



A commitment to audit quality and continuous improvement

EY global audit quality report 2022



EY

Building a better
working world

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An unwavering commitment to high-quality audits



Carmine Di Sibio
EY Global Chairman
and CEO

Delivering high-quality audits is critical to serving the public interest and fulfilling the EY purpose of building a better working world. Through our commitment to continuously improve audit quality, we build trust and confidence in the capital markets, which drives investment and economic growth, creating long-term value for society as a whole.

This ambition is becoming ever more important as investors and other stakeholders are demanding more from businesses than just the details of their financial performance. They also want to understand how companies are addressing the environmental, social and governance (ESG) agenda, and how they are creating value for all their stakeholders. To do so, they need reporting they can trust. As corporate reporting increasingly addresses nonfinancial issues, EY teams are adapting to apply the same high-quality audit procedures to nonfinancial measures as those currently used for financial reporting.

As shown in the 2022 *EY Value Realized* report, we are also committed to measuring and reporting on our progress beyond the financial results. This is an important way to hold ourselves accountable to the commitments we make to colleagues, clients and society, as part of the EY purpose, strategy and ambition.

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

The key to making all of this happen is the exceptional ability of EY people to adapt and innovate. The global EY

organization has a long-standing focus on recruiting, training and retaining the talented individuals who play a key role in delivering high-quality audits, and on equipping them with the future-focused skills they need to build their careers. Also central to this is working to help ensure a diverse, equitable and inclusive workplace, where EY people can bring their whole selves to work.

Our organization has always been focused on looking ahead to help ensure that our businesses continue to thrive in a changing landscape, while addressing the needs of all of our stakeholders and providing greater opportunities for all EY people. In September 2022, the EY organization announced that its leaders had reached the decision to move forward with partner votes to separate its consulting and assurance practices into two distinct, multidisciplinary organizations. This proposal is subject to governance processes, and partners at EY member firms are currently evaluating it.

The announcement has motivated an industry-wide conversation on the future business model that will best deliver on our commitment to building trust and confidence in the capital markets, and to exceptional client service. We are engaging actively with clients and regulatory bodies around the world on all of these topics.

As the EY organization works on its future structure, I want to make clear that our commitment to performing high-quality audits is relentless. Under the proposal that member firms are considering, the assurance-focused EY global network of multidisciplinary member firms would remain an organization with audit quality and serving the public interest at its core, and would continue to have all the capabilities and technical support required to continue to deliver high-quality audits.

The Sustainable Audit Quality (SAQ) program is at the heart of this commitment. In this report you can read about how we are continuously improving audit quality and creating long-term value.

A global commitment to sustainable audit quality



Marie-Laure Delarue
EY Global Vice Chair – Assurance



Mike Verbeck
EY Global Deputy Vice Chair – Assurance

As EY Global Vice Chair and Deputy Vice Chair for Assurance, we recognize the importance of our roles within the EY organization and across the broader working world.

This is why, even as the organization considers its future structure, we remain absolutely committed to providing high-quality audits. It is a commitment that motivates more than 88,000 audit professionals every day across the EY organization.

As auditors, EY teams serve the public interest by executing high-quality audits that promote trust and confidence in business and the capital markets. This is achieved by focusing on trust, talent, data and technology, and value.

The more technology changes the world, the more opportunity EY teams have to promote trust by leveraging data and the skills of exceptional and diverse EY people.

Through high-quality audits, EY professionals bolster public trust in the global markets, and instill confidence through the integrity, independence and professional skepticism EY teams bring to the audit. The strategy and transformation of audit work is driven by EY teams, and this provides EY people with opportunities for exceptional career experiences that will help them grow and develop into the Assurance professionals of the future.

Moreover, we expect sustainability to be the largest driver of change in the next decade, and the assurance profession will be pivotal in bringing confidence to the market. We must be prepared to train professionals at scale, to be able to help assure new metrics and assess the impact of sustainability imperatives on EY clients' businesses and financial reporting.

As the working world is reshaped by data and technology, audit quality is further enhanced by leveraging data to ask better questions and obtaining enhanced audit evidence through continued application of professional skepticism.

And using the knowledge gained through these insights, EY teams deliver value and high-quality audits that improve stakeholder trust in businesses. This, in turn, drives investment and economic growth, creating long-term value for society overall.

The connectivity of the EY organization around the globe provides a unifying culture, a shared set of values and a continuous improvement mindset for auditors around the world, allowing real opportunities to simplify, centralize and standardize the work EY teams do. This puts the EY organization in a position of strength as EY member firms implement International Standard on Quality Management 1 (ISQM 1), the new international quality management standard. At the same time, we are capitalizing on the opportunity of ISQM 1 to take audit quality to the next level, as part of our commitment to serve the public interest.

We are also making progress through our SAQ program. The International Forum of Independent Audit Regulators (IFIAR) issued its first reduction challenge following the 2015 survey: the EY rate in that survey was 43%. With our continued focus on quality, the EY rate in the 2020 IFIAR survey was 24%, and 20% in the 2021 survey. Inspection findings provide us with valuable information about how we can continuously improve.

EY teams take great pride in the commitment to continually improving audit quality, and you can read more about these and other initiatives in this year's global audit quality report.

Strengthening trust in a changing environment



Sir C K Chow,
on behalf of the Public
Interest Committee

For all auditors, the global business environment remains one of constant challenge. As an independent non-executive and a member of the EY Global Public Interest Committee (PIC), I therefore remain focused on how the organization responds to these challenges while maintaining trust and confidence in its work.

The role of the PIC is to support the EY organization as it works to meet the public's expectations of companies and their auditors by fostering relationships with its stakeholders, including investors, regulators and the public. We bring our views and experience to those discussions, and provide an external view to the organization that adds real value to its partners around the world.

These last two years have been extraordinary, and the COVID-19 pandemic is still there in the background and continues to affect our working lives. However, we are now dealing with a different set of circumstances as geopolitical tensions have undeniably increased.

This has a direct impact on the EY organization. It needs to comply with laws and regulations in different jurisdictions on the one hand and, on the other, protect the interests of its own people who are affected by these changes. Equally important, it must continue to serve the needs of its clients during these difficult times. The PIC will continue to provide its independent support and advice to the EY organization as it continues to rise to these challenges.

At the same time, greater importance is being placed on the nonfinancial aspects of audit work. Climate change is a top priority for all companies and countries. While common auditing standards are being developed and aligned, we are pleased that the EY organization has taken a leading role in this process and that it continues to be a significant focus of the organization's attention.

Against this background, the fundamental role of the audit remains unchanged. High-quality audits are essential in bolstering public confidence in the capital markets. They serve as a foundation of all business activity.

This is why enhancing audit quality is a continuous process. The priority for the EY organization is to achieve a consistently high quality of audits. During the six years that I have served on the PIC, I have been gratified to see the significant investments the organization has made, and continues to make, in talent, technology and methodologies to help all its professionals achieve higher-quality audits.

I believe the new ISQM 1 will be very important in this regard, and I'm looking forward to seeing how it can align the organization to a common vision to provide continued trust and confidence to the communities it serves. It needs to have that passion and commitment to building trust and helping its clients to flourish – in short, to building a better working world.

How the proposed EY transaction would advance audit quality

The EY organization has been a successful multidisciplinary global network of member firms for decades, with a long history of delivering high-quality audits. It is committed to regularly evaluating how to better serve clients, employees, other stakeholders and the public interest. After careful consideration, EY leaders believe that separating into two distinct organizations would create the most opportunity and value for all stakeholders. Through this separation, the EY organization can embrace the changing landscape, build businesses that redefine the future of its professions, create exciting new opportunities, and deliver greater long-term value for employees, clients and communities.

If the transaction is approved, a simplified, agile, global network of multidisciplinary member firms would continue to operate under the EY brand. The network would remain committed to audit, tax and advisory services with all the capabilities required to provide high-quality audits and bring businesses advice that empowers them to lead with confidence to the benefit of the capital markets.

After the transaction, the organization would remain a Big Four professional services network with a workforce of approximately 165,000 people worldwide and would be the only Big Four firm whose audit practice is its largest service offering by global revenue. In fact, the EY organization would be the second largest global audit network, making audit foundational, with growth being built in traditional

core competencies. The network's culture and goals would fully align with the continued advancement of sustainable audit quality.

The current EY distinction as the most integrated global professional services membership network would be retained, with the size, scale, reach and experience clients expect and require – but with greater focus on a distinct set of services including audit, tax, technology risk, forensics, valuation, modeling and economics, actuarial, sustainability, transaction support, and financial services risk management. In this manner, the network would continue to have all the multidisciplinary capabilities necessary to conduct complex audits while allowing specialists to continue to gain relevant and important experiences and skills. A simplified operating model, unique among the Big Four, would support audit quality and accountability, and accelerate innovation.

By reducing competing priorities outside of audit services, the proposed transaction would free additional investment capacity to use to continue to transform audit capabilities, including accelerating the adoption of leading-edge technology, data gathering and analysis, and automation, standardization and centralization. Audit professionals would then be more enabled to focus on what matters most: risk.

Talent is at the core of the EY organization's commitment to audit quality. Capitalizing on the EY legacy, the global network would use this opportunity to focus additional investment toward its people, with

an emphasis on recruiting, retaining, developing and deepening the capabilities and relevant knowledge-driven skills needed to support audit quality and the audit of the future. The organization will place renewed emphasis on training and developing EY people, providing differentiated career experiences that will help enable them to be highly skilled in the domains they are passionate about. They will be able to hone their audit skills alongside other opportunities adjacent to the audit, in areas like tax, IT, actuarial, valuations and so on.

The EY global network's leadership and culture would continue to be unequivocal about how critical audit quality and independence are to clients and the public and the key role auditors play in promoting trust and confidence in the capital markets. In tandem, the proposed transaction would reduce perceptions of conflicts of interest and independence issues that arise from providing a broad range of non-audit services to clients.

The proposed transaction creates a compelling value proposition for the companies EY teams audit, investors and EY people. A sharper focus on assurance-related services would help enable the EY organization to center its strategy, strengthen capabilities and align actions on the delivery of high-quality work. It is the next step in the EY transformation to bolster confidence in the public markets and, ultimately, better serve the public interest.

Global audit quality by the numbers

Trust and confidence

27%

of the companies in the **Fortune Global 500** and 27% of the companies in the **Forbes Global 2000** were audited by the EY organization in FY22.

1,400+

audits subject to internal inspection

1,500+

audit engagements go through global coaching on an annual basis.

1:5.9

Ratio of partners/executive directors in technical support roles to partners/executive directors

15%

all-in deficiency rate
This accounts for all external regulators that inspect audit engagements in the more than 150 countries where the EY organization operates.

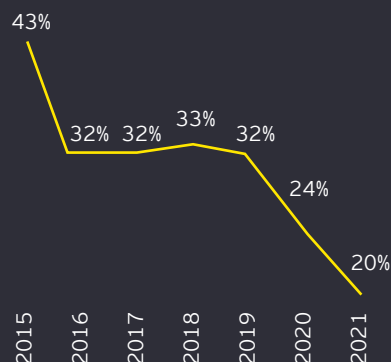
The EY SIFI rate

43%
Six largest networks rate

The EY organization's International Forum of Independent Audit Regulators (IFIAR) systemically important financial institutions (SIFI) rate for the 2021 survey was 20%, as compared with the rate for the six largest global audit firm networks, which was 43%.

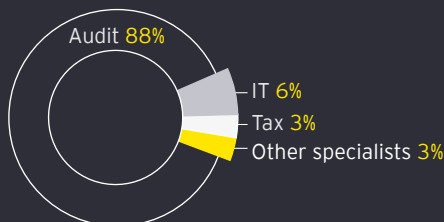
20%
EY rate

The global EY IFIAR survey rate



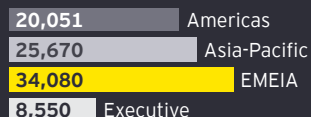
12%

of audit hours across all engagements (listed and non-listed) are provided by specialists.



People

Audit professionals by geography



88,351

audit professionals worldwide

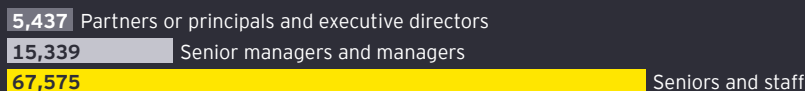
82%

of audit professionals agree their EY experience is exceptional (as of July 2022).

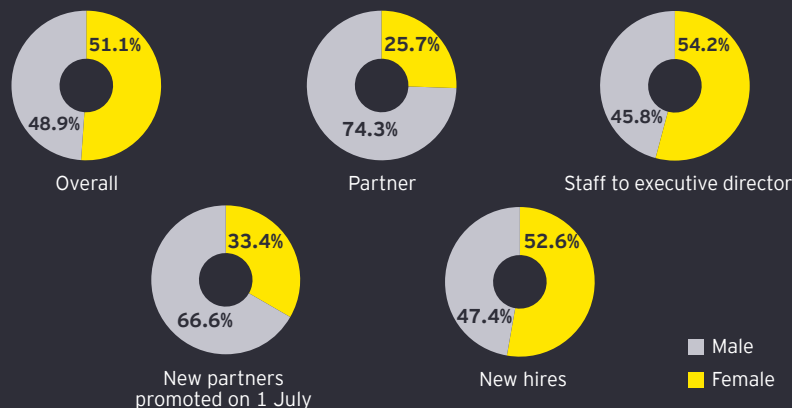
86.5

learning hours per audit professional in FY22

Audit professionals by rank



Audit professionals by gender



Data and technology

US\$1b

investment in a next-generation Assurance technology platform

The EY Canvas global online audit platform connects

120,000

EY people and

350,000

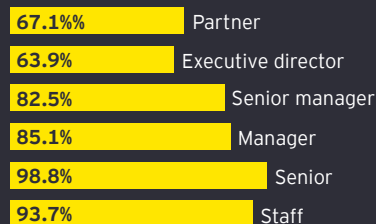
client users worldwide.

EY Helix processes more than

680 billion

lines of client journal entry data each year.

Utilization



Retention



As of 14 October 2022.

All data on this page is as of 30 June 2022 unless otherwise noted.

A commitment to quality: the foundation of trust and confidence



Quality is at the foundation of everything the EY organization does

The execution of high-quality audits by EY teams underpins the financial and nonfinancial information issued by EY audit clients. This high-quality information instills trust in the companies the EY organization audits, which in turn, drives confidence in the capital markets.

NextWave is the EY organization's strategy and ambition to deliver long-term value to clients, people and society. EY auditors around the world have one overriding purpose: to support the EY NextWave Assurance ambition of serving the public interest by independently assessing risk and identifying opportunities to enhance trust in business and the capital markets, in support of sustainable, long-term value creation.

