Our commitment to audit quality

Information for audit committees, investors and other stakeholders

Ernst & Young LLP | October 2020
Audit committees, investors and other stakeholders

We are pleased to present the 2020 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.

In these challenging times, our commitment to audit quality remains central to our purpose of building a better working world. We embrace our responsibility as independent auditors to perform high-quality audits that promote trust and confidence in the capital markets, and we understand our role is even more important in times of uncertainty.

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

Our 2020 report highlights our data-first audit approach, which combines the strength of our technology and the skills of our people to audit more effectively. Our technology also enabled us to pivot quickly to a remote working environment in early 2020 to support our ability to continue to perform high-quality audits and provide COVID-19-related guidance. Our unwavering focus on sustainable audit quality enables us to navigate these uncertain times and to reimagine what our audits will look like in the future.

We also highlight the work of our Independent Audit Quality Committee, which in its second year of operation continues to provide us with valuable advice and independent perspectives.

Our culture and people are our most important assets, and our people have demonstrated remarkable agility. We remain united in the belief that belonging and connectedness are at the core of our organization.

We have long had a diverse and inclusive culture, but we know we have to do more to drive sustainable change internally and fight racism in society. We promote diversity and inclusiveness at every level, because we know that diverse perspectives strengthen our organization and allow us to deliver higher-quality audits. We are focused, more than ever, on recruiting and retaining the right people with the right skills and the right values to lead us into the future.

The resiliency of our people and their ability to adapt in the face of uncertainty and continuous change inspire us. Working together, we are finding new ways to deliver high-quality audits.

Although we are facing significant uncertainties in our working world and society in general right now, one thing remains constant: our commitment to audit quality. With this as our foundation, we are confident that we will continue to generate new ideas about how to develop our people and conduct audits that promote trust and confidence in the capital markets.

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 of Assurance
Ernst & Young LLP
Key focus areas in 2020

- Continuing to focus on sustainable audit quality
- Reimagining how we invest in, develop and support our people
- Expanding our use of data analytics and other technology in our audits
- Using EY global technology to pivot to a virtual work environment during the pandemic
- Committing to be anti-racist, focusing on career development for underrepresented minorities
- Enhancing our reviews of the work of teams in emerging markets
- Enhancing our focus on project management
- Discussing circumstantial issues, including COVID-19, with our Independent Audit Quality Committee
- Reemphasizing the importance of independence and professional skepticism
- Enhancing our use of data to manage risks in our audit portfolio
A snapshot of key metrics

Our audit portfolio

We audit **six** of the top 10 companies in the Fortune 500 and **30%** of both Fortune 500 and Fortune 1000 companies | 924 public companies

Our people

<table>
<thead>
<tr>
<th>11,070 US audit professionals, by rank</th>
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<tbody>
<tr>
<td>38% Partners and managing directors</td>
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<tr>
<td>23% Senior managers and managers</td>
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<tr>
<td>28% Seniors</td>
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<tr>
<td>11% Staff</td>
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Percentage of our new US audit partners and managing directors who are women or minorities: **59%**

Retention of top-rated professionals:
- 89% senior managers and managers
- 80% seniors and staff

Executing high-quality audits

Percentage of US public company audit hours generated by EY US specialists: **18.4%**

- 11.4% IT
- 5.8% Tax
- 1.2% Valuation

Ratio of Quality Network and Professional Practice partners and managing directors to audit partners and managing directors: **1:5**

Our data-first approach

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

Percentage of teams on US public company audits using our EY Helix general ledger analyzer: **99%**

Increase in the number of teams on US public company audits using data-driven audit procedures to obtain evidence: **3x** the previous year

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Our commitment to audit quality | 5
Our commitment to audit quality

Our mission will always be to serve the public interest by performing high-quality audits. We continuously innovate and reimagine how we operate, even in times of crisis.

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 in financial reporting and the capital markets. Our auditors deliver audit quality by using consistent processes and innovative technologies and acting with integrity, objectivity and professional skepticism.

We understand the important role we play in the financial reporting ecosystem, and we embrace the responsibility of serving the public interest. That is, 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 that high-quality audits are more important now than ever, as is 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 our audits will look like in the future.

We have implemented 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 provide investors and other financial statement users with the kind of insights that the PCAOB envisioned, we developed extensive guidance and invested significant resources in training and coaching our teams on how to identify and describe CAMs.

Our professionals also continued to provide robust communications to the audit committees of the companies we audit on topics such as our risk assessments, our digital audit transformation and other steps we are taking to continually improve audit quality. When the COVID-19 national emergency was declared in March, we quickly began communicating with
companies we audit and their audit committees to help them consider the accounting and financial reporting implications. We stressed the need for well-reasoned judgments, and we explained the changes they would see in our audit process. We also quickly developed guidance for our engagement teams.

Leadership, tone at the top and mindset

At EY US, we set a clear tone from the top that executing high-quality audits and maintaining independence are our highest priorities. 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 through a number of distribution channels, 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 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.

We continue to emphasize the behaviors we have identified as contributing to audit quality in our training and our performance management process. We also consider these behaviors, which we group under the themes of acting with confidence and courage, saying what needs to be said and leading the way, as part of our root cause analysis that we use to evaluate positive and negative quality events.

Our values

- 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

Our focus on sustainable audit quality

EY US is a member of a global organization that is committed to conducting high-quality audits over time. 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 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 the Assurance practice at EY member firms. 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 also 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, we have clearly defined processes to review the work of auditors from other EY member firms who work with us on multinational audits. Our use of technology helps us do this more effectively.

Our culture focuses on always doing the right thing, and we take compliance with our Code of Conduct and upholding our values seriously.

