, which allows us to be better informed about how we test.

Cale L. Whittington
US Assurance Digital Leader
EY Helix analyzers for use on all financial statement audits

**Consolidated trial balance**
- Scoping for multilocation audits
- Interim review

**General ledger**
- Also used to identify anomalies in journal entries

**Subledger**
- Trade receivables
- Trade payables
- Inventory

**Transactions**
- Investments
- Payroll
- Property, plant and equipment

We have a robust pipeline of ideas in development to create new tools, and we encourage our professionals to continue to innovate. We also have a process in place to govern and quickly certify simple tools our teams develop for broader use.

Our teams can also use the EY Blockchain Analyzer, which gathers a company’s cryptocurrency transaction details from public blockchain ledgers using public addresses supplied by the company and reconciles the data with the company’s records.

The general ledger, subledger, transaction and sector-specific analyzers can be used to perform risk assessments and a variety of substantive audit procedures.

**Sector-specific analyzers**
- Lease revenue analyzer for lessors of real estate
- Health revenue analyzer
- Life sciences gross-to-net analyzer
- Premiums and claims non-life insurance analyzer
- Mortgage loan analyzer
- Commercial loan analyzer
- Automotive warranty liability and expense analyzer
In our current audit cycle (mostly audits of 2021 financial statements), 95% of our teams on US public company audits are applying our digital audit methodology and using our EY Helix data analyzers to enhance their risk assessments of significant accounts and key business processes. They’re also performing data-driven audit procedures to obtain substantive evidence.

Our audit platform

All EY US teams use the EY Canvas audit platform to apply the EY global audit methodology and manage their day-to-day audit work. This global platform helps our teams track their progress and review the work of auditors from other EY member firms who work on multinational audits. Our teams also use the EY Canvas Client Portal to communicate securely with the companies we audit.

EY Canvas is designed to help our teams manage their audits more effectively and reduce the effort required to perform administrative tasks. Our teams can easily track their progress against key audit milestones and view the key risks they identified and the audit procedures they planned so they can more easily see whether they have appropriately addressed the key risks in an audit.

The EY global organization continues to make enhancements to EY Canvas to add functionality. One new feature under development by the EY global organization would use artificial intelligence to help our auditors perform risk assessments.

“Innovation and quality are at the center of our audit approach. We are committed to a data-driven audit. Management and the audit committee expect it, our teams demand it and we believe it produces better audit quality.”

Cliff A. Cammock
US partner in charge of two large multinational public company audits
Automation

We also continue to automate aspects of the audit to improve audit quality by enhancing project management and allowing our people to focus on higher risk areas of the audit. For example, our new custom confirmation solution allows teams to automate parts of the confirmation process, including sending digital requests, tracking responses and reconciling confirmed balances to the company’s records.

We also have a new solution that populates certain information into workpaper templates to help our teams document specific procedures consistently.

Our teams on audits of financial institutions are able to use our commercial loan analyzer to enhance their risk assessments by, among other things, analyzing changes in risk ratings in the loan portfolio, by geography or industry of the borrower. They can perform predictive analytics for interest income at the loan level each month to determine whether the amounts are recorded accurately on a consistent basis throughout the year. They can also drill down to the transaction level to see details such as whether a transaction was processed automatically by an IT system or whether an individual processed it.

Nearly 7,000 EY Helix data analyzers delivered for audits of 2020 financial statements
Working with the right companies

We focus on making sure the companies we audit share our commitment to quality and transparency in financial reporting, and we do not pursue audits of companies that do not share our values. Every year, there are many companies we decline to audit.

We perform rigorous risk assessments and obtain approval from regional leadership before we accept audit engagements and then again annually to continue our audit work. These assessments help us 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.

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. It is based on the risk factors specific to the company, which might include risks associated with adopting new accounting standards, entering into a business combination and going public. Over the past year, we also continued to evaluate risks related to the pandemic and the economic recovery.