Each step the auditor takes is of vital importance in a process that relies on transparent, informative and accurate financial reporting to help stakeholders make crucial decisions. This, in turn, builds and sustains trust and confidence in global financial markets; helps to create and support long-term value; and, in so doing, builds a better working world.

Investors are not the only stakeholders who depend on high-quality auditing and financial reporting. Employees, retirees, suppliers and lenders, among others, rely on high-quality audits to make important decisions. These decisions involve who to work for, whether vendors will be paid on time and the safety of investments.

New risks are emerging all the time – in areas such as cybercrime, data theft and climate change – while existing risks, such as fraud,

Viewpoint Investing in our commitment to quality



Ira Fitlin
EY Global Assurance Quality Enablement Leader and Chairman of the EY Global Audit Quality Committee

Quality, and the trust and confidence that flows from that, drives everything we do within the EY organization. It underpins our ability to build trust and confidence in capital markets through our audit work. Key stakeholders, from investors to regulators and those charged with governance, rely on the assurance that is provided by a high-quality audit. This ripples out to our audit clients' customers, suppliers, employees and pensioners, and beyond that to a wider group of stakeholders that includes governments, local communities and the general public.

This is why we are committed to continuously investing in our audit capabilities – in our people, technology and methodologies – so that we can build on our purpose of serving the public interest and building a better working world. Sustainable audit quality is at the heart of this purpose. It is a globally consistent approach, with foundations built on the six pillars of tone at the top, exceptional talent, technology, simplification and

innovation, enablement and quality support, and accountability.

The EY organization is investing in its people to help ensure it has the right talent with the right capabilities in the right place to carry out high-quality audits. It is also investing significantly in data and technology to support EY people, and leveraging methodologies to help ensure consistent high quality is maintained and enhanced globally. Increasing the use of data and technology allows EY auditors to focus on asking better questions, facilitates healthy skepticism and makes the audit process more effective.

As the EY Global Assurance Quality Enablement Leader, I am proud of the network of EY Assurance leaders who are supporting this commitment to high-quality audits.

I am equally proud of the commitment displayed by EY audit professionals around the world. Their diversity leads to different ways of working and thinking, creating stronger teams and, ultimately, high-quality audits.

and unexpected events, such as the COVID-19 pandemic, produce increasing complexity. The organization must continuously improve to deliver high-quality audits in this ever-changing business environment.

The Sustainable Audit Quality (SAQ) program

To support auditors in fulfilling their purpose, in 2015, the EY organization created the SAQ program, which provides a framework to help address the evolving risks of the audit. SAQ is

a globally consistent approach to sustaining high-quality audits across the EY network. It has required significant investment and created positive change for EY auditors and the companies audited.

A culture of quality

To achieve high-quality audits, the EY organization aims to instill the most appropriate behaviors and culture throughout its audit teams. This starts with setting the right tone at the top and continues through a reward and recognition system that celebrates positive behavior and culture, and instilling integrity and the commitment to doing the right thing.

Tone at the top is fundamental to any organization, and the EY organization is no different. A culture of trust, integrity and ethical behavior is embedded in SAQ, and “Tone at the top” is firmly established as the first of the six SAQ pillars.

The appropriate tone is set by the EY organization’s leadership, including audit partners, who encourage a culture based on a commitment to quality, a dedication to continuous improvement, a focus on values, a global mindset and the importance of teaming. Senior leaders commit to clear communication, collaboration and teamwork to maintain audit quality, a culture that helps create a unified, consistent approach. It is an approach that drives goals and standards that are transparent and measured against high benchmarks.

Leaders set the standards through their own behaviors. They display the tone through actions and nonverbal communications. But to be successful, this tone must cascade throughout the

Sustainable Audit Quality: the six pillars

SAQ comprises six pillars that structurally frame the Assurance service line purpose of serving the public interest, to create long-term value and build a better working world. Serving the public interest is seen as the foundation of SAQ. Each pillar is summarized below.



Tone at the top

The internal and external messages sent by EY leadership, including audit partners, that establish and encourage a culture based on a commitment to quality, a dedication to continuous improvement, an emphasis on values, a global mindset and the importance of teaming.

Exceptional talent

A commitment to invest in diverse and talented individuals covering recruitment, retention, professional and personal development, performance assessment, career progression and wellbeing.

Audit technology and digital

How the EY Digital Audit is setting the standard for the data-driven approach to an audit, combining leading-edge digital capabilities, a stakeholder focus and a commitment to quality.

Simplification and innovation

How the EY organization is simplifying and standardizing the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit.

Enablement and quality support

How EY teams are being helped to manage their responsibility to provide high-quality audits. This includes efforts to support them through coaching, root cause analysis and quality management standards.

Accountability

The systems and processes in place to help EY people take responsibility for carrying out high-quality work at all times. This discusses the measurement of audit quality, reward and recognition initiatives, the Accountability Framework and the Global Audit Quality Committee.

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The aim is to exceed regulatory benchmarks and produce audits of high quality. Continuous improvement is critical to the way the EY organization operates.

organization so that EY people understand that quality starts with them. All EY audit professionals are held accountable for the quality of their work and for performing against professional standards, as are leaders and professionals from other service lines who participate in audits.

The culture is reinforced by EY leaders and plays a large part in defining the organization. A positive and healthy culture means that people feel engaged and supported. The EY culture strongly supports collaboration, and emphasizes the importance of consultation when dealing with complex or subjective accounting, auditing, reporting, regulatory and independence matters.

A culture of quality exists throughout the EY organization that recognizes and reinforces:

- ▶ The organization's role in serving the public interest by member firms consistently performing quality engagements
- ▶ The importance of professional ethics, values and attitudes
- ▶ The responsibility of all EY people for quality relating to the performance of engagements or activities within the system of quality management (SQM) and their expected behavior
- ▶ The importance of quality in the organization's strategic decisions and actions, including financial and operational priorities

There are avenues for EY audit professionals to speak up in the event that they become aware of instances in which the organization is not living up to its values and quality standards. They can make a report online or by telephone.

Driving continuous improvement

The EY organization is committed to continuous improvement, providing an environment in which auditors can thrive. This includes root cause analysis that underlies an audit's positive or negative inspection outcomes, as well as recruiting, developing and retaining talented people and nurturing their careers; embracing innovation; encouraging simplification; and closely monitoring everything that audit teams do.

The aim is to exceed regulatory benchmarks and produce audits of high quality. Continuous improvement is critical to the way the EY organization operates, and this is driven by a number of different groups.



The EY organization's structure to drive audit quality**EY Global Audit Quality Committee (GAQC)**

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

The committee was formed to develop innovative ideas and approaches to delivering quality audits, so that leading practices can be shared across the organization. It is the central repository for learning and feedback, and serves as the basis for the organization's audit quality indicators (AQIs) and other forms of quality monitoring that feed into the continuous improvement cycle.

EY Quality Enablement Leaders (QEL) network

The EY QEL network is a group of more than 500 senior Assurance leaders around the world who drive improvements in audit quality by providing support to audit teams.

QELs' responsibilities include coaching teams; supporting internal and external inspections; advising teams on remediating the root causes of audit deficiencies; driving practice and project management; supporting portfolio risk analyses; and implementing and supporting processes related to the EY SQM, including global AQIs.

QELs play an important role in supporting audit teams in the implementation of new auditing standards. In the current year, the EY organization implemented ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*,

Testimonial Coaching: constructive challenges and real-time feedback

Mary Gray DeMetz
Senior Manager at Ernst & Young LLP, London, UK

I recently worked on the first-year integrated audit of a large global public interest entity. This would be challenging under any circumstances, but our first-year audit was also performed during the first year of the COVID-19 pandemic.

So, I was very pleased that we participated in a coaching program the EY organization provides to support and mentor audit teams. The coaches were a valuable resource to help ensure that despite these challenges, we performed a high-quality audit and maintained consistent and appropriate audit documentation. The coaching program included Public Interest Entity Audit Quality Coaching (PIE AQC), which covered areas including valuations, IT, goodwill and IFRS 9, and a Key Findings Review (KFR), which included deposits and journal entry testing.

At the outset, we had collaborative discussions with the lead Quality Enablement team member. We shared our view of the higher risk areas of the audit based on our understanding of the entity, and she shared

her thoughts on areas in which we have experienced quality occurrences. Using our combined inputs, we decided together what the coaching would cover.

We appreciated being able to leverage the independent perspective of the coaches to provide an additional layer of constructive challenge on any complex judgments. Their depth of experience was extremely beneficial to the team, to help ensure that these matters were evaluated appropriately and in line with professional standards and our methodology.

As we developed and executed our audit strategy, the coaches acted as a sounding board for our approach and provided feedback that we could implement in real time. Being part of the coaching program meant that we did not have to wait until an internal or external inspection had been carried out to receive feedback on our work, which helped to ensure that we delivered a high-quality audit in year one.

which involved the QELs working with other firm functions, including methodology, learning and technology, to provide the appropriate levels of coaching and additional guidance to EY auditors as they implemented ISA 315 (Revised 2019) on their audit engagements. They will continue to work with the methodology team to drive adoption of upcoming standards, including ISA 220, ISA 600 and ISQM 2.

Using EY Canvas, a cloud-based, globally deployed audit platform, and the Milestones project management program, the QELs are able to build a picture of audit quality performance in real time. This, in turn, gives greater clarity over where resources and specialists should be deployed to support audit teams and the companies they audit.

Professional Practice

The Global Professional Practice Group (GPPG) is a worldwide network of technical subject-matter specialists in accounting and auditing standards who consult on accounting, auditing and financial reporting matters. They also perform various quality management oversight and monitoring roles, and risk management activities.

The GPPG also develops accounting and auditing guidance, learning and quality oversight policies used by the EY network, and the tools and enablement used by audit professionals to execute audits consistently and effectively.

The GPPG includes a Global Capital Markets (CM) team, which comprises senior EY professionals located in the major global financial market centers. These professionals perform a quality oversight function intended to satisfy

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As the Audit Committee Chair, I am committed to ensuring that our audit committee is fully engaged in the process of overseeing the external audit, and that our auditors bring new digital technologies to audit more effectively while strengthening audit quality and their system of internal controls.

Audit Committee Chair of a Fortune 100 company

the regulatory requirements and established practices of different jurisdictions related to public offerings. The CM team has coordinating responsibilities for audit quality, regulatory compliance and risk management for cross-border transactions and matters, with a focus on U.S. Securities and Exchange Commission (SEC) registrants outside the US.

The CM team maintains global policies, processes and procedures to deliver seamless and consistently high-quality service and risk management support. The CM team also provides support to member firm audit teams across a wide range of industries, and delivers cross-border support and risk management on many aspects of the regulatory and capital-raising process.

Setting the right tone for quality

Doing the right thing

Clear and open communication supports and encourages collaboration and constructive challenge, reinforcing the need to consult with colleagues on areas of concern.

When complex questions of ethics, independence, regulation and client engagement arise, nothing is more important than doing the right thing, raising one's hand, and integrity.

Positive behaviors

Experience has shown that audit team behaviors, such as tone at the top, communication practices and conflict resolution, have a significant impact on quality. This became even more evident in the COVID-19 environment, where audit teams did not have the ability to physically work together in the same location.

As a result, the EY organization has incorporated behavioral elements into the global root cause process, accountability framework, employee surveys and training. The root cause process makes it possible to compare and contrast the impact of behaviors on audit quality in the course of evaluating both negative quality occurrences and positive quality events.

Examples of positive behaviors include:

- ▶ Knowing and demonstrating what needs to be done to execute a quality audit
- ▶ Knowing when help is needed and actively seeking it
- ▶ Striving to continuously improve by proactively developing skills and knowledge

To enhance audit team execution, and specifically the interaction of more senior team members with more junior team members, the EY organization relies on purpose-led outcome thinking (PLOT) to highlight the behaviors that are expected when executing audit procedures. It creates a mindset of focusing on the purpose and desired outcome of an audit procedure, and helps to build a supportive team culture that is focused on the bigger picture. Mentorship, collaboration and developing the next generation of auditors are central themes, and PLOT has proven particularly useful when teams are working remotely.

PLOT involves the consideration of four questions, known as the 4Ws:

- ▶ What is the task?
- ▶ Why is the task being carried out?
- ▶ What is the output?
- ▶ When will the task be completed and how will progress be monitored?

Ethics and integrity

The EY approach to business ethics and integrity is contained in the EY Global Code of Conduct and other policies, and is embedded in training programs, internal communications and the EY culture of consultation.

The EY Global Code of Conduct is a clear set of standards for business conduct and applies to everyone in the EY organization, regardless of their individual role, position or practice.

Through procedures to monitor compliance with the EY Global Code of Conduct and through frequent communications, the EY organization strives to create an environment that encourages all personnel to act responsibly.

This includes reporting misconduct without fear of retaliation. The EY Ethics Hotline provides EY people, clients and others outside the organization with a means to confidentially report activity that may involve unethical or improper behavior, and that may be in violation of professional standards or otherwise inconsistent with the EY shared values or the EY Global Code of Conduct. Depending on the content of the report, appropriate individuals from Risk Management, Talent, Legal or other functions are involved in addressing it.

For EY auditors, the EY Global Code of Conduct has been revised to reflect advancements in technology and how auditors use them, and to update the resources available to EY people to support decision-making. But the guiding principle remains that no client is more important than professional reputation – the reputation of the EY organization and that of each EY auditor.

Shared EY values

The EY culture is based on shared values that inspire EY people and guide them to do the right thing:

- ▶ **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**

Risk management

The EY organization has put in place processes and policies to identify, understand and mitigate risks to audit quality, and to drive continuous improvement in the audit.

Client and engagement acceptance and continuance

Rigorous risk assessments are conducted before EY member firms accept initial audit engagements, and then again annually before each audit engagement period. The EY organization has a global Process for Acceptance of Clients and Engagements (PACE) tool to support the determination of the client and engagement risk profile, which is used by all member firms. The PACE tool and related process support compliance with the requirements of the EY global acceptance and continuance policy (which is aligned to the related quality control standards).

Engagements are classified in one of four categories: low, moderate, higher and close

monitoring. There are additional risk mitigation protocols that follow engagements classified as higher or close monitoring.

The determination of the engagement risk is based on responses provided by the audit team to a series of questions within the PACE tool. Many of the questions are designed to identify the level of risk associated with engagement execution given the profile of the company that is being audited.

These assessments consider 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.

The GPPG is responsible for the content of the questions that are delivered to all member firms within the PACE tool. Throughout the year, the GPPG remains alert to changes in the external environment and emerging trends identified through the EY organization's global root cause process and other driving forces, to identify potential new questions or modifications to existing questions. An example of a recently added question relates to the existence of sanctions in response to the war in Ukraine.