Kelly J. Grier
US Chair and Managing Partner

Our system of quality control

Our system of quality control is designed to help us consistently perform high-quality audits by (1) promoting a culture of audit quality, (2) preventing and detecting risks to audit quality and (3) making sure 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 processes when necessary. 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.

When the COVID-19 pandemic hit, we quickly started providing new guidance, training and coaching to help our teams address financial reporting challenges, such as heightened estimation uncertainty, and practical challenges, such as how to audit inventory remotely. We leveraged data to proactively identify teams that might need to consider impairments and provided extra coaching. We also gave certain teams extra time to assign an initial risk rating to an engagement and added a reminder to our interim review materials about the need for teams to continuously reassess risks in an audit.

We also continued to implement changes to our documentation and processes to comply with the quality control standard recently approved by the International Auditing and Assurance Standards Board. In addition, we expressed our support for the PCAOB as it explores revamping its quality control standards.

EY US and others in the profession continue to engage in active dialogues on where improvements should be made to professional standards and where requirements should be enhanced to reflect the evolving environment and technology. For example, we are working closely with others in the profession, corporate executives and corporate directors to articulate the important roles that auditors and other key stakeholders serve with regard to fraud.

"Our system of quality control is the foundation for consistently performing high-quality audits. That's why we continuously review our processes and controls and enhance them, even in times of crisis."

John L. King  
US Vice Chair of Assurance

Independence and objectivity
Independence from the companies we audit, in fact and appearance, is foundational to providing trust and confidence to the capital markets.

We consider and evaluate independence with regard to our people and the Firm, 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 pre-approval, 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 feeds from their brokers to keep their records updated in a timely fashion. We have 33 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, and we perform testing of their compliance. In the most recent reporting year, we tested more than 2,100 US partners and other professionals for their compliance with our independence policies. The consequences for noncompliance are additional training, monetary sanctions, adjustments to performance ratings or separation from the Firm, depending on the severity of the noncompliance.

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.

Our multidisciplinary strategy
Our multidisciplinary strategy allows us to include in our audit teams EY professionals who focus on tax matters, IT and valuation matters. 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.

For example, having in-house specialists helps us quickly identify potential impairments related to COVID-19 and address accounting issues related to income tax relief provided by the Coronavirus Aid, Relief, and Economic Security Act and stimulus packages in other jurisdictions.

In fiscal 2020, EY US specialists accounted for a total of 18.4% of our US public company audit hours, which is consistent with 2019. IT specialists accounted for 11.4% of US public company audit hours. Tax and valuation specialists’ time represented 5.8% and 1.2% of total US public company audit hours, respectively.

Specialists as percentage of US public company audit hours

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>IT</td>
<td>11.4%</td>
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<tr>
<td>Tax</td>
<td>5.8%</td>
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<tr>
<td>Valuation</td>
<td>1.2%</td>
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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 the audit quality aspects of our business, operations, culture, talent strategy, governance and risk management. The IAQC was established in January 2019 and comprises external leaders with extensive experience from key roles in the financial reporting ecosystem, as investors, directors, regulators and company executives.

The independent insight of these experts has provided great value to the Firm. This year, we held four regularly scheduled meetings with the IAQC, plus five additional meetings to address circumstantial issues related to, among other things, the COVID-19 pandemic.

Our meetings focused on various matters related to Firm leadership, culture and Firm governance, talent, audit performance, and the results of internal and external audit quality monitoring efforts. These topics included our increasing use of data and technology in the audit, our process for implementing new accounting and auditing standards, and how we are equipping our professionals with skills and tools to support a data-driven audit. The IAQC also addressed our efforts related to diversity and inclusiveness, performance management, partner assignments, training and workload management.

Firm leaders also sought IAQC input on significant risks to the profession, such as competitive, regulatory and environmental challenges, which included matters related to reputational risk from our global network and the execution of audits of global companies.

The IAQC dedicated a significant amount of time in 2020 advising the Firm with respect to its response to the COVID-19 pandemic. Leaders of the Firm met with the IAQC beginning in the early stages of the pandemic to discuss its effect on the performance of audits, including how the Firm’s system of quality control was enabling the virtual performance of high-quality audits, while addressing risks related to the pandemic, and our efforts to support our professionals. These discussions also included the Firm’s interaction with regulators, the companies we audit and other key stakeholders.

The IAQC’s engagement with EY US leaders and professionals was extensive again this year, including meeting with the US Executive Committee, various regional and functional leaders of the Assurance practice and client-serving professionals of all levels.

We respect the work EY US is doing to enhance the quality of audits on which our capital markets, investors and other stakeholders rely. We welcome the opportunity to provide independent perspectives on the Firm’s strategy, and we believe we have made positive contributions as EY US has challenged and adapted aspects of the execution of its strategy, including matters arising from the pandemic.

F. William McNabb III, Jeanette M. Franzel and Dina Dublon

We believe that hearing diverse points of view in all aspects of our business improves the quality of our decision-making. This perspective has been especially valuable over the past year, when the COVID-19 pandemic prompted us to rethink aspects of how we execute our strategy.

Kelly J. Grier
US Chair and Managing Partner
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, as a critical part of our efforts to improve audit quality. These conversations have been especially important during the COVID-19 pandemic. For example, we appreciate the efforts these organizations have made to help companies address the myriad accounting and financial reporting challenges they face. We have continued to discuss our increasing use of technology and our focus on our system of quality control with the PCAOB.

We also engage with investors and groups that represent their interests. We connect with groups that are seeking to standardize the voluntary disclosures companies are increasingly making about environmental, social and governance (ESG) issues. While many of these voluntary disclosures currently appear outside of the audited financial statements, we believe they are important to investors, and independent accountants can provide attestation reports that enhance the reliability of this information.