Throughout the audit cycle, our teams reassess risks using evidence they gather from their audit procedures. We also alert our teams about fraud risk indicators such as short selling and adverse news reports.
Establishing the right team

Each public company team has a partner in charge, who sets the tone 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. The engagement quality review is an important element in our system of quality control.

The factors we consider when we assign partners to these roles include data about their workloads and experience with both the industry and auditing internal control over financial reporting, their skills and the SEC’s partner rotation requirements. We also consider the company’s risk designation and the risk factors identified in our firmwide assessment process.

About 60% 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 80%.

Our other audit partners serve as engagement partners on public company audits, in quality or leadership roles, or as partners in charge of private company audits. We have engagement partners on 39% of our public company audits to assist the partner in charge of our larger and more complex audits.

To make sure our partners and managing directors have enough time to lead quality audits, we review their workloads semiannually and when the scope of an audit changes significantly due to a major transaction or 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 we track and evaluate hours incurred by managers and above at various points during the audit.

Shared services

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 and the specialists who support them. 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 2021, shared service center professionals accounted for 17% of US public company audit hours, compared with 15% the previous year.
Adding specialists to our teams

Our multidisciplinary strategy allows us to include in our audit teams EY professionals who focus on tax matters, IT and valuation matters and, in certain audits, forensic accounting. Having specialists in these areas collaborate with our audit professionals helps us deliver high-quality audits at a time when IT environments, business models, transactions and worldwide tax regimes are increasing in complexity.

In fiscal 2021, EY US specialists accounted for a total of 18.8% of our US public company audit hours, which is consistent with 2020. IT specialists accounted for 11.1% of US public company audit hours. Tax, valuation and other specialists’ time represented 5.4%, 1.3% and 1.0% of total US public company audit hours, respectively. In some cases, our specialists may spend considerably more time working on audits than these percentages indicate, depending on the complexity of the audit. For example, our IT specialists typically spend more time auditing internal controls when the company has a more complex IT environment.

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) diverse teams and culture and (5) expertise in advanced technologies and data.
Managing the audit

We believe 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 complete their work at the appropriate time, including reviews by audit executives, execute higher-quality audits.

We use our milestones program to drive strong project management, discipline and timely executive involvement by focusing our teams on monitoring their progress and completing procedures, documentation and reviews by a specified date for key phases of the audit. To facilitate timely reviews, we also require our teams to set specific executive discussion and approval points throughout the audit cycle to make sure the partner in charge holds discussions with the right people at the right time. These discussion points align with milestones.

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

In fiscal 2021 (mostly audits of 2020 financial statements), we made significant progress in accelerating the amount of work performed before the end of the fiscal year of the company under audit. Our teams were able to perform 40% of their work three months before the company’s year-end, up from 36% the previous year, and 65% of their work before the company’s year-end, up from 62% the previous year.

Our teams, including our partners and other audit executives, use EY Canvas to track the progress of their audits and completion of tasks 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.

**Key milestones for completion of procedures and all related documentation (example timing by phase of audit for a large calendar year-end company)**

<table>
<thead>
<tr>
<th>Scope and strategy</th>
<th>Scoping the audit</th>
<th>Aug 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit strategy</td>
<td></td>
<td>Aug 31</td>
</tr>
<tr>
<td>Interim</td>
<td>Understanding key business processes</td>
<td>Sep 30</td>
</tr>
<tr>
<td></td>
<td>Interim control testing</td>
<td>Nov 30</td>
</tr>
<tr>
<td></td>
<td>Make sure Scope and Strategy and Interim documentation is ready to archive</td>
<td>Dec 31</td>
</tr>
</tbody>
</table>
Cybersecurity

Cyber risks are a major threat to businesses. A breach of an organization's systems can disrupt operations, significantly increase costs and harm an organization's reputation.

We respond to business risks, including cyber risks, with 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. We also perform procedures to understand management’s approach to identifying, evaluating, investigating and communicating cybersecurity breaches. If information about a material breach is identified, we consider the effect on the financial statements, including disclosures, and the effect on internal control over financial reporting.