Assessing the engagement risk profile is not a one-time event. The first step to the risk assessment is the completion of the PACE questionnaire. The risk assessment then continues through audit planning, interim execution, year-end execution and wrap-up or conclusion. During these subsequent phases, the audit team is reflecting on procedures performed, and interactions with management and others, while remaining alert to external factors – all of which can result in modifications to

Viewpoint Why consistency is key to delivering high-quality audits



David Kane
EY Global
Assurance
Vice Chair,
Professional
Practice

As Global Vice Chair of Professional Practice, my mission is to help ensure that the Assurance service line has globally consistent quality controls and policies that underpin the delivery of its assurance services. I see this as a foundational building block as EY member firms seek to further build trust in their audit and assurance engagements.

The Global Professional Practice Group (GPPG) does this through a worldwide network of technical subject-matter specialists in accounting and auditing standards and by sound practice monitoring and risk management practices. These specialists network together and consult with the member firms over accounting, auditing and financial reporting matters. Our Professional Practice Directors (PPDs) carry out practice monitoring and risk management activities across the network.

Consistency is one of the keys to delivering high-quality audit engagements. The GPPG promotes consistency in several ways, including the use of a single Global Audit Methodology (GAM), use of a single audit delivery platform, and policies and quality control procedures that apply

to all member firms. In addition, the EY organization centralizes the identification and development of accounting, auditing and risk issues for specific topics, industries and sectors. The EY organization's response to developing issues is then cascaded down to specialists who support the audit practices in the member firms.

A key focus of the GPPG is to proactively identify, assess and respond to risk. That involves providing our Assurance professionals with the tools needed to address risk, whether created by environmental, business design and operation, technology, or governance and management.

By addressing risks properly, we build trust and confidence with stakeholders and in the capital markets.

The new ISQM 1 will play an important role in furthering quality. It provides the EY organization the opportunity to challenge its own controls and where and how it prioritizes the key risks that ultimately drive audit quality. We are capitalizing on this important opportunity as part of our commitment to consistently deliver high-quality audits and serve the public interest.

the engagement risk or affirmation of the existing PACE risk rating. During these re-evaluation phases, the involvement of senior members of the audit team is critical, and information sharing and team collaboration are imperative (what one team member experiences might be dissimilar to another; all views are important). The output of the risk assessment process directly impacts the nature, timing and extent of audit procedures designed to address the risks.

Independence practices

The EY Global Independence Policy requires the EY organization and its people to comply with the independence standards applicable to specific engagements, e.g., the International Ethics Standards Board for Accountants Code of Ethics (the IESBA Code) and applicable local independence standards.

The EY organization considers and evaluates independence with regard to various aspects, including its financial relationships and those of its people; employment relationships; business relationships; the permissibility of services it provides to audit clients; applicable firm and partner rotation requirements; fee arrangements; audit committee pre-approval, where applicable; and partner remuneration and compensation.

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

Global applications, tools and processes support the EY organization, its professionals and other employees in complying with independence policies.

EY Global Independence Policy

The EY Global Independence Policy contains the independence requirements for member firms, professionals and other personnel. It is a robust policy predicated on the IESBA Code and supplemented by more stringent requirements in jurisdictions, where prescribed, by the local legislative body, regulator or standard-setting body. The policy also contains guidance designed to facilitate an understanding and the application of the independence rules. The EY Global Independence Policy is readily accessible and easily searchable on the EY intranet.

Global Independence System (GIS)

The GIS is an intranet-based tool that helps EY professionals identify the entities from which independence is required and the independence restrictions that apply. Most often, these are listed audit clients and their affiliates, but they can also be other types of attest or assurance clients. The tool includes family-tree data relating to affiliates of listed audit clients and is updated by client-serving engagement teams. The entity data includes notations that indicate the independence rules that apply to each entity, helping EY people determine the type of services that can be provided or permissible interests or relationships.

Global Monitoring System (GMS)

The GMS is another important global tool that assists in identifying proscribed securities and other impermissible financial interests. Professionals ranked as manager and above are required to enter details about all securities they hold, or those held by their immediate family, into the GMS. When a proscribed security is entered or if a security they hold becomes proscribed, professionals receive a notice and are required

A focus on risk management



to dispose of the security. Identified exceptions are reported through an independence incident reporting system for regulatory matters.

GMS also facilitates annual and quarterly confirmation of compliance with independence policies, as described below.

Independence compliance

The EY organization has established several processes and programs aimed at monitoring the

compliance with independence requirements of EY member firms and their people. These include the following activities, programs and processes.

Independence confirmation

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

All EY professionals, and certain others, based on their role or function, are required to confirm compliance with independence policies and procedures at least once a year. All partners are required to confirm compliance quarterly.

Independence compliance reviews

The EY organization conducts internal procedures to assess member firm compliance with independence matters. These reviews include aspects of compliance related to non-audit services, business relationships with the companies that member firms audit and financial relationships of member firms.

Personal independence compliance testing

Each year, the EY Global Independence team establishes a program for testing compliance with personal independence confirmation requirements and with reporting of information into GMS. For the 2022 testing cycle, more than 9,800 partners and other personnel were tested.

Non-audit services

The EY organization monitors compliance with professional standards, laws and regulations governing the provision of non-audit services to audit clients through a variety of mechanisms. These include the use of tools such as PACE and the Service Offering

Reference Tool (SORT – see description below), and training and required procedures completed during the performance of audits and internal inspection processes. There is also a process in place for the review and approval of certain non-audit services in advance of accepting the engagement.

Global independence learning

The EY organization develops and deploys a variety of independence learning programs. All EY professionals and certain other personnel are required to participate in annual independence learning to help maintain independence from the companies EY member firms audit.

The goal is to help EY people understand their responsibilities and to enable each of them, and their member firms, to be free from interests that might be regarded as incompatible with objectivity, integrity and impartiality in serving an audit client.

The annual independence learning program covers independence requirements, focusing on recent changes to policy, as well as recurring themes and topics of importance. Timely completion of annual independence learning is required and is monitored closely. EY member firms may supplement this program with local content to cover local independence requirements that differ from the EY Global Independence Policy.

In addition to the annual learning program, independence awareness is promoted through events and materials, including new-hire programs, milestone programs and core service line curricula.

SORT

SORT serves as the master list of approved EY services. The EY organization assesses and

monitors its portfolio of services on an ongoing basis to confirm that they are permitted by professional standards, laws, and regulations, and to make sure that it has the right methodologies, procedures and processes in place as new service offerings are developed. This process restricts services from being provided that could present undue independence or other risks.

SORT further provides EY people with information about EY service offerings. It includes guidance on which services can be delivered to audit and non-audit clients, as well as independence and other risk management issues and considerations.

Business Relationships Independence Data Gathering and Evaluation (BRIDGE)

EY people are required to use BRIDGE in many circumstances to identify, evaluate and obtain advance approval of a potential business relationship with an audit client and other entities subject to independence restrictions, thereby supporting compliance with independence requirements.

Rotation and long association

The EY organization supports mandatory audit partner rotation to help reinforce auditor independence. It employs tools to effectively monitor compliance with the partner rotation requirements for audit partners and other professionals who have had a long association with the audit client.

There is also a process for rotation planning and decision-making that involves consultation with, and approvals by, Professional Practice and Independence professionals within the EY organization.

99.85%

**Global compliance rate for the
12 months ending 30 June 2022**

Audit committees and oversight of independence

The EY organization recognizes the important role audit committees and similar corporate governance bodies undertake in the oversight of auditor independence. Empowered and independent audit committees perform a vital role on behalf of shareholders in protecting independence and preventing conflicts of interest. The EY organization is committed to robust and regular communication with audit committees or those charged with governance. Through the EY quality review programs, compliance with EY standards for audit committee communications is monitored and tested, as is the pre-approval of non-audit services, where applicable.

These independence practices, policies and systems support the EY organization, other professionals and other employees in complying with global independence rules, resulting in a 99.85% global compliance rate for the 12 months ending 30 June 2022.

How the EY organization puts its focus on audit quality into action

Audit quality indicators (AQIs)

The EY organization’s Assurance leadership monitors the execution of the EY strategy and quality priorities through a combination of metrics or AQIs. While no single reportable metric or set of metrics can be viewed as a sole indicator of audit quality, a set of metrics can be used to give an indication of audit quality.

Enabled by the EY organization’s strong global integration of tools, practices and policies, global data is accumulated on a monthly basis on a variety of topics. The AQIs include both leading and lagging quality-related indicators and span across themes related to execution, talent, remediation and enablement. Each AQI is measured against established geographically specific and global targets, with outliers requiring an evaluation and remediation plan. The AQIs are also aligned to the EY accountability framework to reinforce priorities for the EY distributed leadership network, and are subject to an annual review to help ensure they remain relevant and responsive to quality initiatives.

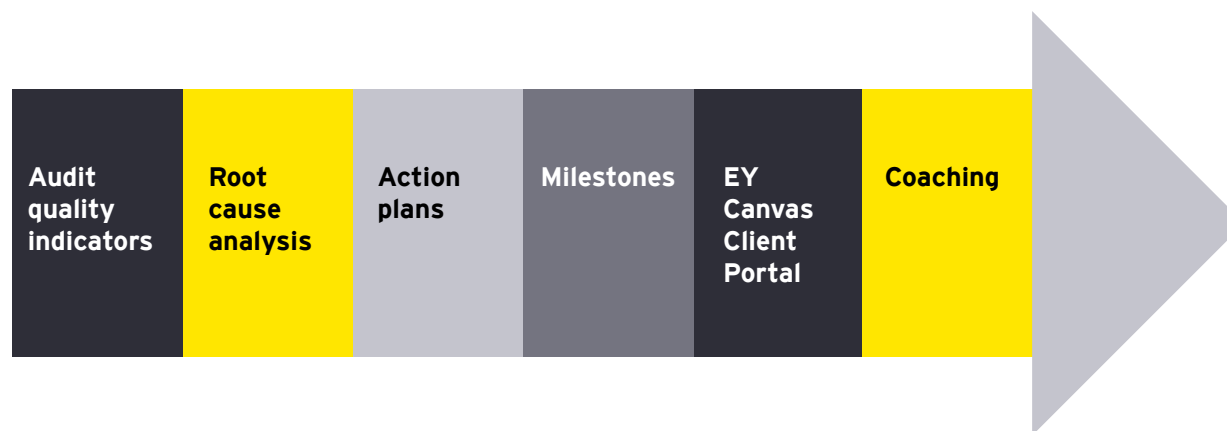
Examples of EY AQIs include:

- ▶ Internal and external inspection results
- ▶ Adherence to engagement pacing milestones
- ▶ Retention
- ▶ Independence
- ▶ Deployment of mandatory training

Root cause analysis

A range of tools are used to gain a deeper understanding of the factors that drive the delivery of high-quality audits. Root cause analysis is a central part of the EY quality improvement

How the EY organization puts its focus on quality into action



framework, providing in-depth assessment of the root causes that underlie an audit’s positive or negative inspection outcome. The EY organization investigates the findings of each root cause analysis in detail. Analyzing this research enables a better understanding of the drivers behind both positive and negative inspection outcomes. This has allowed EY teams to focus on key behaviors that drive positive and high-quality results, a process that is fundamental and foundational to continuous improvement.

Action plans

Once the engagement root cause analysis has been completed, member firms are responsible for assessing their portfolio results, with special consideration given to identifying pervasive issues and developing responsive action plans for remediation. Through the use of the global root cause process, additional aggregations are performed at the Area and global levels to further identify trends in findings, the

existence of pervasive root causes, etc. These supplemental analyses, coupled with member firm-specific efforts, work together in driving continuous improvement.

SAQ key initiatives

The significant efforts the EY organization has made in executing quality initiatives under the global SAQ program are positively impacting audit quality across the EY network and the behavior of audit teams.

Through in-flight management, the EY organization is able to measure the progress of in-process audits and identify areas that require additional attention before they are completed. Several elements of in-flight management activities are also AQIs, which helps to drive the focus and accountability around executing quality audits.

Examples of how the EY organization puts its focus on quality into action are outlined on the next page.

Milestones

Effective project management enables audit teams to stay focused on the risks that matter most across the audit cycle, better balancing the workload by allocating the right amount of time to complete the right tasks and ensuring timely executive involvement. Milestones sets completion due dates for key phases of the audit, including scope and strategy, interim, year-end execution, and conclusion. When used effectively, Milestones helps to avoid time compression during the peak busy season.

A well-paced, well-organized audit can result in a less stressful work environment. Teams that work collaboratively to set a manageable pace for the audit by tackling issues and clearing review notes in real time report higher morale overall, as well as a sense of personal ownership and accomplishment for the individual auditor. Additionally, project management encourages auditors to be more thoughtful and intentional at every stage of the audit, accelerating learning and development as well as creating a more meaningful experience along the way.

The focus on project management in the global audit platform, EY Canvas, is powered by the Milestones program. Facilitated through dashboards in EY Canvas and the EY Canvas Reporting Hub, Milestones breaks the audit cycle down into specific tasks, with dates and steps designed to help achieve timely completion and appropriate supervision and review.

Milestones combines many of the key elements of the audit quality framework: it allows for better on-the-job coaching while reducing the time taken between work being completed and reviewed – helping to keep the audit on track throughout the year by adding flexibility and transparency into the process. This, in

turn, allows teams to be more proactive and forward-thinking, and to better focus on year-end issues.

Examples of engagement pacing Milestones include:

- ▶ Completion of scope and strategy
- ▶ Completion of interim walk-throughs and testing of controls
- ▶ Timely executive and EQR involvement

Adherence to Milestones is monitored via AQIs.

EY Canvas Client Portal

EY Canvas allows EY teams to send clients requests for documents used to support the audit or for work to be performed by internal audit, as permitted by local laws and regulations. Clients work on the requests, upload documents and respond by using EY Canvas Client Portal. Clients can see requests that have been assigned to them or to the group(s) of which they are a member (e.g., accounting, payroll or internal audit). EY Canvas Client Portal also has several features available to assist them with project management.

The benefits of EY Canvas Client Portal include:

- ▶ Streamlined communication through the reduction of email requests, saving time for EY teams and clients
- ▶ On-demand visibility into the status of audit requests at both the engagement and team member level, improving project management
- ▶ Provides the ability to monitor the progress of audit requests in real time, reducing the risk of duplicative requests
- ▶ Better security of client data and automated uploading into EY Canvas, creating confidence that data has been properly delivered to EY teams
- ▶ Multi-language support – the online portal is available in 11 languages

1,500+

audit engagements go through global coaching annually.

- ▶ Automated enforcement of the country's data privacy requirements

The usage of EY Canvas Client Portal and the extent of client delays in providing requested audit support is one of the EY organization's AQIs. When audit teams adhere to Milestones in EY Canvas and use EY Canvas Client Portal, quality results improve. In 2022, 88% of the audits that used EY Canvas Milestones along with EY Canvas Client Portal were compliant in AQR.