Our 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 the role auditors can play in providing assurance on ESG disclosures and the importance of auditor transparency.

We issue thought leadership aimed at improving the quality of financial reporting. This includes helping management and audit committees understand the accounting implications of the pandemic and its economic effects and the importance of reaching well-reasoned conclusions, despite unprecedented uncertainty.

We continue to issue thought leadership about new accounting standards and emerging technologies, such as blockchain, that have the potential to transform business. For example, we published comprehensive guides on what both lenders and companies with short-term receivables need to do to comply with the new standard on accounting for credit losses. We also published a review of the first wave of disclosures lenders provided under the new standard. In addition, we published a series of publications for audit committees on the risks and benefits of using blockchain technology to automate business processes.

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, processes 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. For example, this year, the EY global organization focused on threat intelligence, tracking attack campaigns and awareness efforts in response to COVID-19 cyber attacks, among other activities.

One of the most important elements of our strategy is maintaining a security-aware culture enabled by training and risk management communications. This year, the EY global organization developed new training on protecting mobile data and devices and required everyone to complete it.

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 changes in risks and privacy laws.

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 and use a data-first approach. 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 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 3 July 2020 was $15.8 billion.

Our Assurance service line generated 28% of EY US revenue. Our other service lines, Consulting, Tax, and Strategy and Transactions, generated 33%, 29% and 10% of our revenue, respectively. Furthermore, 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 33% of EY US revenue.

In our previous fiscal year, total revenue for EY US was $15.2 billion, and the breakdown by service line was 29% from Assurance, 32% from Consulting (previously called Advisory), 28% from Tax and 11% from Strategy and Transactions (previously called Transaction Advisory Services).
Our data-first approach is transforming the way we audit. We also continue to look for ways to use emerging technologies like artificial intelligence to further enhance the quality of our audits.

**Leveraging technology to perform data-driven audits**

We continue to expand our use of data analytics in every phase of the audit to help us deepen our understanding of the companies we audit and their financial reporting, enhance our risk assessments and obtain audit evidence based on full populations of data. This data-first approach allows us to deepen our understanding of a company’s systems and controls, identify anomalies more effectively than using a traditional sampling approach and spend the right amount of time responding to key risks throughout the year.

We credit the EY global organization’s investments in technology with allowing us to pivot to a virtual work environment and continue to expand our use of data analytics and other digital solutions. We also note that having access to complete populations of data helps us ask better questions and make sure we capture what we need when we perform procedures such as walkthroughs of companies’ processes virtually during the pandemic.

"We think it’s especially remarkable that we continued to expand our use of our data-first approach, despite the disruptions caused by COVID-19."

William R. Strait
US Deputy Vice Chair of Assurance

The EY Canvas platform is the foundation of our audit technology. All EY teams around the world use it 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 in multinational audits.
This year, we are emphasizing the use of new project management features in EY Canvas that are designed to help teams manage their audits more effectively. For example, new features make it easier for our teams to track their progress against key audit milestones and to view the key risks they identified and their planned responses in one matrix so they can more easily see whether they have appropriately addressed the key risks in an audit.

Other EY Canvas features reduce the effort required to perform administrative tasks so our professionals can spend more time on areas of the audit that require professional judgment and insight. Solutions available through the automation hub in EY Canvas can be used to send out and receive requests to confirm trade receivables and payables and to create Intelligent Checklists that help streamline the preparation and review of financial statement disclosure checklists.

One technology platform

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

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

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

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

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

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

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

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
Over the past year, our teams continued to make significant progress in expanding their use of the EY Helix suite of data analytics. Ninety-nine percent of our teams on US public company audits now use our EY Helix general ledger analyzer, and the number of teams that use our data-driven audit procedures to obtain substantive evidence tripled from the previous year.

Having access to full populations of data has been especially valuable during the COVID-19 pandemic. For example, one of our teams was able to collect data for all of a retail company’s stores to test store impairment. When the company had to close its stores during the pandemic shutdown, the team had the data at its fingertips to do crucial calculations for the entire chain.

In our latest audit cycle (mostly audits of 2019 financial statements), 99% of our teams on US public company audits used our EY Helix general ledger analyzer, and the number of teams using data-driven audit procedures to obtain substantive evidence tripled from the previous year.

Supporting our teams in executing a data-first audit

Our 10X Accelerator, the centralized 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.

We continued to invest in training our people on the effective use of data analytics, delivering 111,000 hours of training this year, after significantly increasing our training the previous year.

Our data-first approach combines the talents of our diverse workforce with the power of advanced technology to improve audit quality.

Scott B. Zimmerman  
Assurance Innovation Digital Leader
The graphic below lists certain analyzers in our current EY Helix portfolio.

Emerging audit technology
We continue to take advantage of emerging technologies and to proactively address technological changes at the companies we audit.

Our teams are able to use the EY Blockchain Analyzer to gather a company’s entire history of cryptocurrency transactions from multiple blockchain ledgers and reconcile the data with the company’s records. We’ve also developed special guidance for our auditors to consider when they analyze digital assets.

The EY global organization is also using artificial intelligence to develop a variety of new solutions, including ones that automatically extract key terms from lease contracts, support information in the financial statements, select samples and compare the data we have about a company in EY Canvas to industry averages.
Our people are critical to our ability to deliver high-quality audits, and we continue to focus on diversity and inclusiveness and developing transformative leaders who can help us realize our purpose of building a better working world.

Putting our people first
Our leaders have always focused on the health and well-being of our people. In the face of the COVID-19 pandemic, we have focused on timely communication with our professionals and providing leadership and Firm support for them during extremely disruptive times.