EY US also offers the companies we audit separate cyber-related services that provide an independent and objective assessment of a company’s cyber risk management activities to support board and management oversight of this issue.
Supporting our teams

We provide coaching, guidance and consultations to help our professionals perform high-quality audits.

**Our Quality Network**

Our Quality Network focuses on proactively improving audit quality by coaching our audit teams, performing workpaper reviews, advising our teams on audit methodology matters, providing training, and executing various risk management and quality control procedures.

Throughout the audit cycle, the Quality Network uses data analytical techniques to evaluate a wide range of information about individual engagements and identify teams that need coaching or other help. The information is updated frequently.

“

We are in a transformative period, and our job is to help effectively manage change. With our coaching, advice and learning support, along with our risk management activities, we are helping our teams execute high-quality audits.

Linda Lam  
US Director of Quality Implementation
Because the roughly 130 professionals who make up our national Quality Network are embedded in our Regions, they have frequent contact with teams and are well-positioned to identify and proactively address emerging risks, including industry-specific risks. They’re also able to share that knowledge across the practice.

Over the past year, our Quality Network coaches focused on our teams’ use of data in our audits, audit considerations related to the pandemic, audits of internal control over financial reporting for companies that are subject to this requirement for the first time, and material business combinations. Nearly 400 audit teams received coaching or workpaper reviews in fiscal 2021.

In the current audit cycle, our Quality Network coaches plan to significantly increase their focus on our implementation of our digital audit methodology and continue to focus on our first-year audits of internal control over financial reporting and our work on material business combinations.

Our ratio of Quality Network and Professional Practice partners and managing directors to audit partners and managing directors was 1 to 6.

Our Professional Practice group
Our Professional Practice group, which includes approximately 100 partners and 30 managing directors, supports our audit practice by consulting with our teams on difficult accounting, auditing, and SEC and other regulatory matters.

Our Professional Practice group provides audit teams and the companies we audit with guidance and thought leadership on a wide range of financial reporting topics, including current issues such as those relating to the pandemic, reporting on ESG matters and SPAC mergers that result in private companies becoming public companies. The group also 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.

We make sure our people get the guidance they need to transform their audits and the help they need to work through new and complex accounting, auditing and reporting issues.

James R. Estes
US Vice Chair – Professional Practice
Over the last three years, our Professional Practice partners have conducted an average of 2,250 formal consultations annually with audit teams. The top accounting consultation topics in fiscal 2021 included the accounting for income taxes and revenue recognition, consistent with prior years.

**Other support**

Our 10X Accelerator, the centralized data service delivery model for EY US, continues to provide our teams with access to approximately 500 data analytics professionals who can help them efficiently capture data from the companies we audit and use it effectively in the audit.

As discussed earlier, professionals in our US Independence group also support our US audit teams by consulting with them on various independence matters.

Professionals in the shared service centers that support the EY global network also work with our teams to make sure they are using all of the project management functions in EY Canvas effectively.
Monitoring

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

Early assessment of in-progress audits
Our reviews of certain public company audits before we issue our auditor’s reports are an important 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 continuing to implement our digital audit methodology; how they are responding to the ongoing effects of COVID-19, including the impact of working from home; and how they plan to audit higher-risk estimates, among other things.

Internal inspections of completed audits
We conduct internal inspections of selected engagements after we issue our auditor’s report. We perform many of these inspections 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 2021, we inspected about 200 public and private company audits (generally of financial statements for the year ended 31 December 2020) using our technology to conduct the reviews remotely. We learn from both public and private company internal inspection results, and our results continue to show that we are delivering high-quality audits.
In these inspections, which we call audit quality reviews, we focus on specific audit areas of an engagement and evaluate our compliance with professional standards, regulatory requirements and our policies. Audits are selected for review based on risk, including factors such as how long it has been since a partner’s last inspection and the results of that inspection, along with the complexity of the audit.