Coaching

Coaching is an important part of the SAQ program. EY teams are supported by coaches who help them navigate critical accounting estimates and judgments, as well as those areas where experience indicates there are execution challenges. Key coaching programs include Public Interest Entity Audit Quality Coaching (PIE AQC) and Key Findings Reviews (KFRs).

The focus areas of PIE AQC include those audit areas involving significant risks and judgment. Because of the in-depth nature of the review, the focus areas are limited to two to three audit areas and include higher-risk areas and those that involve significant judgment. Additionally, PIE AQC includes a focus on IT general controls (ITGCs), controls over system

interfaces and data transfers, and the testing of IT application controls in the selected focus areas.

KFRs are designed to coach teams in those areas that create execution challenges. The premise of this coaching program is very much anchored in continuous improvement, as the focus areas change based on the results of the EY organization’s root cause process, the impact of emerging external and environmental developments, and the adoption of new accounting and auditing standards. Ultimately, the objective is to build a continuous loop of improvement.

More than 1,500 audit engagements go through global coaching on an annual basis. The EY organization also supports various other on-the-ground coaching and enablement through the QEL network. The QEL network meets with audit teams to help with specific accounting and auditing areas, helping to ensure that enablement and mentorship occur throughout the life cycle of the audit.

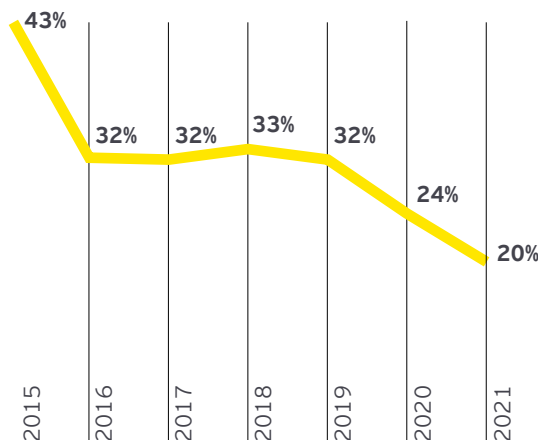
Quality results

Engagement with regulators

The role of auditors is to carry out high-quality work in accordance with the guidelines set by professional standards, laws and regulations across the world.

Regulators – rightfully – not only expect compliance with current requirements, but also continuous improvement. The EY organization maintains regular engagement with regulators and standard-setters such as the U.S. Securities and Exchange Commission (SEC), European Securities and Markets Authority (ESMA), Japanese Financial Service Agency (JFSA), and many others across

The global EY IFIAR survey rate

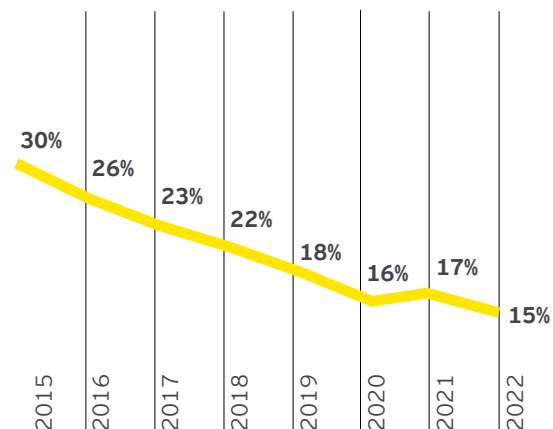


Inspections of listed PIEs by IFIAR regulators.

the globe, as well as audit oversight bodies, including the International Forum of Independent Audit Regulators (IFIAR), Financial Reporting Council (FRC), and Public Company Accounting Oversight Board (PCAOB), among many others.

In addition, the EY organization engages in an ongoing dialogue with IFIAR in which integrity and quality are at the top of the agenda. IFIAR meets regularly with EY leaders, bringing together leading practices and current developments on audit quality from both the 56 regulators (across 53 countries)

The global EY all-in deficiency rate



This accounts for all external regulators that inspect audit engagements in the more than 150 countries where the EY organization operates.

that make up IFIAR and the 10 countries that are members of the IFIAR Global Audit Quality Working Group (Australia, Canada, France, Germany, Japan, the Netherlands, Singapore, Switzerland, the UK and the US).

External inspection results

The EY organization actively tracks inspection-related activity across the more than 150 external regulators (IFIAR and non-IFIAR members) that inspect audit engagements across more than 150 countries. This activity

Internal inspection results of all audits

	2018	2019	2020	2021	2022
Compliant engagements	72%	75%	79%	84%	85%
Compliant engagements with areas for improvement identified¹	21%	19%	17%	12%	10%
Total compliant engagements	93%	94%	96%	96%	95%
Deficient engagements²	7%	6%	4%	4%	5%

¹ Such findings may result in the need for additional audit procedures or documentation. However, given their nature, these matters would not be expected to have a significant impact on the overall audit conclusion.

² Findings in procedures or documentation that are material to the financial statements or auditor's reports or were not performed in accordance with EY policies.

informs the EY QEL network of key audit quality trends, which in turn enables it to quickly respond and remediate deficiencies. Achievement of external inspection deficiency targets is an AQI.

The EY organization also tracks deficiency rates from those regulators relevant to the countries in which it operates. This includes audits of both listed and non-listed entities, and public and private companies. Since the SAQ program was launched in 2015, the EY global all-in deficiency rate has improved from 30% to 15%.

The EY organization achieved the first IFIAR 25% reduction in inspections findings for 2019, and the EY deficiency rate for the recently released IFIAR 2021 survey was 20%, as compared with the 30% aggregate rate for the six largest firms.

Internal inspection results

Internal inspections are performed on audit engagements each year. EY leadership conducts the annual Audit Quality Review (AQR) program as an important element of assessing the system of quality control at the member firm, regional and global levels.

The AQR program includes detailed, risk-focused reviews covering a large sample of listed and non-listed audit engagements. These inspections focus on compliance with professional standards, regulatory requirements and EY policies, and 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. More than 1,400 engagements are subject to internal

inspection each year, with each partner being inspected every three years.

Leading the inspection process, AQR reviewers and team leaders are selected for their knowledge and professional competence in accounting and auditing, as well as their industry focus. They often support the global AQR program for a number of years and are highly skilled in all technical aspects of the audit. Team leaders and reviewers are generally assigned to inspections outside of their home locations and are independent of the audit teams reviewed.

The results of the AQR process are summarized globally (including for Areas and Regions), along with any key finding areas where the results indicate the need for continued improvements. Summarized results are shared within the EY network.

Results of the EY 2022 internal inspections show that there is a clear link between the use of technology and audit quality. For example, there were no findings in 88% of the audit engagements inspected where teams used EY Helix analyzers.

1,400+

audit engagements each year are subject to internal inspection.

The organization plans to continue to monitor and collate inspection performance when these tools are used, and this is a key focus for the digital innovation team and the global QEL network to help in evaluating the effectiveness of the SAQ initiatives.

Significant progress has been made through SAQ. The EY organization recognizes that there is additional work to be done, and internal and external inspection findings provide valuable information about measures that can be taken to continuously improve audit quality. These include proactive and timely executive involvement, and support for teams working remotely.

Driving quality management

System of quality management (SQM)

The new International Standard on Quality Management 1 (ISQM 1), effective 15 December 2022, requires firms that perform audits or reviews of financial statements, or other assurance or related services engagements, to design, implement, monitor and evaluate the overall SQM, including annually concluding on its effectiveness. As ISQM 1 applies at the firm level, each EY member firm is responsible for establishing an integrated SQM that is a more proactive and risk-based approach to managing quality at the firm level for audits or reviews of financial statements, or other assurance or related services engagements. Each member firm will also be required to annually conclude on the effectiveness of its SQM.

The EY approach is to implement an SQM that can be consistently applied across the entire network of member firms to promote engagement quality. This



Testimonial A comprehensive approach to ISQM 1



**Cristina
López Álvarez**
EY EMEIA
SQM Leader at
Ernst & Young,
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Spain

Before joining the EY organization, I worked as both an auditor and an audit regulator. This has given me a strong understanding of the expectations of both groups, of the benefits of the new ISQM 1 and of its importance in strengthening trust and confidence in our profession.

Implementation of ISQM 1, which took effect in December 2022, is an opportunity to drive consistency and improve audit quality, and is a priority for EY leadership. We see it as the next phase of our journey of continuous improvement. In this context, we are taking both a “top down” and “bottom up” approach to implementation, to help ensure that it is scalable.

In my role, I am responsible for establishing program management for the SQM across the EMEIA Area, collaborating with functional and service line leaders on ISQM 1, and coordinating the implementation of regions and countries.

I also provide input on the Global SQM program. As part of this, a global EY baseline, articulated around the different ISQM 1 components (governance and leadership, ethical requirements, acceptance and continuance of client relationships, engagement performance, resources, and information and communication) has been established. It sets out the minimum responses that all EY member firms should have in their

SQM. This is one way we work to ensure a consistent SQM across the EY organization, with additions in some countries where it is relevant due to their specificities.

In EMEIA we have established a specific governance structure to support ISQM 1 implementation, with representatives from the SQM team, EY leadership, functions and service lines. Similar governance structures have been established in each EMEIA Region and in the largest countries. Countries provide feedback on the global baselines and confirm that the responses identified (policies and controls) are implemented. This facilitates the critical “bottom up” approach from the beginning.

All those involved in SQM program management across the EY organization are responsible and accountable for ISQM 1 implementation. This model demonstrates a strong tone at the top from EY leadership, and also the EY organization’s commitment to quality at every level. In addition, the EY global SQM baseline approach for ISQM 1 will be the best way to demonstrate to external stakeholders the benefits of our integrated organization. For example, when an EY member firm is the auditor of a group, that group will benefit from the same minimum high standards of quality management being applied in every country where it operates.

is especially important in a global economy where many audits are transnational and involve the use of other EY member firms. The EY organization is building on policies and procedures already in place in the current quality control framework to enhance the SQM under ISQM 1.

The EY organization has developed consistent policies, frameworks, technologies and enablement for implementing the SQM within EY member firms. For example:

- ▶ The EY organization has established an approach to the required risk assessment process that includes input and feedback from across EY service lines, functions and geographic areas to develop global baseline minimums. This includes quality objectives (based on ISQM 1 requirements), quality risks, and responses (including key controls) assumed to be applicable to EY member firms, and an IT application for documenting the risk assessment process.
- ▶ EY member firms have a responsibility to evaluate the global baseline minimums and determine if the global baselines need to be supplemented or adjusted by the member firm to be appropriate for the local country.
- ▶ A framework has been developed relating to identifying findings and evaluating deficiencies, including an IT application to support this process, to promote consistency across the member firms in the monitoring and remediation process.

In addition, certain policies and practices related to the assignment and eligibility of professionals to serve as engagement quality reviewers (EQRs), related training and accreditation requirements, and enablement to support execution of the

reviews, have been modified to conform with the requirements of ISQM 2, *Engagement Quality Reviews*.

Accountability framework

Accountability is a key aspect of the EY culture. EY member firm partners' evaluations are based on numerous factors, including the tone they convey to their teams and the 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 and stewardship activities.

The EY organization continues to emphasize the behaviors it has identified as contributing to audit quality in its training and performance management process. These behaviors are grouped under themes including acting with confidence and courage, saying what needs to be said, and leading the way.

Responsibility and accountability are key themes in ISQM 1. The EY organization is updating its accountability framework to support the design, implementation and operation of the SQM by focusing on those individuals who can influence the quality and culture of the EY network. This framework evaluates those who are responsible for audits within the EY member firms and regions, so they can be assessed in a consistent manner and their contribution to quality recognized.

Engagement partners are responsible for overseeing and achieving quality on audit engagements, including sufficient and appropriate involvement throughout the engagement, to provide a basis for determining whether the significant judgments

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Maintaining a consistent tone at the top, and using enablement and support to drive quality improvement, will in turn improve trust and confidence.

made and the conclusions reached are appropriate given the nature and circumstances of the audit. For partners, compensation is linked to positive and negative quality events through root cause analysis. When partners do not adhere to quality standards, remedial actions are taken. EY policies prohibit evaluating and compensating lead audit engagement partners and other key audit partners on an engagement based on the sale of non-assurance services to companies they audit.

Operational excellence drives audit quality

Several operational activities can impact the quality of audit execution. Through the adoption of ISQM 1, the EY organization has formal,

globally consistent policies and procedures related to the following activities:

Audit scheduling: Utilizing a common global scheduling platform, expected audit hours are scheduled, for all engagement ranks from staff through partner, in advance of expected time to be incurred. This enables member firms to anticipate resourcing needs and identify future scheduling conflicts. Proactive action can be taken to address such challenges, with protocols designed to address the challenges associated with the most complex, higher risk-rated engagements first. Through the use of a global scheduling platform, additional oversight of resource management occurs at regional, area and global levels.

Executive workload: The Partner Workload Tool (PWT) is designed to make sure that each audit executive has sufficient capacity to serve clients as the partner in charge, EQR or other client-serving role. Thresholds are established to guide the individual partner workload evaluation and any related workload reallocations necessary in offices and countries. The PWT also allows EY member firm partners to have clearer visibility in their responsibility for managing their workload.

Facilitating trust and confidence

By continuously applying and improving the processes and initiatives summarized here, the EY organization will maintain a consistent approach to delivering high-quality audits. In a rapidly evolving environment, maintaining a consistent tone at the top, and using enablement and support to drive quality improvement, will in turn improve trust and confidence.

Exceptional people are at the heart of high-quality audits



Talent is at the core of the EY organization's commitment to sustainable audit quality, and attracting talented people into the audit profession, and nurturing their careers, is essential to fulfill the role of audit in enhancing trust and confidence in business and the capital markets. Moreover, auditors learn a range of valuable skills around financial decision-making and professional skepticism that are beneficial to businesses of all kinds, wherever their careers may take them.

The EY organization continues to seek out talent from a truly diverse pool, because it believes that diverse teams produce better results. It therefore seeks to recruit people with a wide range of relevant skills, including those with a STEM (science, technology, engineering and mathematics) background, who bring an understanding of data and technology to the audit. This also includes people with knowledge of emerging areas such as sustainability and ESG, which is becoming ever more important as the demand for nonfinancial reporting, and the number of disclosure requirements in these areas, increase.

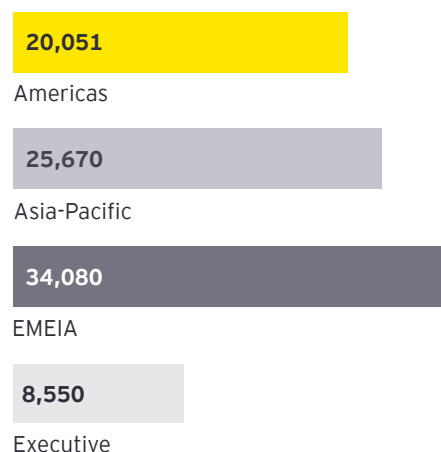
Every talented individual who joins the organization is empowered to build their own exceptional EY experience. This flows throughout their entire experience with the organization, from recruitment and onboarding to professional and personal development, performance management, engagement, career paths and wellbeing. This commitment to creating an outstanding employee experience has helped the EY organization to continue to attract and develop high-quality auditors in a competitive recruitment market.