When the pandemic hit the US during busy season, many of our audit teams were working long hours to complete an audit. In response, we rapidly refreshed our suite of benefits — called Better You — to help our professionals maintain their well-being.

We expanded our counseling benefit that provides virtual or in-person sessions with licensed therapists to also include eligible loved ones in an employee’s household. In addition, we doubled the number of days of backup child/adult care or self-care our employees can use in 2020 to 24 from the usual 12.

Our people were encouraged to be flexible with their work schedules. This year, we offered summer and fall leave programs, which allowed professionals to request partially paid leaves of absence ranging from eight to 16 weeks. The programs were aimed at caregivers but open to everyone. We also offer free tutoring for children of our professionals in kindergarten through college.

Taking a stand against racism
Our leaders also took a stand against racism this year. “It’s not enough to be not racist — we need to speak out and take action against racism and discrimination. We need to be ANTI-RACIST,” US Chair and Managing Partner Kelly Grier declared in an email, encouraging partners and managing directors to hold team discussions about racism and what can be done to drive change. Our leaders also pledged to promote equality internally, in our communities and through public policy.
Assurance Vice Chair John King held a series of virtual town hall meetings with Black audit partners and managing directors and invited a candid dialogue about how to achieve greater equity and step up our efforts to create a sense of belonging for all in the audit practice. Our leaders agreed to prioritize early career development by making sure our more junior minority professionals have appropriate work assignments and have supervisors and mentors who can help them grow. We are also taking other steps to make sure our engagement executives and Firm leaders consistently exhibit inclusive leadership and leverage our processes to achieve fair and equitable outcomes for all.

EY US also committed to contributing $3 million to organizations that fight social injustice and a total of $4 million to four historically Black colleges and universities to help increase the number of Black people in professional services.

In addition, EY US is fully funding a new digital divide initiative to bridge the distance learning gap for underserved students and expanding our new EY Entrepreneurs Access Network that focuses on Black and Latinx entrepreneurs and leverages our Entrepreneur Of The Year® program to connect them with peers, sponsors, capital and customers.

In short, we are working on ways to further develop and support underrepresented minorities as part of our purpose of building a better working world. We remain committed to improving the experience of these professionals and providing them with meaningful opportunities to grow.

Leveraging diversity and promoting inclusiveness

Diversity and inclusiveness (D&I) is a key pillar of our strategy and our commitment to delivering high-quality audits. Diverse perspectives, combined with an inclusive culture that promotes a sense of belonging, drives better decision-making and stimulates innovation.

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, 59% of the audit professionals we promoted to partner or managing director were women or minorities. In our campus hiring, 49% of our recruits in fiscal 2020 were women and 34% were minorities, up slightly from the previous year.

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 consistent with our overall retention rates of 85% and 79% for professionals in both groups, respectively.

However, we continue to look for ways to increase our retention of underrepresented minorities. One area of focus is to provide them with career guidance through the creation of “boards of directors” that understand their individual career interests and advocate on their behalf. This contrasts with traditional approaches of a single sponsor or mentor. Our goal is to make sure these individuals have the guidance and experiences they need to continue to grow professionally.

We also review the percentage of partners and managing directors in leadership positions who are women or minorities. The percentage of women or minority partners in charge of audits rose to 30% from 26% last year, and the percentage of women and minority partners who lead our most complex multinational audits is also rising. We expect women and minorities to lead 27% of these audits for periods beginning in 2021, up from 15% three years earlier.

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

Our commitment to audit quality
We also continue to sponsor a wide variety of professional networks to foster a sense of belonging and provide opportunities for our people to connect with one another and Firm leadership and get advice.

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.

We are a 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 and were recognized on several of DiversityInc’s 2020 specialty lists.

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 (Top 10)
- **Human Rights Campaign** – 100% Corporate Equality Index rating on policies and practices pertinent to LGBTQ employees
- **Disability:IN** – 100% Disability Equality Index rating

We are committed to developing and empowering our people by providing them with access to opportunities so they can bring out the best in themselves and others. From day one, we provide all of our people with a path to become transformative leaders.

We use strategic workforce planning to forecast the number of people at each rank we will need in various locations to deliver high-quality audits in the future. Data analytic techniques are used to evaluate macroeconomic information and information about our audit practice so we can prepare for a variety of possible outcomes, and we incorporate this planning into our hiring decisions.

In addition, as our more senior partners retire, we continue to identify and develop partners who can lead our most complex and challenging multinational audits. We are strengthening and expanding this group of partners by making sure they have the appropriate experiences to lead these engagements.

We are committed to audit quality | 17

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<tr>
<th>Percentage of women or minorities in our US audit practice</th>
<th>Fiscal 2020</th>
<th>Fiscal 2019</th>
<th>Fiscal 2018</th>
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</thead>
<tbody>
<tr>
<td>Partners and managing directors</td>
<td>38%</td>
<td>36%</td>
<td>35%</td>
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<tr>
<td>Senior managers and managers</td>
<td>59%</td>
<td>59%</td>
<td>57%</td>
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<tr>
<td>Seniors and staff</td>
<td>61%</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>58%</strong></td>
<td><strong>57%</strong></td>
<td><strong>56%</strong></td>
</tr>
</tbody>
</table>

We also recognize and reward our top performers to make sure we retain professionals with the skills and experience we need to perform high-quality audits, especially on our most complex engagements. In a significant change to long-standing practice in the profession, we now promote top performers when they’re ready and when the Firm needs them, rather than requiring them to complete a specified number of years of service in each rank.

We are committed to developing and empowering our people by providing them with access to opportunities so they can bring out the best in themselves and others. From day one, we provide all of our people with a path to become transformative leaders.