**Turning root cause analyses into actions**

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

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

**Other monitoring**

We continue to monitor our professionals’ compliance with our independence policies and enhance our monitoring of the effectiveness of our system of quality control, as discussed earlier in this report.

**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 reflects restatements that resulted in the reissuance of financial statements and is based on the approximately 1,500 issuers we audit, which includes about 550 mutual fund issuers in each of the past three years in addition to the SEC registrants we audit. The data does not reflect restatements by companies that merged with SPACs that were triggered by the SEC staff’s statement in 2021 that certain warrants issued by SPACs were accounted for incorrectly.

<table>
<thead>
<tr>
<th>Calendar year restatement was filed</th>
<th>Number of restatements</th>
<th>% of issuers we audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>5</td>
<td>0.3</td>
</tr>
<tr>
<td>2019</td>
<td>1</td>
<td>0.1</td>
</tr>
<tr>
<td>2020</td>
<td>3</td>
<td>0.3</td>
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</table>
The PCAOB's inspections have led to improvements in audit quality, and we expect the PCAOB to focus on further improvements.

The role of the PCAOB
The PCAOB plays an important role in improving and maintaining audit quality. Through annual inspections and standard setting, the PCAOB has identified areas where firms can improve.

Part I.A 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 focuses its inspections primarily on higher-risk audits, and the inspections are designed to identify deficiencies in audit work. As a result, 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 and says the results aren't necessarily comparable over time or from firm to firm.

We learn from every deficiency identified in 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.
The graphics and discussion below reflect results of our PCAOB inspections through the 2020 inspection cycle, which generally covers our audits of 2019 financial statements and is the latest report the PCAOB has released.

As shown above, overall inspection findings continued to decline in the 2020 inspection cycle, which generally covers our audits of 2019 financial statements. The number of audits with deficiencies in both the financial statement audit and the audit of internal control over financial reporting (ICFR) also declined, as did the number of audits with multiple inspection findings and those with recurring findings.
Part I.B of the PCAOB report
Part I.B of the PCAOB’s inspection report discusses noncompliance with PCAOB rules or standards that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its auditor’s opinion(s). In our latest report, we had two of these findings. They involved a disclosure in a required filing with the PCAOB and an audit committee communication. We have taken steps to address both of these matters.

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 allocation of partner resources 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

“

Our latest inspection report indicates that the investments we have made in audit quality are paying off. The results reflect a focus by our audit teams on careful execution and timely supervision and review. They also reflect our investments in the digital audit and other changes to our audit approach and support from our Quality Network and specialists.

Denise M. Pelli
US Director of Professional Practice Quality & Regulatory Matters
We take the PCAOB’s Part II comments seriously and continuously assess how we can enhance our system of quality control, which we believe is effective. 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’s 2020 report is dated September 2021, and we will submit our final remediation response in September 2022. We will submit our final remediation response to the PCAOB’s 2019 report in December 2021. The PCAOB’s review of our response to its 2018 inspection report is in process.

**Peer review**
We participate in the AICPA peer review program that requires a robust review every three years of our system of quality control for our private company audit practice. Grant Thornton performed our latest review during 2019 (primarily of audits for the year ended 31 December 2018) and concluded in its report dated 18 November 2019 that our system of quality control for engagements not subject to PCAOB permanent inspection was suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our next peer review will be performed in 2022.

**International regulators**
The International Forum of Independent Audit Regulators (IFIAR) has issued a challenge to the global audit networks to further reduce the number of audits with at least one significant finding as reported by 25 countries (including the US) that are members of IFIAR by at least 25% over the four years ending with IFIAR’s 2023 survey of inspection results. The EY global organization is currently on track to meet that reduction.

