



# Transparency Report 2011

Ernst & Young Cyprus

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## Ernst & Young Cyprus

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# Country Managing Partner's letter



This past year has seen intensifying policy debates around the world on a range of issues affecting listed companies, the investing public and the audit profession. The European Commission issued a series of green papers that raise broad questions about the corporate governance framework, audit policy, the role of audit and the structure of the audit market, and corporate governance in financial institutions. Similar debates are being had in many other countries. Ernst & Young continues to contribute to these and other debates affecting our profession and our stakeholders.

We believe that all of these debates underscore the importance of our work for the benefit of investors and well-functioning capital markets.

At Ernst & Young, we firmly believe the audit profession plays a vital role in promoting the transparency that underpins confidence in the world's capital markets and drives economic growth. We have welcomed the independent oversight that auditors have faced globally over the past decade, because we believe it has helped to further the quality of our work, and auditors have become more transparent to all of our stakeholders. As part of our profession's move to greater transparency, the European Union's 8th Company Law Directive and the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 require Cyprus statutory auditors of Public Interest Entities to publish annual transparency reports disclosing certain information. This is a requirement that we have also embraced.

This Ernst & Young Cyprus Transparency Report 2011 complies with the Directive and the local law, and covers the financial year ended 30 June 2011.

In this report, you can read more about our internal quality control system- how we instil professional values, how we perform an audit, our review and consultation process and our process for audit quality reviews.

At Ernst & Young Cyprus we welcome this opportunity to engage with all of our stakeholders around these important topics. Strong governance is now, more than ever, vital to a well-functioning capital market.

A handwritten signature in blue ink, appearing to read 'G. Kourris'. The signature is stylized and fluid, with a long horizontal stroke extending to the right.

George Kourris  
Country Managing Partner  
Ernst & Young Cyprus

# Legal structure, ownership and governance

In Cyprus, Ernst & Young Cyprus Limited is a limited liability company incorporated in Cyprus and is a member firm of Ernst & Young Global Limited (EYG or Global). In this report we refer to ourselves as Ernst & Young Cyprus, the “Firm” or “we” or “us”.

Ernst & Young Cyprus Limited is owned by Ernst & Young, a partnership registered in Cyprus and having as partners the local partners of Ernst & Young and a Cyprus registered entity ultimately owned by Ernst & Young Europe LLP. Ernst & Young’s EMEIA Area comprises EYG member firms in 93 countries in Europe, Middle East, India and Africa. Ernst & Young (EMEIA) Limited (“EMEIA Limited”), an English company limited by guarantee, is the principal governance entity for the EYG member firms in the EMEIA Area. EMEIA Limited facilitates the coordination of these firms and cooperation between them, but it does not control them. EMEIA Limited is a member firm of EYG.

In Europe, a holding entity, Ernst & Young Europe LLP (“Ernst & Young Europe”) was formed in conjunction with the EMEIA Area. Ernst & Young Europe is a UK limited liability partnership, owned by partners of EYG member firms in Europe. It is an audit firm registered with the ICAEW but it does not carry out audits or provide any professional services. To the extent permitted by local legal and regulatory requirements, Ernst & Young Europe has acquired or will acquire control of the EYG member firms in a number of European countries in the EMEIA Area. Ernst & Young Europe is a member firm of both EYG and EMEIA Limited.

Ernst & Young Europe acquired control of Ernst & Young Cyprus as of 6 November 2010.

Ernst & Young Europe’s principal bodies are:

## **Europe Executive**

The Europe Executive effectively operates as the Board of Ernst & Young Europe. It has authority and accountability for strategy execution and management of its operations under four dimensions being People, Quality, Growth and Operational Excellence. It is comprised of the Europe Managing Partner, the Europe Chief Operating Officer, the leaders for Markets, People, Quality & Risk Management, the service line leaders for Assurance, Advisory, Transaction Advisory Services and Tax and all Sub-Area Managing Partners of the Sub-Areas in Europe.