We are committed to audit quality | 17

The right people at the right time

We use strategic workforce planning to forecast the number of people at each rank we will need in various locations to deliver high-quality audits in the future. Data analytic techniques are used to evaluate macroeconomic information and information

Rebecca A. Burke
Assurance Talent Leader
Number of US audit professionals

<table>
<thead>
<tr>
<th></th>
<th>Fiscal 2020</th>
<th>Fiscal 2019</th>
<th>Fiscal 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners and managing directors</td>
<td>1,181</td>
<td>1,164</td>
<td>1,123</td>
</tr>
<tr>
<td>Senior managers and managers</td>
<td>2,564</td>
<td>2,387</td>
<td>2,289</td>
</tr>
<tr>
<td>Seniors and staff</td>
<td>7,325</td>
<td>7,139</td>
<td>7,078</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11,070</strong></td>
<td><strong>10,690</strong></td>
<td><strong>10,490</strong></td>
</tr>
</tbody>
</table>

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 1,040, 862 and 701 full-time auditors in fiscal years 2020, 2019 and 2018, 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 feedback about their performance.

We 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 continuously improve their experience.

Our professionals have long met in small groups called counseling families to connect and discuss matters that impact our people. 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.

As discussed earlier, we have a suite of programs to support the well-being of our professionals, which is more important now than ever. We also encourage flexibility, which helps us create high-performing teams.

We have two one-week office closures a year (one in winter and one in summer), and many of our people said they especially appreciated the summer break this year during the pandemic.

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

<table>
<thead>
<tr>
<th></th>
<th>Fiscal 2020</th>
<th>Fiscal 2019</th>
<th>Fiscal 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners and managing directors</td>
<td>393</td>
<td>423</td>
<td>431</td>
</tr>
<tr>
<td>Senior managers and managers</td>
<td>298</td>
<td>312</td>
<td>289</td>
</tr>
<tr>
<td>Seniors and staff</td>
<td>226</td>
<td>253</td>
<td>227</td>
</tr>
</tbody>
</table>

As part of our system of quality control, we continue to assess workloads of our executives to make sure they have the time to execute high-quality audits.

To promote retention at our more junior ranks, we offer a “bank your bonus” program that gives 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 exceeds the overall retention rates for professionals in both groups. The increase in overall retention rates in 2020 partly reflects our commitment to keep our people employed through our fiscal year end.

US audit overall staff through senior manager retention rate by rank

<table>
<thead>
<tr>
<th></th>
<th>Fiscal 2020</th>
<th>Fiscal 2019</th>
<th>Fiscal 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior managers and managers</td>
<td>85%</td>
<td>82%</td>
<td>83%</td>
</tr>
<tr>
<td>Seniors and staff</td>
<td>79%</td>
<td>76%</td>
<td>76%</td>
</tr>
</tbody>
</table>

Fiscal 2020 retention for top-rated US audit staff through senior manager exceeds overall retention

<table>
<thead>
<tr>
<th></th>
<th>Top rated</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior managers and managers</td>
<td>89%</td>
<td>85%</td>
</tr>
<tr>
<td>Seniors and staff</td>
<td>80%</td>
<td>79%</td>
</tr>
</tbody>
</table>

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 we continue to make our audits more digital.

On-the-job coaching and supervision for less-experienced professionals 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 21.8 and 19.7 years of service, respectively.

<table>
<thead>
<tr>
<th>Ratios of audit executives to other audit professionals</th>
<th>Fiscal 2020</th>
<th>Fiscal 2019</th>
<th>Fiscal 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners and managing directors to staff through senior managers</td>
<td>1 to 8.4</td>
<td>1 to 8.2</td>
<td>1 to 8.3</td>
</tr>
<tr>
<td>Senior managers and managers to seniors and staff</td>
<td>1 to 2.9</td>
<td>1 to 3.0</td>
<td>1 to 3.1</td>
</tr>
</tbody>
</table>

We are refreshing our learning to make sure our people get the right training at the right time over the course of their tenure at EY US. We also provide our professionals with opportunities to develop skills that are most important to them. At the executive level, this includes training in nontechnical areas, such as leadership, to help our executives foster a culture that supports a high-quality audit. All of our employees also have the opportunity to earn an EY Tech MBA online from Hult International Business School free of charge.

Because of the pandemic, we made all our training virtual this year. We were well prepared to do this because we were already creating high-quality on-demand online learning and offering virtual instructor-led classroom sessions for certain topics. This year’s training blends virtual classroom learning with self-directed online courses.

For example, our core audit curriculum for staff through managers includes access to more than 80 self-directed e-learning courses on technical accounting and auditing matters, and approximately 25% of them were converted to online offerings in the current calendar year.

This year, we continued to provide training on using data analytics in our audits, new accounting standards, and the new auditing requirements on estimates and the use of specialists in our audits.

We expect our audit professionals to exceed our requirement to complete 40 hours of continuing professional education this year, as they have in the past.

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) with Elijah Watt Sells Awards for achieving exceptional results on the CPA exam. We are proud to report that 26 EY US professionals were among the 137 people who received this honor this year.

### 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. This year, our audit practice honored its commitment to hire over 2,000 people from college and university campuses, roughly the same number as in previous years.

Our audit practice also honored its commitment to over 1,200 summer interns, who all worked virtually and were able to gain experience with our data analytic tools and participate in a full week of training, focusing on skills such as data visualization. We also provided need-based scholarships to many of our interns who were financially impacted by the pandemic to help them pay their college tuition.

In our campus recruiting, we stress our commitment to data-driven audits and technology. We also 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 14% of our campus hires in our audit practice, up from approximately 10% in the previous year, and we expect that percentage to increase over time.