IFIAR had previously challenged the global audit networks to achieve a 25% reduction in inspection findings by 2019 for listed public interest entities. The EY network achieved this goal in 2019.
EY US Executive Committee

Kelly J. Grier
US Chair and Managing Partner

Steve Payne*
US Deputy Chair

John L. King
US Vice Chair - Assurance

William M. Casey
US Vice Chair - Strategy and Transactions

Marna Ricker
US Vice Chair - Tax

Sam R. Johnson
US Vice Chair - Accounts

Leslie Patterson
US Diversity, Equity and Inclusiveness Leader

Stephen Lieberman
US Vice Chair - Finance and Operations

James Hsu
US Vice Chair - Office of Strategic Execution

Jay Persaud
US Vice Chair - Risk Management

Ginnie L. Carlier
US Vice Chair - Talent

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

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

Janet E. Truncale
US Regional Vice Chair, Financial Services Organization

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

Anthony Caterino
Member

*We are in the process of identifying a new US Vice Chair - Consulting
Metrics in this report

Our commitment to serving the public interest

We continue to have the leading market share among auditors of companies in the following indexes:

<table>
<thead>
<tr>
<th>Index</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fortune 500</td>
<td>28%</td>
</tr>
<tr>
<td>Fortune 1000</td>
<td>29%</td>
</tr>
<tr>
<td>Russell 3000</td>
<td>27%</td>
</tr>
</tbody>
</table>

We audit **six of the top 10 companies** in the Fortune 500, giving us the largest market share among auditors of that group.

<table>
<thead>
<tr>
<th>Number of public companies we audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
</tr>
<tr>
<td>2020</td>
</tr>
<tr>
<td>2019</td>
</tr>
</tbody>
</table>

¹ Adjusted for changes that occurred after we issued our 2020 audit quality report.

We have **51 partners and managing directors** in our EY US independence group to support our audit teams.

We tested more than **3,600 US partners and other professionals** for their compliance with our independence policies, as part of our firmwide system of quality control.
Our commitment to serving the public interest

The EY Center for Board Matters collects and analyzes governance data on more than 3,000 US public companies, and publishes articles and hosts webcasts to help board members address complex topics.

EY US total revenue for our fiscal years ended 2 July 2021 and 3 July 2020 and the breakdown by service line is as follows:

<table>
<thead>
<tr>
<th>Service Line</th>
<th>FY 21</th>
<th>FY 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>$16.2 billion</td>
<td>$15.8 billion</td>
</tr>
<tr>
<td>Percentage generated by service line:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assurance</td>
<td>27%</td>
<td>28%</td>
</tr>
<tr>
<td>Consulting</td>
<td>33%</td>
<td>33%</td>
</tr>
<tr>
<td>Tax</td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>Strategy and Transactions</td>
<td>11%</td>
<td>10%</td>
</tr>
</tbody>
</table>

1 Includes expenses billed to companies we audit and revenue for work we performed for other EY member firms.

2 Assurance would have been our largest service line, accounting for 32% of EY US revenue in FY21, if Consulting, Tax, and Strategy and Transactions revenue for work on audits were included.
Our people

1. In our latest survey, 87% of our US auditors said they feel included and supported by the people they work with every day.

2. Percentage of new US partners and managing directors who are women and racially and ethnically diverse individuals

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>42%</td>
</tr>
<tr>
<td>2015</td>
<td>46%</td>
</tr>
<tr>
<td>2016</td>
<td>48%</td>
</tr>
<tr>
<td>2017</td>
<td>51%</td>
</tr>
<tr>
<td>2018</td>
<td>55%</td>
</tr>
<tr>
<td>2019</td>
<td>54%</td>
</tr>
<tr>
<td>2020</td>
<td>59%</td>
</tr>
<tr>
<td>2021</td>
<td>56%</td>
</tr>
</tbody>
</table>

For campus hiring, 48% of our recruits in fiscal 2021 were women and 36% were racially and ethnically diverse (R&ED) individuals, consistent with the previous year.

3. Our retention rates for women and R&ED professionals at the senior manager and manager ranks and at the senior and staff ranks are consistent with our overall retention rates of 72% and 69% for professionals in both groups, respectively.

4. The percentage of women and R&ED partners in charge of public company audits was 30%, up from 23% three years earlier.

5. We expect women and R&ED partners to lead 28% of our most complex multinational public company audits for periods beginning in 2022, up from 19% three years earlier.