## **Europe Advisory Council**

Ernst & Young Europe has an elected Europe Advisory Council, which is composed of a number of partners of the EYG member firms in Europe. It serves in an advisory role to the Europe Executive on policies, strategies and other matters and its approval is required for a number of significant matters, e.g. appointment of the Europe Managing Partner, the financial reports of Ernst & Young Europe, and material transactions.

# Network arrangements

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, 152,000 people in over 140 countries are united by shared values and an unwavering commitment to quality, integrity and professional scepticism. Ernst & Young makes a difference by helping its people, clients and wider communities achieve their potential. In today's global market, our integrated approach is particularly important in the delivery of high quality multinational audits, which can span multiple jurisdictions. In our report that follows, we set out core elements of our quality framework which support our seamless, high quality service delivery.

In this report, Ernst & Young refers collectively to the global organization of member firms of Ernst & Young Global Limited (EYG or Global), a UK company limited by guarantee. EYG is the central entity of the Ernst & Young network and coordinates the member firms and cooperation among them. EYG does not provide services to clients. Its objectives include the promotion of the provision by its member firms of seamless, consistent, high-quality client service, worldwide. Each member firm is a legally distinct entity. The member firms' obligations and responsibilities are governed by the regulations of EYG and various other agreements.

The member firms are grouped into four geographic Areas: Americas, Asia-Pacific, EMEIA (Europe, Middle East, India and Africa) and Japan. The Areas comprise a number of Sub-Areas, which are composed of member firms or sections of those firms.

Ernst & Young Cyprus is part of EMEIA, which comprises member firms in 93 countries. Within the EMEIA Area, there are 12 Sub-Areas. Ernst & Young Cyprus is part of the CSE (Central & South East Europe) Sub-Area.

The structure of the global organization reflects the principles that governance and management roles be separated and that Ernst & Young as a global organization has one shared strategy. EYG's principal global bodies include:

## **Global Advisory Council**

The Global Advisory Council is the main advisory body of the global Ernst & Young organization. It comprises a number of member-firm partner-level professionals (referred to as "partners") drawn from across the four Areas and includes independent non-executive representatives ("INEs"). The partners, who otherwise do not hold senior management roles, are elected by their peers for a three - year term, with provisions for one successive re - appointment. The INEs are nominated by a dedicated committee. The Global Advisory Council advises EYG and Ernst & Young on policies, strategies, and the public interest aspects of their decision making. The approval of the Global Advisory Council is required for a number of significant matters that could affect Ernst & Young.

## **Global Executive**

The Global Executive brings together the leadership of Ernst & Young functions, services and geographies. It is chaired by the Chairman and Chief Executive Officer of EYG, and includes its Chief Operating Officer; the Area Managing Partners; the global functional leaders – the Global Managing Partners of People, Markets, Quality & Risk Management and Operations and Finance; and the global service line Vice Chairs – Assurance, Advisory, Tax and Transaction Advisory Services and the Global Vice Chair - Public Policy. The Global Executive also includes a representative from the emerging markets practices.

The Global Executive and the Global Advisory Council approve nominations for the Chairman, Chief Executive Officer and the Chief Operating Officer of EYG and ratify appointments of Global Managing Partners. The Global Executive also approves appointments of Global Vice Chairs. The Global Advisory Council ratifies the appointments of any Global Vice Chair who serves as a member of the Global Executive. Furthermore, the Global Executive approves appointments of Area Managing Partners. Such appointments are subject to ratification by the Global Advisory Council.

## **Global Executive Committees**

Chaired by members of the Global Executive and bringing together representatives from the four Areas, the Global Executive Committees are responsible for making recommendations to the Global Executive. There are committees for People, Quality & Risk Management, Markets, Operations and Finance, Assurance, Advisory, Tax, and Transaction Advisory Services.

## **Global Practice Group**

This group brings together the members of the Global Executive, Global Executive Committees and Sub-Area leaders. The Global Practice Group seeks to ensure common understanding across member firms of Ernst & Young strategic objectives and consistency of execution across the organization.