EY member firms remain attractive to work for; in the last financial year, some 33,830 people chose

88,351

Total number of EY audit professionals worldwide

Audit professionals by geography



to join EY audit practices around the world, and there was a 9.1% growth in net headcount.

Attracting the next generation of auditors

As a purpose-driven organization, the EY organization is attractive to a younger generation who want to do work that matters. The highly regarded and rapidly growing [Climate Change and Sustainability Services](#) (CCaSS) practice, for example, offers the opportunity to embark on a career that will make a difference in the world.

Audit professionals by rank



Hiring people who are passionate about purpose means the organization also benefits from their well-developed sense of ethical standards. This is further embedded through training and through the application of the EY Global Code of Conduct.

The EY organization is also exploring several innovations in recruitment that have the potential to make it more attractive to younger audiences and improve the candidate experience. For example, it has begun to hold events for graduates

Viewpoint Building exceptional careers



**Dilek Çilingir
Köstem**
EY Global
Assurance
Talent Leader

I passionately believe that the EY organization executes sustainable, high-quality audits by attracting, developing and retaining exceptional and diverse people. As an organization, we are proud of the resilience our people have displayed in the face of the challenges of the last two years – a resilience they continue to display as their working patterns transform, not just through flexible working but also through the rapid adoption of digital technologies.

This is why I am proud of the EY organization's approach to supporting people to build their own exceptional career experiences – from before they join to their career development, their training and how they advance throughout their time with the organization, and indeed beyond. Competition for talented people has never been so tough, so the EY organization knows it needs to stand out if it is to build on its reputation as one of the leading employers in the world.

The organization is now working to ensure that its auditors around the world have a clear framework to help them customize their audit career journey. This framework incorporates the different role types that people can choose from, so that expectations are clear at all levels. It means that when they first join an EY member firm, there is a transparency that allows them to see how their career path can unfold, whether that is

a route toward partnership or lateral moves across different sectors of the organization so that they are able to develop a broad set of experiences. Training programs map against skill requirements at all levels, so that EY people are able to quickly identify the most appropriate learning and development tools for their own particular needs.

The ultimate aim of this framework is to transform the career experience of EY audit professionals, helping them to focus on the skills and experiences they most enjoy and to better leverage their strengths so that they can bring deeper insights that will enhance client value.

The EY organization recognizes that its people are its most important asset and is committed to investing in them, to help ensure they have the skills they need to develop the careers they want for themselves. At the same time, the organization has established a culture that supports and promotes diversity, equality and inclusiveness – one that works for all its people and all their ambitions. It is a flexible approach that allows for different routes based on where people are with their lives.

I am pleased to report that the investments we continue to make in our people, which will be key to our future success, have been widely welcomed. They enable us to bring the right people with the right skills to our clients at the right time, supporting them to deliver high-quality audits and insights that create long-term value.

in the metaverse, where they can meet EY recruiters, gain an understanding of the EY audit practice and explore career paths.

To recruit exceptional people, it is important to take into account not just technical excellence, but also other attributes such as communication skills, high ethical standards and the ability to collaborate in high-performing teams. All joiners are expected to live up to high standards of integrity, and to have strong business acumen and leadership potential.

The audit profession plays a vital role in tackling business-critical issues, and is rapidly evolving to keep pace with changing circumstances and needs. The EY organization is constantly assessing this evolution and uses workforce planning tools to identify the actions needed on both a short- and long-term basis in recruitment – identifying the number of people and the skills required – and then linking this to career development.

But the organization is constantly striving to improve attractiveness and retention, and has introduced a number of initiatives to that end. These include encouraging hybrid work arrangements, executing wellbeing strategies, establishing a global retention task force, increasing the frequency of the primary employee listening survey, relaunching the international secondment program and encouraging rotation between service lines. These initiatives have helped to improve retention in Audit, which stood at 70.7% for the rolling 12-month period up to June 2022.

The hiring process is constantly evolving, and the organization is creating new ways for potential joiners to engage with the organization, to enable greater accessibility to the profession.

Personalized careers, diverse experiences

Offering a more individualized career path is vital in attracting new talent and in helping to develop and retain audit professionals, as is elevating people's work experiences, making them more skill-enhancing, meaningful and, ultimately, fulfilling.

A key initiative within the EY NextWave strategy is the Audit Career Framework, which is designed to create dynamic career paths for audit professionals by leveraging their interests and skills. It aims to enable them to have unique and diverse careers, while also helping the business to better understand skills and help drive audit quality. As a result, one goal is to be able to consider more "agile promotions," where career progression can take place closer to when an individual is assessed as ready, rather than just once a year.

Communication of career opportunities is already happening widely. In the March 2022 employee listening survey, 76% agreed that in the EY organization, there are diverse career paths to help them build the career that is right for them (an increase of seven percentage points from 2021). The aim of the Audit Career Framework is to help ensure these opportunities are made available to all.

Increasing use of specialized teams

The EY organization has embarked on a transformation journey that will change the way audits are executed, and who executes them. One element of this transformation is the build-out of a future-state audit operating model where the lead audit team is supported by specialized teams in Centers of Excellence (which will ultimately be powered by an integrated audit technology platform to drive automation and efficiency, and reduce time on routine tasks.) In conjunction with the

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The EY organization is committed to investing in its people by providing them with the skills that will allow them to develop transformative approaches to their work.

standardization and streamlining of audit processes and workpapers, the aim is to help ensure all teams globally continue to focus on the risks that matter and can deliver consistent, high-quality audits, while improving all EY people's experiences.

Performance management

The EY organization has a performance management framework that connects people's career, development and performance. Through ongoing feedback, counselor insights and development conversations, it aligns individuals with the EY strategy and enables a focus on the future. An individual's dashboard provides a snapshot of performance against the Transformative Leadership dimensions, including quality, risk management and technical excellence, and assesses performance against their peers. Feedback received during an annual cycle is

aggregated and used as an input to compensation and reward programs.

At the center of the framework are conversations between counselee and counselor covering topics such as diverse career journeys, applying emerging technology, experiencing new teams, and learning. These conversations help to identify opportunities for further development and to build future-focused skills.

The performance management framework extends to partners, principals, executive directors and directors, and applies to all EY member firms around the world. It reinforces the global business agenda by continuing to link performance to wider goals and values. The process includes goal setting, ongoing feedback, personal development planning and an annual performance review, all tied to partners' recognition and reward. Documenting partners' goals and performance is the cornerstone of the evaluation process. A partner's goals are required to reflect various global and local priorities across six metrics, the most important one being quality.

Learning and training

Professional development is an important element of the EY experience. The EY organization is committed to investing in its people by providing them with the skills that will allow them to develop transformative approaches to their work, which in turn advances their own careers and helps them to deliver high-quality audits. Auditors are guided to a broad range of sector learning to support their understanding of clients' businesses, and the organization is also committed to helping to ensure they have the technology know-how they need to thrive in today's digital world. This includes a number of innovative programs, such as EY Badges, the EY Tech MBA and the recently launched Masters in Sustainability.

Testimonial How Global Voices shares global insights



**Rushdee
Badrul
Hisham**
Senior at Ernst
& Young PLT,
Kuala Lumpur,
Malaysia

I was initially nominated to join the Global Voices network by our local leaders, and I've stayed on because it provides me with a valuable opportunity to understand the challenges EY leaders are facing today. My day-to-day work is generally focused on conducting audits, but in Global Voices – a group of people from across Assurance who come together to provide feedback to senior leadership and contribute ideas – we look at other important matters such as talent management, simplifying working methods, career progression and more.

For example, one recent session focused on the metaverse, where the EY organization has acquired a plot of land. We visited the EY building in the metaverse and were asked for our input on the look and feel, what kind of information should be showcased there, and what initiatives and activities the EY area of the metaverse could be used for. In

another session, we were asked for our input on the design of the Mobility4U program, which is being re-introduced as part of the organization's talent retention strategy.

Being part of Global Voices has enhanced my experience by allowing me to understand more about the organization beyond audit and assurance work, which has created in me a greater appreciation for it and a stronger sense of belonging. In my day-to-day work, this has also enabled me to demonstrate a deeper understanding of the contemporary issues faced by global corporations, which has led to more meaningful conversations with clients.

Working in an emerging market, EY clients are always interested to hear about how the advanced economies are tackling the business issues of today. Thanks to Global Voices, I can share the insights I have gained from the sessions I have attended.

Badges are awarded based on globally consistent criteria and act as a digital credential that the recipient can include on their CV, wherever their career may subsequently take them, to demonstrate what they have learned as part of their EY experience. The EY organization was the first professional services organization to offer such a program, with take-up increasing as more team members recognize the importance of managing their own skills portfolio.

As of 30 June 2022, 33,800 EY Badges had been awarded to audit professionals, including 12,400 in analytics and data strategy alone. A further 12,200 EY Badges had been awarded to people who had since left the organization. This is a significant achievement given that EY Badges is a self-directed learning initiative that supplements a substantial program of core mandatory training for auditors.

Externally recognized qualifications

Allied to EY Badges is the EY Tech MBA, an online qualification awarded by Hult International Business School, a triple-accredited university. This is the first time that an organization the size of the EY organization has offered such a qualification to all its people.

Following the success of the EY Tech MBA, the organization has launched Masters in both Business Analytics and Sustainability, also in association with Hult. Both are the first qualifications of their kind, and both are available free of charge to all EY people.

The Masters in Business Analytics equips learners with data skills to transform businesses and the knowledge to lead informed strategic decision-making. Given the advancement of data in the

In total, during the financial year to 30 June 2022, EY audit professionals undertook 8.2 million hours of learning, averaging 86.5 hours each.

In the March 2022 employee listening survey, 87% of respondents said the EY organization provides them with learning opportunities that build the skills they need to be successful (up 1% from March 2021) and 84% said that what they are learning is helping them to achieve their career aspirations (up 1% from 2021).

EY Badges

To encourage the building of new skills, the EY Badges program enables professionals to gain future-focused skills in three distinct pillars: technology, leadership and business. Subjects covered in the program include analytics, transformative leadership, sustainability, artificial intelligence (AI), blockchain, robotic process automation, innovation, cybersecurity and digital skills, as well as certain sector capabilities that are in high demand. New badges are added regularly as the program evolves.

audit process, the EY organization believes that increased data skills lead to higher-quality audits.

The Masters in Sustainability explores ESG risks and gives EY people the skills to recommend business solutions that create long-term value. This again leads to high-quality audits through improvements to ESG disclosures and associated processes. This is an area that will become increasingly important for auditors.

Sustainability learning

The EY organization has also developed a sustainability training curriculum that focuses on three main pillars: identifying how organizations can implement processes and controls to manage risk and comply with sustainability requirements; understanding what sustainability data to collect and how to compile, analyze and report it; and using the EY Sustainability Assurance Methodology and other procedures to provide assurance on sustainability reporting. Training is also provided on how to address sustainability risks, including climate risk, in the financial statement audit.

Audit Academy

As the EY Digital Audit continues to evolve, it is important to complement the auditor's core

33,800

EY Badges have been awarded to current audit professionals.

87%

of survey respondents said that EY provides them with learning opportunities that build the skills they need to be successful.

skills with an evolving range of new capabilities. The EY Audit Academy is a training program for EY auditors across the globe. Every year, the content and focus of the Audit Academy are adjusted to address new technologies and strategic priorities that promote audit quality. Any changes are agreed by Assurance leadership following recommendations from the Global Assurance Learning Steering Committee.

Inspection and quality review findings are reviewed regularly to assess and address root causes, and the conclusions are then fed into the Audit Academy curriculum to enhance and strengthen continual learning.

Teams can be sure that they are receiving leading-class, globally consistent core learning. Whether that involves focusing on changes in regulation, mastering emerging technologies or embedding data analytics into existing audit practices, the Audit Academy has the resources in place to support every need. Moreover, it encourages and empowers individuals to apply professional

skepticism, think critically and deliver exceptional client service. The Audit Academy now delivers a blend of on-demand learning and simulation- or case study-based learning that can be deployed either physically or virtually.

Partner-specific training

There are also a variety of learning programs that have been developed specifically for partners. These are available to all partners worldwide and cover topics including transformative leadership, disruptive technology, and sustainability. These are supplemented by high-touch, immersive programs for select groups of partners on topics such as client leadership and disruptive technology, and there are also regular learning programs on audit-specific topics such as fraud.

Knowledge and internal communications

In addition to professional development and performance management, the EY organization understands the importance of providing audit teams with up-to-date information to help them perform their professional responsibilities. There is significant investment in knowledge and communication networks to support the rapid dissemination of information to help people collaborate and share leading practices. This has been of increasing importance to address emerging risks arising as a result of the pandemic. Resources and tools include:

- ▶ EY Atlas, which includes local and international accounting and auditing standards, as well as interpretive guidance
- ▶ Publications such as *International GAAP*, IFRS developments and illustrative financial statements
- ▶ *Global Accounting and Auditing News* – a weekly update covering assurance and

independence policies, developments from standard-setters and regulators, as well as internal commentary thereon

- ▶ Practice alerts and webcasts covering a range of global and country-specific matters designed for continuous improvement in member firms' Assurance practices

Engagement

Employee engagement is a vital sign of success in building the right culture. Audit professionals want to feel that their employer cares about their progress and job satisfaction. Understanding the ambitions, concerns and pressures faced by EY people makes it possible to provide a better environment in which they can flourish. Engagement levels are regularly monitored through a variety of channels, and the March 2022 employee listening survey showed that 72% of audit professionals had a favorable attitude in terms of engagement – a figure that continues to rise.

Employee listening

Listening to the views and concerns of EY people is a key element in increasing engagement. The employee listening strategy gives people a voice at every step of their EY experience, so that the

72%

of audit professionals had a favorable attitude in terms of engagement – a figure that continues to rise.

Retention

	Overall	Female	Male
Partner	96.7%	98.1%	96.4%
Exec director	92.7%	95.2%	91.2%
Snr manager	84.8%	85.0%	84.8%
Manager	70.2%	71.5%	69.2%
Senior	58.8%	58.8%	57.8%
Staff	73.9%	74.5%	73.1%
TOTAL	70.6%	70.8%	70.6%

organization knows what they need and what it can do to help build exceptional experiences. Understanding the evolving perspectives and experiences of EY people is essential to delivering the EY employer value proposition – *The Exceptional EY Experience. It's Yours To Build*. The July 2022 employee listening survey showed that 82% of audit professionals had an exceptional EY experience (up 6% from 2021).