6. Nine of the 16 members on our US Executive Committee are women or R&ED professionals.
## Our people

### Percentage of women and R&ED professionals in our US audit practice

<table>
<thead>
<tr>
<th></th>
<th>Fiscal 2021</th>
<th>Fiscal 2020</th>
<th>Fiscal 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners and managing directors</td>
<td>39%</td>
<td>38%</td>
<td>36%</td>
</tr>
<tr>
<td>Senior managers and managers</td>
<td>60%</td>
<td>59%</td>
<td>59%</td>
</tr>
<tr>
<td>Seniors and staff</td>
<td>63%</td>
<td>61%</td>
<td>60%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60%</strong></td>
<td><strong>58%</strong></td>
<td><strong>57%</strong></td>
</tr>
</tbody>
</table>

### Number of US audit professionals (on an FTE basis)$^1$

<table>
<thead>
<tr>
<th></th>
<th>Fiscal 2021</th>
<th>Fiscal 2020</th>
<th>Fiscal 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners and managing directors</td>
<td>1,142</td>
<td>1,181</td>
<td>1,164</td>
</tr>
<tr>
<td>Senior managers and managers</td>
<td>2,575</td>
<td>2,564</td>
<td>2,387</td>
</tr>
<tr>
<td>Seniors and staff</td>
<td>7,218</td>
<td>7,325</td>
<td>7,139</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10,935</strong></td>
<td><strong>11,070</strong></td>
<td><strong>10,690</strong></td>
</tr>
</tbody>
</table>

$^1$This does not include professionals at shared service centers that support the EY global organization. The number of hours these professionals worked on US public company audits was the equivalent of having another 1,214, 1,040 and 862 full-time auditors in fiscal years 2021, 2020 and 2019, respectively.

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

<table>
<thead>
<tr>
<th></th>
<th>Fiscal 2021</th>
<th>Fiscal 2020</th>
<th>Fiscal 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior managers and managers</td>
<td>72%</td>
<td>85%</td>
<td>82%</td>
</tr>
<tr>
<td>Seniors and staff</td>
<td>69%</td>
<td>79%</td>
<td>76%</td>
</tr>
</tbody>
</table>

Our retention rate for top-rated senior managers and managers is **79%**, which is higher than the overall retention rate for professionals at these ranks. Our retention rate for top-rated seniors and staff is similar to the overall retention rate for professionals at these ranks.

In our latest survey in July, **70%** of our people said “my EY experience is exceptional.”


Our people

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

<table>
<thead>
<tr>
<th></th>
<th>Fiscal 2021</th>
<th>Fiscal 2020</th>
<th>Fiscal 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners and managing directors</td>
<td>401</td>
<td>393</td>
<td>423</td>
</tr>
<tr>
<td>Senior managers and managers</td>
<td>290</td>
<td>298</td>
<td>312</td>
</tr>
<tr>
<td>Seniors and staff</td>
<td>212</td>
<td>226</td>
<td>253</td>
</tr>
</tbody>
</table>

Our partners and managing directors who coach, mentor and supervise more junior professionals have on average 20.9 and 18.4 years of service, respectively.

**Ratios of audit executives to other audit professionals**

<table>
<thead>
<tr>
<th></th>
<th>Fiscal 2021</th>
<th>Fiscal 2020</th>
<th>Fiscal 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners and managing directors to staff through senior managers</td>
<td>1 to 8.6</td>
<td>1 to 8.4</td>
<td>1 to 8.2</td>
</tr>
<tr>
<td>Senior managers and managers to seniors and staff</td>
<td>1 to 2.8</td>
<td>1 to 2.9</td>
<td>1 to 3.0</td>
</tr>
</tbody>
</table>

This year, our audit professionals completed more than 190,000 hours of digital audit training, much of it in the spring when they began planning their audits for the current cycle.