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 the Fortune 100 Best Companies to Work For® list for 22 consecutive years. EY US also continues to be among the top 20 employers for business graduates in Universum’s annual Most Attractive Employer rankings.

This year, 87% of our audit interns who were offered full-time positions have joined our audit practice. The fact that they want to work with us full-time underscores the strength of our culture and our ability to retain talented professionals.

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 22nd consecutive year

- *Fortune* magazine’s Best Big Companies to Work For list (ranked highest among professional services firms)

- DiversityInc’s Top 50 Hall of Fame recognition for the third consecutive year for companies that have achieved a No. 1 ranking on its Top 50 Companies for Diversity list
Executing high-quality audits

Our objectivity, professional skepticism and commitment to excellence are at the core of everything we do. We focus on creating teams with the right skills, supporting them and leveraging data to proactively identify teams that may benefit from additional coaching or help.

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. In fact, every year, there are many companies we decline to audit.

We perform rigorous risk assessments before we accept audit assignments 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. This year, we also evaluated risks related to the COVID-19 pandemic and its economic fallout.

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 |
|-------------------------------|-----------------|-----------------|
| 2020  | 2019  | 2018  |
| 924   | 931   | 939   |

Our commitment to audit quality | 20
While the number of public companies we audit remained relatively consistent with 2019, the number has declined over time, reflecting the overall decline in the number of public companies listed on US exchanges.

**Establishing the right team**

Each 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 (ICFR), 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.

Approximately 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 on public company audits, 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 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. That’s why a key element in our system of quality control is tracking and evaluating hours incurred by 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 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 2020, shared service center professionals accounted for 15% of US public company audit hours, compared with 12% in the previous year.

**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. We continue to accelerate the amount of work performed before year end. In fiscal year 2020, our teams have been able to perform 36% of their work three months before the fiscal year end of the company under audit and 62% 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 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 in a timely manner.

We’ve also reduced the amount of time it takes our teams to archive final audit workpapers. Archiving workpapers in a timely fashion gives teams a jump on planning the next audit.
Performing the audit

Our teams use an approach that leverages the power of both teaming and data analytics.

Under the approach, called 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 business processes and risks. Our people also use the Purpose-Led Outcome Thinking program developed by the EY global organization to make sure their testing procedures are appropriate. 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.

Our approach to audit documentation is also designed to help teams 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 also have enhanced our oversight of the audit work of local teams that participate in audits of multinational companies in emerging markets and countries that limit access by US regulators.

We added review requirements related to key audit evidence obtained by local teams in these markets and provided additional training in higher-risk areas. We have also joined other audit firms in engaging with the SEC to discuss how to address these limits on access.

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. Throughout the audit cycle, the Quality Network uses data analytic techniques to evaluate a wide range of information and identify teams that need help.

Because the roughly 140 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.

Our Quality Network coaches are increasingly focusing on the use of data in our audits and project management, while continuing to support our professionals in applying audit standards and executing our audit methodology. In the current environment, they are also coaching teams on the appropriate application of the impairment standards and other matters related to the COVID-19 pandemic.

Our monitoring of the effectiveness of this coaching indicates that it helps our teams execute well and it promotes high-quality audits.

Our emphasis is on project management, meeting milestones and getting executives involved at the right time. All of this helps our teams perform high-quality audits.

Dave A. Sewell
Audit Leader – US-Central Region

We use a data-driven approach to manage risks in our audit practice. That means analyzing publicly available information as well as audit quality indicators and other metrics we generate about our audits to identify teams that need help.

Linda Lam
US Director of Quality Implementation
Our Professional Practice group, which includes approximately 120 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 issues relating to the pandemic. 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.

Over the last three years, our Professional Practice partners have conducted an average of 2,300 formal consultations annually with audit teams. Income taxes and revenue recognition were the top accounting consultation topics in fiscal 2020, consistent with the previous year. Professional Practice partners and managing directors also reviewed and approved the determination and descriptions of critical audit matters before we included them for the first time in audit reports.

Our ratio of Quality Network and Professional Practice partners and managing directors to audit partners and managing directors remained consistent in fiscal 2020 at 1 to 5.

Cybersecurity
Cyber risks are a major threat to businesses, and the risk of a cyber attack increased when more people began working remotely. A breach of an organization's systems can affect the organization's reputation, disrupt operations and result in significant costs, including fines.

We address business risks, including cyber risks, with audit procedures when those risks could result in a material misstatement of the financial statements. Leveraging expertise within our Firm, 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 would consider the effect on the financial statements, including disclosures, and the effect on ICFR.

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.

We all have a responsibility to execute on our commitment to serving the public interest. Our objectivity, independence, professional skepticism and commitment to performing high-quality audits are at the core of everything we do.

James R. Estes
US Vice Chair of Professional Practice
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 assessment of in-progress audits**

Our reviews of certain public company audits before we issue the related 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 data-driven audit procedures and how they are responding to COVID-19-related matters, significant risks and 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. While we usually 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, we delayed the start of our program this year until early May to give our teams more time to adjust to working remotely during the pandemic.

We were still able to inspect a full program of approximately 180 public and private company audits (generally of financial statements for the year ended 31 December 2019), using our technology to conduct the reviews remotely. We learn from both public and private company internal inspection results.

In these inspections, 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.
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 our actions to improve our system of quality control.

We define positive quality events as (1) exceptional performance in an audit 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.

In fiscal 2020, we recognized all of our professionals who were involved in positive quality events for their contribution to audit quality. We also began recognizing a broader group of individuals and teams that demonstrated behaviors that lead to quality audits.

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 we audit, which includes the 924 companies we audit and approximately 550 mutual fund issuers in each of the past three years.