The EY People Pulse survey is currently run three times per year to gather feedback on key elements that drive engagement and retention. Each survey focuses on different strategic drivers (careers, learning and skills, etc.) and includes other relevant topics.

The EY Team Experience survey is another critical element of the employee listening strategy, aimed at improving and unifying the day-to-day experience for audit teams. Eligible team members provide

feedback on their experience of an engagement across a variety of questions, rated on a five-point scale. The feedback provides actionable insights and pathways for tangible change at the audit team level.

For discussion of wider issues, the Global Voices network was established during 2021. A group of 200 high-performing people from all levels and all Assurance sub-service lines provide feedback on, or contribute ideas to, a range of different strategic priorities. It effectively works as a “shadow board,” providing valuable perspectives and insights and helping to shape strategy. The initiative also provides an opportunity for senior leadership to detail their vision of the future and then allow that to cascade throughout the organization.

Wellbeing

Having recruited the talent, retaining it within the business is a key contributor to the delivery of high-quality audits. Retention can vary based on external drivers such as market conditions. However, there is one factor that is globally consistent: employee expectations.

The issue of work-life balance is becoming increasingly important for EY people. Younger people are now far more focused on getting the balance right between their professional and personal lives. An increasingly important talent priority has therefore been a focus on wellbeing and improving the day-to-day experience of EY people. The better the organization can support people's wellbeing, the more likely it is to provide them with compelling reasons to continue their career journey within the EY network. In July 2022, the employee listening survey recorded a 12% increase in the number of auditors who say

they are comfortable with the personal and professional demands for their time.

The recently launched EY Global Wellbeing Strategy has as its overarching goal the embedment of a wellbeing culture through the commitment of leadership and the provision of appropriate resources and opportunities to achieve optimal health and performance. The aim is to increase job satisfaction, to help people take care of themselves and to help them be more effective.

Additionally, new entrants to the world of work are less likely to stay at the same organization for their entire careers. Boosting retention, therefore, now means focusing more on the journey than the destination.

Mobility

In an organization that spreads across more than 150 jurisdictions, the opportunities to experience work and life are equally widespread. People join EY member firms for exceptional experiences, including geographical mobility. Mandatory firm rotation and an increased desire for variety and flexibility mean that it is now even more important to have the right people in the right place at the right time, and enough people with enough time to execute audit engagements.

Inevitably, travel restrictions during the pandemic meant that many cross-border experiences had to be paused. However, in September 2021, legacy mobility programs were streamlined into one new offering – Mobility4U – which provides Assurance professionals with a single point of entry to locate global opportunities. Both physical and virtual assignments are covered, including job swaps,

82%

of audit professionals agree their EY experience is exceptional.

where individuals can exchange roles with an EY peer on either a long- or short-term basis.

In the March 2022 employee listening survey, 84% of respondents said they feel they have access to the work experiences they need to build their career, and in the survey four months earlier, 82% of people said they feel the EY organization prepares them to work effectively with clients and colleagues from different countries and cultures.

Diversity, equity and inclusiveness

The EY organization has a long-standing commitment to diversity, equity and inclusiveness (DE&I). This commitment to building high-performing, diverse and inclusive teams is especially important in audit, where diverse perspectives drive professional skepticism and critical thinking. Greater diversity and inclusive environments drive better decision-making, stimulate innovation and increase organizational agility.

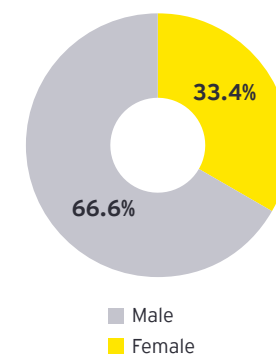
The organization has been on a DE&I journey for decades, and while substantial progress has been made, under the global NextWave strategy and ambition it has committed to increasing DE&I progress. The Global Executive has made a visible commitment to EY people and to the market to accelerate DE&I through signing the Global

Executive Diversity, Equity and Inclusiveness Statement. Not only does this reinforce that DE&I is a key business lever, but it also helps to ensure that EY member firms hold themselves accountable for progress, starting with the tone at the top.

Leaders across the organization make DE&I a priority and it is a key metric across all talent management programs. To enable greater accountability across the EY organization, the Global DE&I Tracker helps track progress with consistent diversity and inclusiveness metrics and reporting across the globe. This is the third year of using the Global DE&I Tracker, and improvements in tracker results have been seen across the global Assurance practice.

The EY organization has also created the Global Social Equity Task Force (GSET) to develop cohesive action plans specifically addressing inequity and discrimination, including racism.

EY global executive by gender



As a global organization, it has an opportunity to address the impact of inequities and injustice, and to push for progress within the organization and beyond. The EY organization commits to advancing social equity and inclusive growth and standing against injustice, bias, discrimination and racism. Social equity means that each person at an EY member firm has access to the resources and opportunities they need, given different starting points and different needs. It also means removing barriers to opportunities and inclusive experiences, which may lead to unequal outcomes. The organization believes businesses have direct influence to address these gaps and build a better working world; through teaming, leadership and culture in teams; the assignment and value of work; and the ways in which performance evaluation, advancement and appointment decisions are made.

In the audit practice, the EY organization also recently launched the Global Assurance DE&I Baseline Expectations model to accelerate progress. This includes a set of globally applicable baseline expectations for DE&I across all Assurance talent processes and consists of ideas and initiatives for what can be done to advance DE&I within these processes.

There has been a particular focus on promoting gender diversity over recent years. A third (33%) of new audit partners globally promoted on 1 July 2022 were women and a strong pipeline of female leadership has been built, supported by 52.6% of all audit hires by member firms across the globe in the 12 months to June 2022 being female.

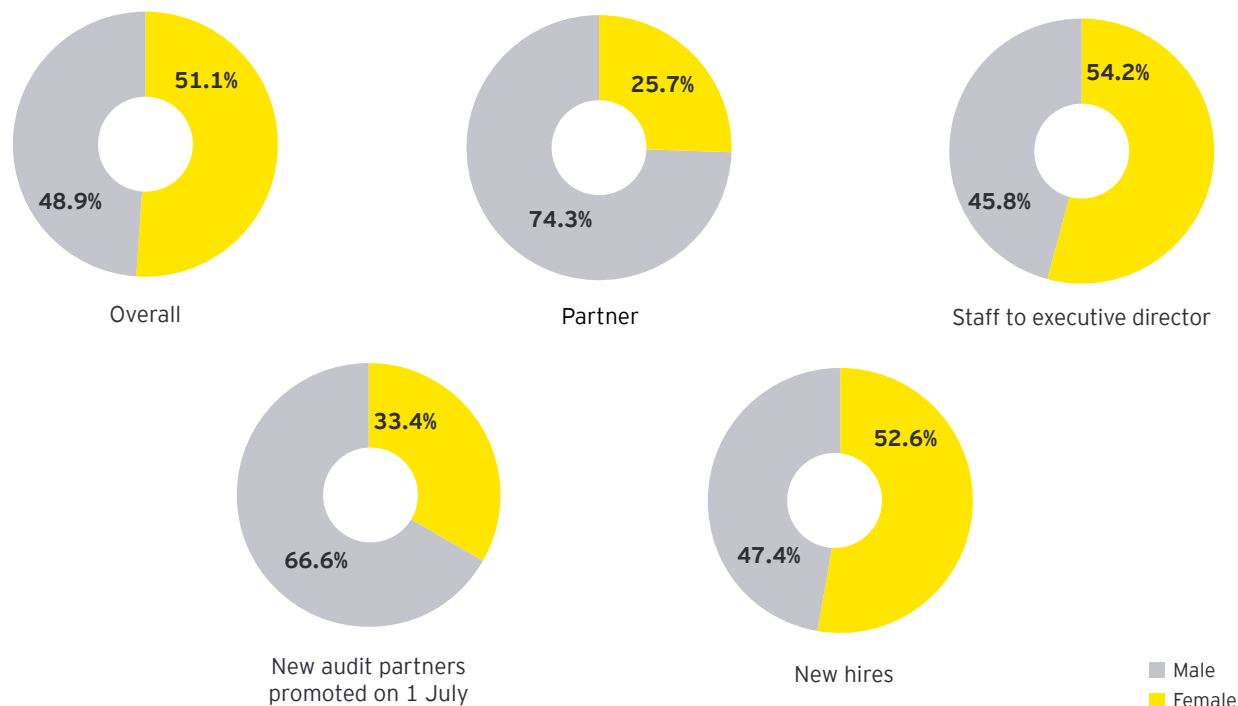
Inclusive organizations maximize the power of all differences. Employees need to feel they are

working for an organization that not only values them as individuals, but also sees differences as strengths and values their contributions. Fostering this sense of belonging is critical to helping the EY organization attract the most talented individuals, and helping EY professionals stay motivated and engaged. In the July 2022 employee listening survey, 85% of auditors said the EY organization provides a work environment where they feel free

to be themselves, an increase of 8% compared with the July 2021 survey.

Exceptional talent is the beating heart of every EY team. The EY organization's continuing commitment to investing in talent will drive further advances in audit quality, driving investment and economic growth and creating long-term value for society as a whole.

Audit professionals by gender



Leveraging data and technology to facilitate trust, transparency and transformation



The [EY Digital Audit](#) continues to transform the way that EY teams deliver the financial statement audit and meet changing business needs and stakeholder expectations.

At the heart of the EY Digital Audit is an ongoing commitment to continued innovation, reflected by the EY organization's US\$1b investment in a next-generation Assurance technology platform to facilitate trust, transparency and transformation. This is part of a broader, sustained focus on providing high-quality audits that respond to the changing expectations of regulators, governments, standard setters, audit committees and boards across the financial and nonfinancial reporting agenda.

The investment program will integrate existing EY Assurance technologies under one seamless global platform while leveraging advanced technologies to transform capabilities and power a new generation of data-driven assurance services.

Leveraging the strong foundations of the EY Digital Audit

Today's EY Digital Audit places the EY organization in a position of strength through the global deployment of a leading-class suite of audit technology that is proven in the market. It is underpinned by a clear strategy built on three key pillars – connecting, automating and analyzing – that help EY teams drive value across the audit.

Connecting audit teams and the companies they serve

Seamlessly connecting audit teams and companies to each other, as well as to the right information, is a significant enabler of the EY Digital Audit. EY Canvas is a cloud-based, globally deployed audit platform that connects 120,000 EY users across

US\$1b

investment in a next-generation Assurance technology platform

more than 150 countries, linking them to more than 350,000 client users through the EY Canvas Client Portal.

EY Canvas:

- ▶ Supports the delivery of a data-first approach, utilizing the EY Digital Global Audit Methodology (Digital GAM)
- ▶ Stores audit files, work papers and audit evidence in secure environments, facilitating the secure exchange of audit-related information
- ▶ Streamlines communications by providing all relevant engagement and project information at a glance through a comprehensive engagement dashboard
- ▶ Provides the ability to monitor the progress of audit requests in real time

EY teams and the companies that they audit also benefit from access to EY Atlas, a cloud-based platform for accessing and searching accounting and auditing content, including external standards, EY interpretations and thought leadership.

Automating audit procedures and processes

The use of smart technologies helps to digitally embed greater levels of automation, centralization and standardization throughout the audit. EY Smart Automation capabilities leverage the full

potential of AI and machine learning to improve project management and help EY teams perform more valuable audit testing, while also enhancing the experience for audited companies.

EY Smart Automation:

- ▶ Helps to find the right sample size through rule-based logic routines that determine the sampling strategy in accordance with the EY Global Audit Methodology (GAM)
- ▶ Uses AI and machine learning to provide broader and deeper audit evidence
- ▶ Integrates quality checks by scanning documents for key terms and phrases before the final auditor evaluation
- ▶ Enables tailoring for local requirements through multiple languages
- ▶ Streamlines checklist preparation and review for financial statement disclosures using EY Intelligent Checklists
- ▶ Automates the trade receivables and payables confirmation process using EY Confirmations

Analyzing data to build audit evidence

The use of state-of-the-art analyzers and emerging technologies supports EY audit teams in analyzing data to identify risks and provide greater insights. EY Helix is a portfolio of global audit data analyzers that support a data-first approach to building audit evidence across every significant class of transaction. EY Helix facilitates EY audit teams in visualizing the complete flow of every transaction recorded within the year in an accounting process.

EY Helix:

- ▶ Embeds data analytics in every aspect of the audit, from planning through to execution and reporting
- ▶ Processes more than 680 billion lines of client journal entry data each year

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Data and analytics are integral in achieving good audit outcomes — they help spot anomalies in the data, identify unusual patterns of behavior and compare assumptions with externally available data.

Audit committee chair of a Fortune Global 500 company

- ▶ Examines entire populations of data across financial operating cycles to enhance transparency
- ▶ Presents a fuller picture of business activities and clearly identifies trends and anomalies
- ▶ Obtains higher-quality evidence to support audit conclusions and focus on the risks that matter most
- ▶ Identifies greater insights that can help improve business processes and controls

EY Digital GAM

As the EY Digital Audit continues to transform, so does EY Digital GAM, which is part of our one global audit methodology. The introduction of Digital GAM

680b

lines of client journal entry data are processed by EY Helix each year.

has sharpened the focus on risk and facilitated better project management. It incorporates a data-first approach, whether in planning for the audit, performing risk assessments or responding to risks, and codifies the lessons learned from data analytics experiences over the years – embedding them into tasks and activities across the audit cycle.

Developed according to professional auditing standards and written to consider the evolution of the auditing profession, as well as internal and external inspection results, Digital GAM focuses on simplifying tasks and improving connection from one audit procedure to the next by leveraging full populations of company data.

The methodology is enabled by a standardized data capture and delivery process, and standardized documentation that supports a data-first approach to auditing significant classes of transactions and significant accounts.

This approach enhances traditional audit testing. When using data analytics techniques on 100% of an entity's transactions as outlined in Digital GAM, the focus from the outset of the audit is on what has gone wrong instead of what can go wrong, supporting a more effective, top-down, risk-based approach.

The EY organization began a phased implementation of Digital GAM in April 2020, and this rollout has continued through 2021 and 2022.

Robust, cloud-based security

EY Helix has now joined EY Canvas and EY Atlas in moving to the cloud. The transition of EY Canvas and EY Atlas has already provided an advanced infrastructure that enables EY technology teams to develop, manage and deploy the EY Digital Audit in an EY-isolated virtual private data center in the cloud. Cloud technology further enhances the capabilities of the EY Digital Audit by:

- ▶ Embedding advanced security measures into the existing data security architecture
- ▶ Boosting the stability of the platforms, facilitating accessibility and continuity
- ▶ Accelerating the speed and scale at which teams deploy system upgrades and new technologies

The security of EY platforms, applications and data is a critical component of the EY Digital Audit. Multilayered security includes controls over user authentication and data access, encryption for both in-transit and at-rest data, and continuous monitoring of cyber threats by a 24/7 Cybersecurity Center. EY systems have also been designed to comply with data privacy regulations around the globe.