Under the regulations of EYG, the member firms commit themselves to pursue Ernst & Young's objectives such as the provision of seamless, consistent, high-quality service, worldwide. To that end, the member firms undertake to implement the global strategies and plans and to maintain the minimum scope of service capability. They are required to comply with common standards, methodologies and policies including those regarding audit methodology, quality and risk management, independence, knowledge sharing, human resources and technology enablers.

Above all, EYG member firms commit themselves to conducting their professional practices in accordance with the applicable professional and ethical standards as well as with all applicable requirements of law. This commitment to integrity and doing the right thing is underpinned by our Global Code of Conduct and our Values.

Besides adopting the regulations of EYG, member firms enter into several other agreements covering aspects of their membership in the Ernst & Young organization such as the right and obligation to use the Ernst & Young name and the sharing of knowledge.

Member firms are subject to reviews that evaluate their adherence to EYG requirements and policies governing issues such as independence, quality and risk management, audit methodology and human resources. As necessary, special focus reviews are performed to address situations or concerns as they arise. Member firms unable to meet the quality commitments and other EYG membership requirements are subject to separation from the Ernst & Young organization.



# Internal quality control system

Ernst & Young Cyprus' reputation for providing high quality professional audit services in an independent, objective and ethical manner is fundamental to our success as independent auditors. We continue to invest in initiatives to promote enhanced objectivity, independence and professional scepticism. These are fundamental attributes of a high quality audit.

At Ernst & Young Cyprus, our role as auditors is to provide assurance on the fair presentation of audit clients' financial reports. We bring together qualified teams to serve our clients, drawing on our expertise - across industry sectors and services. We continually strive to improve our quality and risk management processes so that the quality of our client service is at a consistently high level.

We recognize that in today's environment - characterized by continuing globalization and the rapid movement of capital - the quality of our audit services has never been more important. Reflecting the strength of our commitment to delivering quality in everything we do, Ernst & Young has continued to invest heavily in developing the audit methodology, tools and other resources needed to support quality service delivery. While the market and stakeholders continue to demand high-quality audits, they also demand increasingly efficient and effective delivery of audit services. Ernst & Young continues to seek ways to improve the effectiveness and the efficiency of the audit methodology and processes, while maintaining audit quality. We work to understand where our audit quality may not be up to Ernst & Young's expectations and those of stakeholders including external audit firm regulators. We seek to learn from external and internal inspection activities and to identify root causes of quality occurrences for continuous improvement in audit quality.

## Effectiveness of quality control system

Ernst & Young has designed and implemented a comprehensive set of global audit quality control policies and practices, as described herein. These policies and practices meet the requirements of the International Standards on Quality Control issued by the International Auditing and Assurance Standards Board (IAASB). Ernst & Young Cyprus has adopted these global policies and procedures, and has supplemented them as necessary to comply with local laws and professional guidelines and to address specific business needs. We also execute the Ernst & Young Audit Quality Review (AQR) program and annually evaluate whether our system of audit quality control has operated effectively in a manner so as to provide reasonable assurance that Ernst & Young Cyprus and our personnel comply with applicable professional and Ernst & Young standards and regulatory requirements.

The results of the AQR program and external inspections are evaluated and communicated within Ernst & Young Cyprus to provide the basis for continuous improvement in audit quality, consistent with the highest standards in the profession.

The recent results of such monitoring, together with the feedback from independent regulatory inspection visits, provide Ernst & Young Cyprus with a basis to conclude that our internal control systems are designed appropriately and are operating effectively.

In this section, we describe the various components of our audit quality control system:

- ▶ Instilling professional values
- ▶ Performing audits
- ▶ Review and consultation
- ▶ Internal and external accountability
- ▶ Audit quality reviews

"Ernst & Young Cyprus' reputation for providing high-quality professional audit services in an independent, objective and ethical manner is fundamental to our success"

**Gabriel Onisiforou, Country Q&RM Leader**

## Instilling professional values

### Tone at the top

Setting the right “tone at the top” is a key responsibility of our senior leadership team. We communicate to our people that quality and professional responsibility starts with them and is the most important thing they do every day. Our approach to ethics and integrity is embedded in training programs and internal communications. Senior management regularly reinforces these expectations and the importance of performing quality work and complying with professional standards and our policies through varied forms of communication. Also, we assess quality of professional service as a key metric in evaluating and rewarding all professionals.