<table>
<thead>
<tr>
<th>Year of filing</th>
<th>Number of restatements</th>
<th>% of issuers we audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>9</td>
<td>0.6</td>
</tr>
<tr>
<td>2018</td>
<td>5</td>
<td>0.3</td>
</tr>
<tr>
<td>2019</td>
<td>1</td>
<td>0.1</td>
</tr>
</tbody>
</table>
External inspections

The PCAOB’s inspections have led to improvements in audit quality. We also support the Board’s efforts to further improve audit quality and the usefulness of its inspection reports.

The role of the PCAOB
The PCAOB continues to play an important role in improving and maintaining audit quality. Through annual inspections and standard setting, the PCAOB has helped the profession identify areas for further attention and develop processes to determine the root cause of audit deficiencies.

We support the PCAOB’s efforts to innovate and explore new ways to prevent audit deficiencies, including increasing its focus on a firm’s system of quality control. We also support the PCAOB’s efforts to make its inspection reports easier to understand and to report on inspections in a timelier fashion.

In addition, we appreciate the PCAOB’s flexibility in accommodating our requests to reschedule inspections at the start of the COVID-19 pandemic. We also support the PCAOB’s targeted reviews to obtain information on how the profession is handling COVID-19-related matters in its audits, and we look forward to receiving any feedback for improvement.

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.

The PCAOB’s inspection reports now use more plain English and provide three years of data to show areas of improvement and areas where additional improvement may be needed. To give readers an indication of the extent of the findings, the PCAOB also has begun grouping them into categories, such as audits with an incorrect audit opinion on the financial statements or ICFR, and audits with multiple deficiencies, audits with single deficiencies and audits with no deficiencies. 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 graphics and discussion below reflect results of our PCAOB inspections through the 2018 inspection cycle, which generally covers our audits of 2017 financial statements and is the latest report the PCAOB has released.

Our 2018 inspection results showed overall improvement, and the number of inspections with multiple deficiencies declined to 10 from 15 in 2017. We note that all 14 of the audits with findings were selected for inspection by the PCAOB using risk-based criteria; that is, none of them were random selections.

The most frequent areas of findings included:
- Testing the design or operating effectiveness of controls
- Evaluating significant assumptions or data used in developing an estimate
- Testing controls over the accuracy and completeness of data and reports

The most common area of findings involved business combinations (i.e., nonrecurring transactions). Deficiencies related to revenue and inventory declined. The findings in these areas focused on narrower aspects of an account than in the past.

Our inspection findings have narrowed in areas of recurring deficiencies. We expect to see significant improvement when our results fully reflect the actions we have taken in recent years to improve audit quality, including our Insight approach and our increasing use of data analytics.

Denise M. Pelli
Director of Professional Practice Quality & Regulatory Matters

Part I.B of the PCAOB report
The PCAOB added a new Part I.B to its 2018 reports to discuss deficiencies it identified in its inspections that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its audit opinions but relate to noncompliance with PCAOB standards or rules. The PCAOB said that in two of our 16 audits reviewed for this purpose we lacked documentation that made us noncompliant with its auditing standard on communications with audit committees. We have reminded our auditors about the importance of documentation.

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

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 2018 report in April 2020, and we will submit our final remediation response no later than March 2021. The PCAOB’s review of our response to its 2017 inspection report is in process.

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 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.

International regulators

In 2015, the International Forum of Independent Audit Regulators (IFIAR) issued a challenge to the global audit networks. It called on them to achieve a 25% reduction in inspection findings by 2019 for listed public interest entities. The EY network achieved this goal in 2019.

IFIAR has issued a new challenge to further reduce the number of audits with at least one significant finding as reported by 25 countries that are members of IFIAR by at least 25% over the next four years ending with IFIAR’s 2023 survey of inspection results.
Appendix

EY US Executive Committee

Kelly J. Grier
US Chair and Managing Partner

Anthony Caterino
US Deputy Managing Partner

Steve Payne
US Vice Chair - Consulting

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

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

Janet E. Trunce
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

<table>
<thead>
<tr>
<th>Metric</th>
<th>New for 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of US independence partners.</td>
<td></td>
</tr>
<tr>
<td>Number of US partners and other professionals who were tested for independence compliance.</td>
<td></td>
</tr>
<tr>
<td>Percentage of US public company audit hours accounted for by specialists’ involvement (i.e., specialists in total).</td>
<td></td>
</tr>
<tr>
<td>Percentage of US public company audit hours accounted for by specialists in IT, tax and valuation.</td>
<td></td>
</tr>
<tr>
<td>Total US revenue and percentages for our Consulting, Assurance, Tax, and Strategy and Transactions service lines.</td>
<td></td>
</tr>
<tr>
<td>Percentage of US revenue for Assurance if work on audits by professionals in other service lines is included.</td>
<td></td>
</tr>
</tbody>
</table>

#### Our data-first approach

<table>
<thead>
<tr>
<th>Metric</th>
<th>New for 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of audit teams that use EY Canvas to execute their audit.</td>
<td></td>
</tr>
<tr>
<td>Number of teams on US public company audits that now use our EY Helix general ledger analyzer.</td>
<td>x</td>
</tr>
<tr>
<td>Increase in the number of teams on US public company audits using data-driven audit procedures to obtain substantive evidence.</td>
<td></td>
</tr>
<tr>
<td>Number of data analytics professionals who support audit teams with their digital audit strategy (headcount).</td>
<td></td>
</tr>
<tr>
<td>Total training hours delivered on data analytics.</td>
<td></td>
</tr>
</tbody>
</table>