The move of EY Canvas and EY Atlas has further enhanced security, as well as flexibility and stability, and the latest version of EY Helix is now used within the cloud environment to enhance security protocols.

Integrating and transforming to drive continued value

To stay at the forefront of innovation and keep pace with the transformation journeys of audited companies, the EY organization is investing

US\$1b in a next-generation Assurance technology platform – helping EY teams to drive continued value to stakeholders and capital markets.

The investment will facilitate the integration of existing EY Assurance technologies into one seamless global platform while leveraging advanced technologies to transform capabilities and power a new generation of data-driven assurance services.

Transforming data access capabilities and advanced analytics:

- ▶ Facilitating access to a wider universe of company and third-party information by expanding data acquisition capabilities
- ▶ Combining advanced technology, including predictive analytics and process mining, with insights from customized benchmarking
- ▶ Embedding broader Assurance capabilities and the ability to maximize the use of both financial and nonfinancial data

Transforming business intelligence and cognitive computing:

- ▶ Standardizing and automating processes via smart workflows and intelligent automation
- ▶ Using client, EY and third-party data to provide smarter guidance on risks
- ▶ Using AI to help guide and inform EY teams, based on the learnings from more than 120,000 EY professionals worldwide
- ▶ Learning from EY audits globally to make AI recommendations on more complex and judgmental decisions
- ▶ Integrating EY teams' knowledge and experience seamlessly in the delivery of assurance services, through guidance, smart workflows and connectivity to the EY global network of specialized teams

Viewpoint Powering the next generation of Assurance technology



Marc Jeschonneck
EY Global Assurance
Digital Leader

Technology is an enabler that supports EY Assurance professionals in performing their roles, including providing high-quality audits that promote trust and confidence in capital markets.

The positive impact of technology is present across every phase of the audit:

- ▶ Technology seamlessly connects EY teams to one another on a global scale, while also linking them to the companies that EY teams serve.
- ▶ It supports EY teams in identifying and analyzing areas of most significant risk in the audit, supported by the automation of routine tasks.
- ▶ Technology enables the analysis of complete data populations, not just samples, supporting EY teams in obtaining audit evidence and unlocking insights.
- ▶ It provides greater consistency in processes and creates opportunities for standardization in the way the EY audit teams deliver audit services.

However, the role of technology in the audit goes beyond these positive impacts. It is also critically important in enhancing the experience for professionals and clients, which in itself plays a key role in the delivery of high-quality audits.

For example, using emerging technology, AI can support EY teams in the identification of risk for the companies they serve, as well as in the analysis of peer benchmarks and news information to help ensure EY teams are equipped with the latest knowledge and insights. It enables teams to access and digest

comprehensive information, elevates the skills of professionals and improves retention. The experience of professionals thereby drives audit quality.

Similarly, investing in intuitive user interfaces and logical navigation techniques is supporting the EY organization's commitment to deliver high-quality audits, by making it easier for EY audit professionals to focus on areas requiring significant judgement.

Given the important role of technology in driving quality across the EY organization's Assurance services, both today and in the future, I am proud that the EY organization has committed to invest US\$1b in a next-generation Assurance technology platform. This will keep the EY organization at the forefront of innovation by integrating existing EY Assurance technologies under a single global platform while transforming capabilities across the three key areas of data, intelligence and user experience.

This transformation is happening at pace and will unlock the next generation of high-quality, data-driven assurance services. It responds to audit committee and finance leaders' expectations that now encompass not just audit and accounting, but also the broader reporting landscape including sustainability. I am confident that it will enable the EY organization to take audit quality, the scope of assurance services, and the experience for EY people and the entities they audit to a new level, and in the process build confidence in the capital markets.

“

The EY organization will drive integration and transformation using technology to support its commitment to delivering high-quality audit services.

Transforming the user experience for EY clients and EY professionals:

- ▶ Reimagining the process and workflow for the EY organization's assurance services
- ▶ Integrating digital capabilities, including analytics and automation, into a single, intuitive, seamless and global platform
- ▶ Combining knowledge sources into one global workbench, providing access to relevant data, benchmarks and the broader global knowledge accumulated by EY teams
- ▶ Enhancing interactions with entities that EY teams audit through portals for different stakeholder groups (e.g., audit committee, CFO and management) to provide relevant insights and EY thought leadership

Continued innovation and advanced technology

The EY organization's investment in continued innovation and advanced technologies builds on existing

EY Digital Audit capabilities, through the development of new capabilities in release, pilot and prototyping development phases. Specific examples of how the EY organization transforms capabilities include:

Transformation – data:

EY Helix Cash Analyzer

The EY Helix Cash Analyzer reconciles general ledger and third-party bank data, and analyzes bank transactions to increase audit quality and efficiency.

EY Blockchain Analyzer

The EY Blockchain Analyzer facilitates EY teams in analyzing selected digital assets for applicable audited companies.

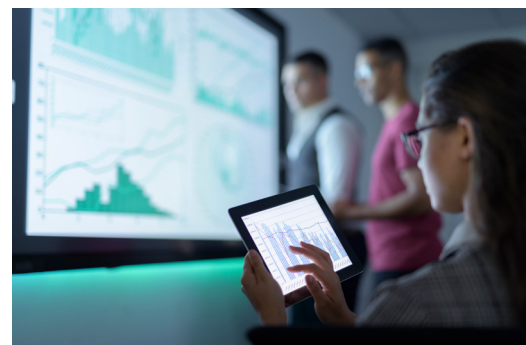
EY Helix Process Mining

Process Mining takes into account all electronic transactions within an audit period. It enhances controls testing by informing the team's understanding of the critical path across the whole population of transactions and identifies those transactions that deviated from the standard process.

Transformation – intelligence:

EY Canvas AI

EY Canvas AI supports EY audit teams in reviewing their risk assessment and audit strategy. The



application's machine learning algorithms analyze audit data to help with ongoing risk assessments and to facilitate EY teams in understanding the audited entity.

Transformation – experience:

Communication and collaboration technologies

The EY organization is using technology to enhance communication with the companies that EY teams serve through the development of next-generation user interfaces and new collaboration portals.

What this means for audited companies and stakeholders

The EY organization believes these investments will drive quality and greater value for audited companies and stakeholders by facilitating trust, transparency and transformation:

- ▶ **Trust:** trust and assurance to the capital markets through the application and understanding of advanced technology and the analysis of entire data populations, allowing EY teams to focus on the risks that matter most
- ▶ **Transparency:** real-time visibility of audit progress and access to the latest insights and knowledge, helping to enhance audit and business understanding and support strategic decision-making
- ▶ **Transformation:** an agile and scalable audit that fully leverages companies' latest technology investments and helps EY teams to better align audit focus areas with company transformation agendas

Over the coming years, the EY organization will drive integration and transformation using technology to support its commitment to delivering high-quality audit services.

Testimonial The infinite possibilities of audit innovation



Olga Gapon
Business
Product
Manager at
Ernst & Young
LLP, Chicago,
US

I joined the EY organization 15 years ago, the year in which the first EY global audit platform, GAMx, was introduced. I still remember the excitement of exploring the platform and providing a demo to my audit client. It was leading-edge technology at the time, introducing a digital audit program workflow and helping to make it possible for audit teams to collaborate in real time.

Since then, the EY organization has continued its investment in innovation by setting up analyzers to help with large data sets and replacing GAMx with EY Canvas, the current generation of global audit platform that connects audit teams and clients in one place.

The rapid advance of digital technology has changed how our clients operate, which products and services they are offered and how day-to-day activities are managed. Throughout this period of change, the EY organization has continued to use innovative technology to deliver high-quality audits, provide insights to audit clients and deliver a one-of-a-kind experience for audit team members.

I am proud to be part of the EY global Assurance team, acting as a business product manager. In my role, I lead the development and implementation of a new generation of technology that will assist with future challenges and help teams adopt new ways of working.

My team is focused on the audit confirmation process – historically a highly manual, repetitive and time-consuming task for audit professionals. We are supporting consistency in execution by implementing standardized confirmation workflows and allowing for real-time monitoring and visibility over the status of confirmations.

We are collaborating closely with audit teams to understand their current user experience and future requirements. We are facilitating the use of advanced and emerging technologies in support of the audit confirmation process. This improves the user experience for audit professionals and for the companies that EY teams serve; and strengthens EY technology in supporting the delivery of high-quality audits.

On the emerging technology agenda, we are harnessing an innovative new opportunity that leverages open banking capabilities. This emerging data-sharing technology has the potential to change the way audit professionals send and receive a response for bank confirmations, optimizing the process for audit teams and for responding organizations.

This module is envisaged to be available within the next-generation EY Assurance technology platform and will facilitate usage of electronic confirmations, while enhancing the experience for audit professionals.



How high-quality audits create value



One of the key ways EY teams fulfill their role of serving the public interest is by bringing integrity, independence and professional scepticism to deliver high-quality audits. High-quality audits enhance trust and confidence in the financial and nonfinancial information published by management and used by investors and other stakeholders to make informed investment decisions. High-quality audits also bolster public trust in the global capital markets, and this drives economic growth and creates long-term value for society.

The global structure and governance of the EY organization is central to delivering this value, providing a consistent approach to the audit worldwide and employing an accountability framework that helps to drive continuous improvement. Additionally, tax, technology, Climate Change and Sustainability Services (CCaSS) and other specialists contribute their knowledge and experience to support EY audit teams, enhancing the quality of the audit. One example is forensic accountants, who often work closely with auditors, adding value by addressing fraud risks – an important aspect of the audit that is coming under increased scrutiny from regulators and other stakeholders.

Global integration

“Global integration and teaming” is one of the four strategic pillars underpinning the EY NextWave Assurance strategy. The global structure and governance of the EY organization allow it to drive continuous improvement of audit quality, track progress in member firms around the world, and hold regional and country leadership accountable for results. The EY Global Assurance leadership performs ongoing reviews of trends at the country, Region, Area and global level.

Viewpoint Audit quality is a shared responsibility



John King
EY Americas
Vice Chair –
Assurance

In the Americas, our commitment to audit quality is unwavering and motivates us to continuously improve. We set clear expectations for all our professionals about meeting our high standards for audit quality and reinforce this message in our communications and training. We work tirelessly to maintain a culture of integrity, based on strong ethics and our shared values of respect, teaming and inclusiveness.

Our ongoing audit transformation strategy is foundational to driving audit quality and serving the public interest. We are simplifying and standardizing our approach, building centralized teams to provide audit support on various topics, and reinforcing a continuous improvement mindset in our people.

Our data-first approach and innovative technology remain key elements of our transformation strategy to enhance value and deliver high-quality audits. We have continued to make investments in our system of quality control, our processes and our digital innovation, including the US\$1b investment in next-generation Assurance technology from the EY global organization. Audit teams in the US, Canada, Latin America, Israel and the rest of the Americas are now applying our digital audit methodology and using our EY Helix tools on public company audits. This allows our teams to analyze large populations of data and identify significant or unusual patterns.

Over the last couple of years, we have adapted to rapid changes in the business environment. Like many entities, we have been challenged by the pandemic, the Great Resignation and other significant macroeconomic trends. We

also continue to learn from our own monitoring process and ongoing engagement with regulators and other capital market stakeholders across the financial reporting ecosystem.

These insights are helping our member firms take specific action to drive continuous improvement in audit quality. For example, recognizing the unique aspects of the remote working environment, we are prioritizing in-person teaming and strengthening coaching and supervision by executives, with a focus on audit execution, professional skepticism and project management. We are also reinforcing the importance of executing every audit with objectivity and independence and acting with integrity in everything we do, by helping people prioritize required learning and professional development.

Each one of our EY Americas professionals is central to these efforts, and we are committed to fostering an environment where they can do their best work. We are advancing our commitment to diversity, equity and inclusiveness (DE&I) through initiatives focused on career access, training, mentorship and dialogue. We are also preparing people to provide insights on key topics such as reporting on environmental, social and governance (ESG), cybersecurity and other technology-related matters.

From our most senior leaders to the most junior members of our audit teams, all our people across the Americas are accountable for audit quality. We embrace and take pride in our responsibility to deliver high-quality audits that promote trust in the capital markets and investor confidence.

Viewpoint Ongoing innovation to deliver high-quality audits



Mike Wright
EY Asia-Pacific
Assurance
Leader

EY member firms in Asia-Pacific have continued to demonstrate their commitment to delivering high-quality audits over the past year, as well as responding to increased demands for assurance of nonfinancial information. I am pleased to be able to report that we have received feedback from a number of regulators across the Area that we are outperforming our competitors when it comes to audit quality. Innovations in audit processes and methodology, the sophisticated use of data analytics, and programs to recruit, develop and retain talented people have all contributed to this achievement.

The primary value of an EY audit is to give the entities' stakeholders confidence in their financial reports. These could be the directors of the entities themselves, shareholders or the capital markets. Some entities may operate in areas of lighter regulation, where the value of a high-quality audit is even more highly appreciated.

EY member firms in Asia-Pacific are seeking to deliver value through high-quality audits in several ways. The first is by increasing their work around controls and processes, including IT, which helps the entities to improve in these areas. EY audit teams have found that this can bring certain aspects of the audit

work forward, helping them to improve audit quality and provide more valuable insights to the audited entity.

The second is the use of data analytics, which is critical. The EY organization runs a centralized data delivery program in Asia-Pacific that helps to bring together raw data so that it can be delivered to audit teams in a consistent format.

The third is the use of a consistent audit methodology that can be applied to an entity in a way that aligns with their particular operating circumstances. This flexibility helps to ensure that the audit work adds value through a focus on relevance and avoiding unnecessary processes.

An increasing emphasis on nonfinancial reporting is adding to the scope of audit work. As key stakeholders increasingly seek confidence in environmental, social and governance (ESG) metrics, it will become ever more imperative that we team across the full range of Assurance services to deliver value.

Continuing innovation in the audit process will play an important role in being able to achieve this, as will a focus on talent development. As part of the EY NextWave Assurance strategy, the organization is committed to enhancing people's skills and experiences, while

also transforming the way they work to put data and technology at the center of the assurance services they deliver. The combination of Centers of Excellence in Asia-Pacific, flexible working arrangements and remote teamwork is helping to improve efficiency, reduce working hours and boost talent retention rates. There is also a focus on centralizing, standardizing and automating core processes to reduce the administrative burden on EY teams and allow them to focus on client issues.

With international borders open again, there will also be increased opportunities for mobility. This is important, because the EY organization recognizes that better experiences can lead to higher audit quality.

Technology underpins all EY audit processes, and also EY member firms' ability to deliver a consistent, standardized audit. But it does not stand still, and investment will contribute to continuous improvements in the use of technology. This will enable EY audit professionals in the Area to find new ways to use data to bring the audit to life, adding value to audited companies and wider society by increasing confidence in financial and nonfinancial reports alike.