Our culture strongly supports collaboration and consultation and places special emphasis on the importance of consultation in dealing with complex or subjective accounting, auditing, reporting, regulatory and independence matters. We also emphasize the importance of determining that an engagement team and client have correctly followed consultation advice when necessary. Our internal message consistently has been that no single client is more important than professional reputation - the reputation of Ernst & Young Cyprus and the reputation of each of our professionals. “Quality In Everything We Do” is a message that we continually reinforce to our people and clients.

### Code of conduct

We promote a culture of integrity, as well as the performance of high-quality audits, among all Ernst & Young professionals. The Global Code of Conduct provides a clear set of the standards and behaviors that guide our actions and our business conduct. It is organized into five categories containing principles that are to be followed by everyone within Ernst & Young Cyprus to guide behavior across all areas of activity:

- ▶ Working with one another
- ▶ Working with clients and others
- ▶ Acting with professional integrity
- ▶ Maintaining our objectivity and independence
- ▶ Respecting intellectual capital

Through our procedures to monitor compliance with the Global Code of Conduct and through frequent communications, we strive to create an environment that encourages all personnel to act responsibly, including reporting misconduct without fear of retaliation.

We also have EY/Ethics, a global ethics hotline, to provide Ernst & Young Cyprus people, clients and others outside of the organization with a means to confidentially report activity that may involve unethical or improper behavior that may be in violation of professional standards or otherwise inconsistent with the Global Code of Conduct. EY/Ethics is operated by external organizations that provide confidential and, if so desired, anonymous, hotline reporting services for companies worldwide.

In addition to the Global Code of Conduct we have specific anti-bribery and insider trading policies.

## Our values

### Who we are

People who demonstrate integrity, respect and teaming.

People with energy, enthusiasm and the courage to lead.

People who build relationships based on doing the right thing.

## Performing audits

### Audit methodology

The Ernst & Young Global Audit Methodology (EY GAM) provides a global framework for delivery of high-quality audit services through consistent application of thought processes, judgments and audit procedures in all audit engagements. One of the cornerstones of EY GAM is making (and reconsidering and modifying, when appropriate, throughout the audit) risk assessments and then determining the nature, timing and extent of audit procedures based on those risk assessments. EY GAM also places emphasis on the application of appropriate professional scepticism in the execution of audit procedures. EY GAM is based on International Standards on Auditing (ISAs) and is supplemented in Cyprus to comply with the local regulatory or statutory requirements.

EY GAM is organized into interdependent phases designed to focus on the client's business and financial statement risks and how those risks affect our audit of the financial statements. EY GAM reflects the typical flow of an audit's execution. The methodology and related guidance is presented in a three-layer format. The three parts of EY GAM consist of the GAM Framework, GAM Performance Guidance and GAM Enablers. The GAM Framework is a concise description of how Ernst & Young Cyprus performs an audit and provides links to the GAM Performance Guidance. The GAM Framework is a concise description of how our professionals perform an audit and provide links to the GAM Performance Guidance. The GAM Performance Guidance also describes parameters for making certain audit decisions. The GAM Enablers consist of templates, examples, checklists, and leading practice illustrations for performing and documenting audit procedures.

Enhancements to the audit methodology are made on a regular basis as a result of new standards, emerging auditing issues and matters, implementation experiences and external and internal inspection results. For example EY GAM was rewritten in the recent past to incorporate new auditing requirements as a result of the issuance of new and clarified ISAs. In addition, through audit planning and other reminders this year, we emphasized key topics of interest to the International Forum of Audit Regulators (IFIAR) including professional scepticism, group audits, revenue recognition and engagement quality reviews.

As part of EY GAM, there are procedures required to be completed to assess independence from the audit client.