**Average hours of continuing professional education by fiscal year**

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>97</td>
<td>96</td>
<td>107</td>
</tr>
</tbody>
</table>

We are proud to report that 14 EY US professionals were among the 89 people who were recognized by the AICPA with Elijah Watt Sells Awards for achieving exceptional results on the CPA exam.
In fiscal year 2021, we hired more than 2,000 people from college and university campuses, roughly the same number as in previous years.

In the 2021 calendar year, about 600 winter interns and more than 1,200 summer interns worked for our audit practice.

Close to 13% of our campus hires in our audit practice have both an accounting degree and a major or minor in data analytics, management information systems or computer information systems.

In fiscal 2021, 90% of our audit interns who were offered full-time positions joined our audit practice. The fact that they want to work with us full time underscores the strength of our culture.
In the current audit cycle, **95%** of our teams on US public company audits started their audit planning with a full population of data about a company’s transactions and are using it to enhance their risk assessments for all significant accounts and key business processes.

**1**

100% of US audit teams use EY Canvas, our global online audit platform.

**2**

Nearly **7,000** EY Helix data analyzers were delivered for audits of 2020 financial statements.

**3**

About **60%** 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 **80%**.

**4**

We have engagement partners on **39%** of our public company audits to assist the partner in charge of our larger and more complex audits.

**5**

In fiscal 2021, shared service center professionals accounted for **17%** of US public company audit hours, compared with 15% the previous year.

**6**

In fiscal 2021, EY US specialists accounted for a total of **18.8%** of our US public company audit hours, which is consistent with 2020. The breakdown of hours incurred by specialists is as follows:

- IT: 11.1%
- Tax: 5.4%
- Valuation: 1.3%
- Other: 1.0%

**7**

Our teams were able to perform **40%** of their work three months before the company’s year-end, up from 36% the previous year, and **65%** of their work before the company’s year-end, up from 62% the previous year.

**8**
Supporting our teams

1. Roughly 130 professionals make up our Quality Network, a group that focuses on proactively improving audit quality by coaching our audit teams and performing other quality-related support activities.

2. Nearly 400 public company audit teams received coaching or workpaper reviews in fiscal 2021.

3. Our Professional Practice group, which supports our audit practice by consulting with teams on difficult accounting, auditing, and SEC and other regulatory matters, includes approximately 100 partners and 30 managing directors.

4. Over the last three years, our Professional Practice partners have conducted an average of 2,250 formal consultations annually with audit teams.

5. Our ratio of Quality Network and Professional Practice partners and managing directors to audit partners and managing directors was 1 to 6.

6. Our 10X Accelerator, the centralized data service delivery model for EY US, continues to provide our teams with access to approximately 500 data analytics professionals who can help them efficiently capture data from the companies we audit and use it effectively in the audit.
Monitoring

1. In 2021, we inspected about 200 public and private company audits (generally of financial statements for the year ended 31 December 2020).

The data below reflects restatements that resulted in the reissuance of financial statements and is based on the approximately 1,500 issuers we audit, which includes about 550 mutual fund issuers in each of the past three years in addition to the SEC registrants we audit. The data does not reflect restatements by companies that merged with SPACs that were triggered by the SEC staff’s statement in 2021 that certain warrants issued by SPACs were accounted for incorrectly.

<table>
<thead>
<tr>
<th>Calendar year restatement was filed</th>
<th>Number of restatements</th>
<th>% of issuers we audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>5</td>
<td>0.3</td>
</tr>
<tr>
<td>2019</td>
<td>1</td>
<td>0.1</td>
</tr>
<tr>
<td>2020</td>
<td>3</td>
<td>0.3</td>
</tr>
</tbody>
</table>
The graphics below reflect Part I.A findings in our PCAOB inspections through the 2020 inspection cycle, which generally covers our audits of 2019 financial statements and is the latest report the PCAOB has released.

We had two findings in Part I.B of the PCAOB’s 2020 inspection report, which discusses noncompliance with PCAOB rules or standards that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its auditor’s opinion(s).
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US SCORE no. 14023-211US
2104-3750778
ED None

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