Real-time global data on EY Canvas and other key technology tools utilized by EY audit teams is available centrally to view the progress of audits and adherence with the EY system of quality management.

Audit teams across the EY organization share one GAM that continues to evolve based on newly issued auditing standards (e.g., ISQM 2 and ISA 220 (Revised)) as well as the EY organization's focus on digital technology and on simplifying, streamlining and standardization.

As mentioned earlier, the EY organization also employs a global accountability framework that supports the consistent performance evaluation of audit partners and Assurance leaders across the countries and regions. Interventions agreed upon as a result of these evaluations may include coaching, training, reviews of partners' workloads and allocation of additional resources.

Global integration is further reinforced by the implementation of a single EY Global Code of Conduct and a set of values, mentioned earlier in this report.

This global structure and governance provide consistency across policies, procedures, methodology and approach, allowing the EY organization to adapt to client needs and make changes to resourcing where required. EY audit teams conduct more than 150,000 audits a year, producing a wealth of knowledge and experience that can be shared around the world. In FY22, the EY organization audited 27% of the companies in the Fortune Global 500 and 27% of the companies in the Forbes Global 2000.

27%

of the companies in the Fortune Global 500 and 27% of the companies in the Forbes Global 2000 were audited by the EY organization in FY22.

Remaining focused on fraud risks

Preventing and detecting fraud is the joint responsibility of the company's management, those charged with governance and external auditors. Auditors, along with management and those charged with governance all have an important role to play.

Currently, auditors are responsible for providing reasonable assurance to shareholders that the financial statements are free from material misstatement, whether caused by fraud or error. Public opinion in many places, however, indicates that auditors are expected to play a role that extends beyond providing this reasonable assurance. There is also a growing regulatory demand for fraud detection in certain jurisdictions.

As part of ongoing improvement efforts, the EY organization recognizes that it needs to evolve how audits are performed to better address fraud and is committed to leading the profession more widely to address stakeholder questions about the auditor's role in fraud detection.

Companies have never been as data-rich as they are today, providing new opportunities to detect material frauds through data mining, analysis and interpretation. Auditors are ideally placed to carry out this role and are increasingly using data analytics to identify unusual transactions and patterns of transactions that might indicate a material fraud.

The EY organization is taking additional actions to address this important area of the audit, including:

- ▶ Mandating the use of data analytics for fraud testing in audits for all listed entities globally to enhance fraud detection capabilities and further develop professional skepticism.
- ▶ Using additional internal and external data and information to enable more nimble responses to external risk indicators such as short selling and whistleblowers. Improved access to news and social media information will also assist in deepening an independent and objective point of view, which is critical in serving the public interest.
- ▶ Using electronic confirmations for audit evidence wherever possible.
- ▶ Developing a proprietary fraud risk assessment framework for use with audit committees and those charged with governance.
- ▶ Leveraging the document authenticity tool to identify alterations to electronic documents provided as audit evidence by clients.
- ▶ Mandating annual fraud training for all audit professionals that incorporates the experience of EY forensic professionals.
- ▶ Requiring the use of forensic specialists in the audit on a targeted-risk basis to assess potential risks of fraud.

The implementation of these actions has successfully identified irregularities and alterations on certain audit engagements.

Forensic specialists in the audit

The use of forensic accounting is both proactive and reactive. Audit teams identify areas of risk and, when requested, EY forensic accountants advise on how best to identify potential areas of fraud and the appropriate audit procedures. In addition, EY forensic accountants provide sector-specific briefings, which highlight particular risks and advise on how to tackle these risks.

Proactively, EY forensic professionals work with audit teams to identify trends and analyze external data that is shared with the teams, alerting the team to potential risks within the entities they audit. When EY auditors identify risks during the course of their work, forensics professionals are deployed to advise and assist in the response if, for instance, fraudulent behavior is suspected.

Technology is playing an increasingly important role in business; while technology can provide great opportunities, there is also the risk that technology can be used in a less positive way. As an example of how the EY organization is addressing the negative use of technology, tools are being developed that can identify whether digital documents have been altered to give false information. Anomalies and management overrides can be identified and investigated, while digital tools can evaluate whole data sets and pinpoint outliers that are worthy of further examination.

It is anticipated that forensics will play an increasingly active role in audit work in the

Viewpoint Better scalability and diversity add value



**Peter
Wollmert**
EY EMEIA
Assurance
Leader

A commitment to audit quality is at the heart of everything EY teams in EMEIA do. It is underpinned by our ongoing drive to recruit and train talented individuals who will work in diverse teams, leveraging the power of EY technology to deliver high-quality audits that increase confidence in the capital markets.

A unique issue in the 94 countries that make up EMEIA, compared with other EY Areas, is that EY member firms here audit a large number of smaller companies. To cater for this, audit documentation has been streamlined to create a more simplified process that is tailored to smaller companies, while still giving EY audit teams access to the digital project management and communication tools that help them to focus on risk. Our tools and templates for small company audits are all connected through EY Canvas, our online audit platform, helping to ensure that we have one technical document database for all of our clients. An important outcome of this simplification is that it enables EY auditors to spend more time talking to clients and gaining a greater understanding of their business, which in turn helps them to deliver insights that add value to them.

The talent agenda is central to delivering audit quality, and in EMEIA we have made additional investments in training for audit professionals, with an increasing emphasis on learning that is delivered remotely. We have evolved the way online learning is delivered to make it both more engaging and more

professional than when it was first introduced as a result of the COVID-19 pandemic.

Another talent priority is the DE&I agenda, which is important to our clients, who increasingly want to see more diversity in audit teams. In some countries and regions that are lagging behind in this regard, we have developed a program designed to help women become partners, with specific actions that are designed to produce a positive outcome. The most mature of these programs has been developed in the Middle East and North Africa (MENA) region, and it will soon be replicated in India, where there is more ground to make up in terms of diversity. We want to make the picture across EMEIA more aligned. DE&I is very important to me; my own experience over the past 30 years is that, when you have audit teams that are balanced in terms of gender and background, the working environment is better and, ultimately, the quality of the audit benefits.

I am pleased that the time and money we invest in continually improving audit quality is increasingly being reflected in our Audit Quality Review (AQR) results, but we are not complacent. Audit quality is the primary criterion by which Assurance leaders are evaluated, and we will continue to focus on delivering high-quality audits across EMEIA that help to strengthen confidence in the capital markets, as well as providing valuable insights to the companies audited.

future. As analyzing data becomes more efficient and effective, it can be adapted for machine learning tools. This will, for instance, allow for greater analysis of communication patterns, which can in turn help identify potential fraudulent behavior.

Responding to emerging risks

Another key component of high-quality audits is taking into account emerging risks like cyber and ESG alongside traditional ones during the risk assessment phase of an audit. Both of these factors could have an impact on financial statements, and the auditor's role in this is still evolving. Given the importance of these risks to the companies that EY member firms audit, and to their boards, regulators and the overall market, EY audit teams are strongly encouraged to engage in a broader discussion of emerging risks with audit committees and management. This helps them consider potential risks that may impact the financial statements that are being reviewed. This discussion can focus on understanding these bodies' concerns and needs, and enables audit teams to better understand the business risks of the audited entity, and to be in a position to assist and support it where permissible.

Cyber

With a significant increase in cyberattacks during the COVID-19 pandemic and the heightened focus on the impact these may have on an entity's financial statements, the topic of cybersecurity is top of mind for many companies the EY organization audits.

The consequences of recent and ongoing cyberattacks have demonstrated that control

Testimonial How Forensics adds value to an audit



Aisha Brilliant
Senior
Manager at
Ernst & Young
LLP, Montréal,
Canada

A combination of new technologies, a constantly changing business environment and increased scrutiny of fraud-related matters has led to an intense focus on audit quality. Forensic specialists, with their skills and experience, can assist audit teams in developing a more efficient, effective and appropriate response to identified fraud risks. Their perspective can also provide insights and valuable observations for audit teams and clients.

Working in the Forensic & Integrity Services practice at Ernst & Young LLP, I lead and conduct complex forensic engagements, including investigations of fraud-related matters and whistleblower allegations and the development and assessment of anti-fraud programs.

I enjoy acting as a trusted advisor and I regularly assist audit teams. My involvement can vary from providing guidance to being directly involved in an audit when there is a suspected or identified instance of noncompliance with laws and regulations, or when an audit has a perceived higher level of fraud risk.

For example, an audit team became aware of potential irregularities during

the confirmation process. Our Forensics team performed additional procedures to support the audit team, including analysis of documentation and electronic documentation review, as well as carrying out interviews with selected individuals. We also liaised with the client's external advisors and reviewed the procedures performed by them and the related documentation. Our assistance was key for the audit team, as we were able to help establish specific audit implications of the matter. This included identifying facts that raised questions about the accounting of certain transactions and potential misstatements, as well as possible indications of internal control deficiencies or weaknesses.

To help audit teams discuss the issues we uncover, we sometimes participate in client meetings, where we present and discuss the results of our work. We can assist audit teams in conveying sensitive and delicate matters in an appropriate way.

Above all, our specialized skills and innovative solutions can provide additional elements of surprise and unpredictability in addition to insights, observations and perspectives of value beyond those obtained from traditional audit procedures.

procedures that have been designed to mitigate certain logical access risks may not be able to deal with the sophisticated and ever-evolving nature of such attacks. The increasing amount of information gathered by companies, coupled with many companies' increasing interconnectivity with suppliers, vendors, customers, business partners and others, can result in an elevated risk to the business related to the safeguarding of data and access points. EY auditors obtain information on cyber risk from their inquiries and other risk assessment procedures and document their assessment of whether cyber risks represent a risk of material misstatement to the financial statements.

ESG

ESG-related risks, including climate-related risks, are evolving quickly and this continues to be an area of emerging risks that draws preparers', auditors' and regulators' attention.

EY auditors focus on the appropriate application of the existing auditing and accounting standards to address these risks and their effect on the financial statements, including disclosures.

When obtaining an understanding of the relevant industry, regulatory and other external factors as part of their understanding of the business, EY auditors consider the impact of ESG-related risks on the entity to identify relevant events and conditions and determine whether risks of material misstatement in the financial statements exist.

While there is no explicit standard on climate-related matters under internationally accepted accounting standards (including IFRS and US

GAAP), stakeholders increasingly expect entities to explain how climate-related matters are considered when preparing financial statements. Stakeholders also expect robust disclosures on the most significant assumptions, estimates and judgments related to climate change, and investors too have highlighted the importance of reducing entities' environmental impact as it relates to their investment-making decisions.

There is also a growing focus on the consistent treatment of climate-related matters in annual reports, as it is perceived to be a key element to prevent greenwashing.

Leveraging specialists

In addition to the forensics specialists mentioned earlier, EY audit teams often leverage the knowledge and experience of specialists from



other parts of the organization, such as Tax, Valuations and IT.

The value specialists bring to an audit is supported by internal and external inspection outcomes, and learnings from the EY organization's root cause analysis process. Historical results indicate that audit quality is enhanced when the core audit team brings in specialists from other areas of the EY organization. In those engagements where inspection outcomes were positive, a higher portion of total engagement hours were attributed to specialists, in comparison with engagements where the inspection outcome was negative. Factors from root cause analysis on these positive and negative inspection outcomes suggest that additional specialist support can be of value to the audit engagement and lead to higher audit quality.

Creating value

The global integration of the EY organization, supported by a consistent focus on continuous improvement in audit quality from leaders around the world, is vital to delivering this quality. So too is the increasing use of specialists from other areas of the organization who bring their knowledge and experience to the audit.

As has been emphasized in the earlier sections of this report, EY auditors leverage data to ask better questions and obtain enhanced audit evidence, and use the knowledge gained through these insights to deliver high-quality audits that help stakeholders make crucial decisions and improve trust and confidence in business and the capital markets.

Structure and governance

The EY organization is a global leader in assurance, tax, strategy, transaction and consulting services. Worldwide, more than 360,000 people in member firms in more than 150 countries share a commitment to building a better working world, united by shared values and an unwavering commitment to quality, integrity and objectivity. In today's global market, an integrated approach is particularly important in the provision of high-quality, multinational audits.

EY refers to the global organization, and may refer to one or more of the member firms of Ernst & Young Global Limited (EYG), each of which is a separate legal entity. EYG, a UK company limited by guarantee, is the central entity of the EY organization. It does not provide services to clients.

EYG coordinates the member firms and promotes cooperation among them. Its objectives include promoting the provision of exceptional, high-quality client service by member firms worldwide. The member firms' obligations and responsibilities are governed by the regulations of EYG and various other agreements.

The Global Governance Council is the main oversight body of EYG. It comprises one or more representatives from each region, other member firm partners as representatives and up to six independent non-executives.

The Executive includes the Global Executive (GE), its committees and teams, and the leadership of the three Areas – the Americas, Asia-Pacific, and Europe, the Middle East, India and Africa (EMEIA). The GE brings together the EY organization's leadership functions, services and geographies. It is chaired by the Chairman and CEO of EYG.

The streamlined structure allows EY member firms to further enhance their provision of consistent, exceptional client service worldwide, with the Executive coordinating a global approach to strategy, quality, risk management, business planning and priorities. It allows for greater stakeholder focus in the 22 regions, permitting member firms to build stronger relationships with clients and others in each country.

Assurance governance

The global structure and governance of the EY organization allows it to set priorities and strategic imperatives for audit quality, assess progress in member firms, and hold regional and country leadership accountable for results. The structure of the organization is reflected in the governance structure of the Assurance practice:

- ▶ Area Managing Partners, jointly with the Global Leadership team, serve as the Executive Level of the Assurance practice. The Executive Level of the Assurance practice is responsible for establishing policy and strategy.
- ▶ Region Managing Partners coordinate

- the execution of policy and strategy.
- ▶ Country Managing Partners execute policy and strategy.

Two global networks are responsible for driving consistent audit quality:

- ▶ Professional Practice Directors (PPDs) develop global Assurance policies, procedures and methodologies; perform root cause analyses; work with standard-setters; and establish consultation protocols.
- ▶ Quality Enablement Leaders (QELs) coach audit teams; support internal and external inspections; remediate the root causes of quality occurrences; drive practice and project management; support portfolio risk analysis; and support and monitor the EY system of quality management, including global audit quality indicators (AQIs).

EY Assurance leaders are responsible for compliance with the quality control system for the EY Assurance service line, while PPDs and QELs, working collaboratively, are responsible for enhancing the quality of EY Assurance practices around the world. Area PPDs are overseen by the Global Vice Chair, Professional Practice (GPPD) and the Area Assurance Leader, while the GPPD is overseen by the EY Global Vice Chair – Assurance. QELs are overseen by the Global Deputy Vice Chair – Assurance. This structure creates a strong quality focus to the business and operations of the global practice while maintaining the objectivity of the PPD practice.



The EY organization around the world



EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

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