#### Our people

<table>
<thead>
<tr>
<th>Metric</th>
<th>New for 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of new US audit partners and managing directors who are women or minorities.</td>
<td></td>
</tr>
<tr>
<td>Percentage of US audit professionals hired from college and university campuses who are women or minorities.</td>
<td></td>
</tr>
<tr>
<td>Retention rate for women or minorities at the senior manager and manager ranks and at the senior and staff ranks.</td>
<td></td>
</tr>
<tr>
<td>Percentage of women or minorities who lead a US public company audit, compared with last year.</td>
<td></td>
</tr>
<tr>
<td>Percentage of our most complex multinational audits that we expect to be led by women or minorities in 2021, compared with three years earlier.</td>
<td></td>
</tr>
<tr>
<td>Number of women or minorities on our US Executive Committee.</td>
<td></td>
</tr>
<tr>
<td>Percentage of US audit professionals who are women or minorities, by rank (headcount).</td>
<td></td>
</tr>
<tr>
<td>Number of US audit partners and professionals by rank (on a full-time equivalent or FTE basis).</td>
<td></td>
</tr>
<tr>
<td>Number of US audit counseling families, which are small groups that meet to connect and discuss matters that impact our people.</td>
<td></td>
</tr>
<tr>
<td>Average annual hours in excess of 40 hours per week for US audit professionals, by rank.</td>
<td></td>
</tr>
<tr>
<td>Overall retention rates for (1) senior managers and managers and (2) seniors and staff.</td>
<td></td>
</tr>
<tr>
<td>Retention rates for top-rated (1) senior managers and managers and (2) seniors and staff.</td>
<td></td>
</tr>
<tr>
<td>Average years of experience at EY US for US audit partners and managing directors.</td>
<td></td>
</tr>
<tr>
<td>Ratio of US audit partners and managing directors to all US audit professional staff (FTE).</td>
<td></td>
</tr>
<tr>
<td>Ratio of US audit senior managers and managers to US audit seniors and staff (FTE).</td>
<td></td>
</tr>
<tr>
<td>Number of self-directed e-learning courses on technical accounting and auditing matters.</td>
<td>x</td>
</tr>
<tr>
<td>Percentage of learning courses converted to online e-learning courses.</td>
<td>x</td>
</tr>
<tr>
<td>Number of EY US professionals recognized by the AICPA for achieving exceptional results on the CPA exam.</td>
<td></td>
</tr>
<tr>
<td>Number of US audit professionals hired from college and university campuses.</td>
<td></td>
</tr>
<tr>
<td>Number of interns who worked virtually this summer.</td>
<td>x</td>
</tr>
<tr>
<td>Percentage of campus hires who have both an accounting degree and a major or minor in data analytics, management information systems or computer information systems.</td>
<td>x</td>
</tr>
<tr>
<td>Percentage of US audit interns that accepted offers for full-time positions in the audit practice.</td>
<td>x</td>
</tr>
<tr>
<td>Executing high-quality audits</td>
<td>New for 2020</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Metric</td>
<td></td>
</tr>
<tr>
<td>Percentage of the Fortune 500, Fortune 1000 and Russell 3000 companies audited by EY US.</td>
<td></td>
</tr>
<tr>
<td>Number of top 10 companies in the Fortune 500 that we are auditing this year.</td>
<td></td>
</tr>
<tr>
<td>Number of public companies audited by EY US.</td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td></td>
</tr>
<tr>
<td>Percentage of audit partners who serve as partner in charge or engagement quality reviewers of a US public company audit.</td>
<td></td>
</tr>
<tr>
<td>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).</td>
<td></td>
</tr>
<tr>
<td>Percentage of US public company audit hours accounted for by shared service center personnel.</td>
<td></td>
</tr>
<tr>
<td>Percentage of US audit hours incurred three months before the fiscal year end of the company under audit.</td>
<td></td>
</tr>
<tr>
<td>Percentage of US audit hours incurred before the fiscal year end of the company under audit.</td>
<td></td>
</tr>
<tr>
<td>Number of professionals in the Quality Network (headcount).</td>
<td></td>
</tr>
<tr>
<td>Number of partners and managing directors in US Professional Practice (FTE).</td>
<td></td>
</tr>
<tr>
<td>Average number of annual consultations with US Professional Practice over the past three years.</td>
<td></td>
</tr>
<tr>
<td>Ratio of US Quality Network and Professional Practice partners and managing directors to US audit partners and managing directors.</td>
<td></td>
</tr>
<tr>
<td>Monitoring</td>
<td>New for 2020</td>
</tr>
<tr>
<td>Metric</td>
<td></td>
</tr>
<tr>
<td>Number of internal inspections of our US audits.</td>
<td></td>
</tr>
<tr>
<td>Percentage of professionals involved in a positive quality event who received recognition.</td>
<td></td>
</tr>
<tr>
<td>Number of issuers we audited in 2020.</td>
<td></td>
</tr>
<tr>
<td>Number of mutual fund issuers we audited for the past three years.</td>
<td></td>
</tr>
<tr>
<td>Number and percentage of restatements by year as a percentage of EY US issuer audits, which includes the companies and mutual fund issuers we audit.</td>
<td></td>
</tr>
<tr>
<td>External inspections</td>
<td>New for 2020</td>
</tr>
<tr>
<td>Metric</td>
<td></td>
</tr>
<tr>
<td>Number of PCAOB inspections and Part I.A findings.</td>
<td></td>
</tr>
<tr>
<td>Number of PCAOB Part I.B findings.</td>
<td>x</td>
</tr>
<tr>
<td>Results of our 2019 AICPA peer review.</td>
<td></td>
</tr>
<tr>
<td>EY network achieved the challenge issued by the International Forum of Independent Audit Regulators (IFIAR) in 2019.</td>
<td></td>
</tr>
</tbody>
</table>
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