### Technology enablers

Numerous technology enablers are used by audit engagement teams to assist in executing and documenting the work performed in accordance with EY GAM. For example, GAMx is an audit support tool that drives uniform execution of EY GAM and appropriate audit documentation, strengthening our ability to deliver consistent, high-quality audits. It provides linked access to knowledge databases (audit guidance and interpretations), professional standards, documentation templates and other tools necessary to execute and document a risk-based audit effectively. GAMx provides a team-collaboration environment that facilitates sharing information and the documentation of procedures and conclusions. GAMx also enables secure peer-to-peer communications so our people can work together as if they were in the same physical location. Audit engagement teams use other software applications, forms and templates during various phases of an audit to assist in making and documenting audit considerations and data acquisition and analysis functions.

### Formation of audit engagement teams

Ernst & Young Cyprus policies require an annual review of partner assignments by our Assurance leadership and Professional Practice Director (PPD) to make sure that the professionals leading listed company audits possess the appropriate competencies, i.e., the knowledge, skills and abilities to fulfill their engagement responsibilities, and are in compliance with applicable auditor rotation regulations.

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

In many situations, internal specialists are assigned as part of the audit engagement team to assist in performing audit procedures and obtaining appropriate audit evidence. These professionals are used in situations requiring special skills or knowledge, such as information systems, asset valuation and actuarial analysis.

## Review and consultation

### Reviews of audit work

Ernst & Young policies describe the requirements for timely, direct executive participation on audits and various levels of reviews of the work performed. Members of the audit engagement team perform a detailed review of the audit documentation while engagement executives perform a second-level review. A tax representative reviews the significant tax and other relevant working papers. For listed companies, an engagement quality review partner (described below) reviews important areas of accounting, financial reporting and audit execution, as well as the listed audit client's financial statements and our report thereon. The nature, timing and extent of the reviews of the working papers that are appropriate in a given instance depend on many factors, including the materiality, subjectivity and complexity of the subject matter; the ability and experience of the audit team member preparing the audit documentation; the level of the reviewer's direct participation in the audit work and the extent of consultation employed.

These policies also describe the roles and responsibilities of each audit engagement team member and the requirements for documenting their work and conclusions.

During this year, EY's guidance on accounting, auditing and financial reporting consultations was refreshed and re-issued for audit professionals.

### Consultation requirements

Consultation requirements and related policies and procedures are designed to involve the right resources so that audit teams can reach appropriate conclusions on relevant accounting, auditing, reporting, regulatory and independence matters. Consultation is a part of the decision-making process, not just a process to provide advice. For complex and sensitive matters, we require or encourage consultation outside of the audit engagement team with other personnel who have more experience or specialized knowledge, primarily Professional Practice and Independence personnel. We provide guidance on matters that require consultation.

Ernst & Young policies also describe our requirements for documenting consultations, including the requirement to obtain written concurrence from the person consulted to demonstrate the consultant's understanding of the matter and its resolution.

### Engagement quality reviews

Engagement quality reviews, performed by audit partners in compliance with professional standards, are required for audits of all listed companies. Engagement quality reviewers are experienced professionals with significant subject-matter knowledge, independent of the engagement team and able to provide a further objective evaluation of significant accounting, auditing and reporting matters. In no circumstances may the responsibility of the engagement quality reviewer be delegated to another individual. The engagement quality review is an activity that generally spans the entire engagement cycle and is not limited to a review of the financial statements at the time of issuance of our report. Policies and procedures for the performance and documentation of engagement quality reviews, which were strengthened this past year to place more emphasis on this important quality feature, provide specific guidelines on the nature, timing and extent of the procedures to be performed. Our PPD reviews and approves all engagement quality review assignments for listed companies.

### Audit engagement team disagreement-resolution process

We have a collaborative culture and encourage our people to speak up if a professional disagreement arises or they are uncomfortable about a matter having to do with a client engagement. Policies and procedures are designed to empower our people by requiring members of an audit engagement team to raise any disagreements that are considered to be material or that may affect our opinion on the financial statements being audited. Such policies are introduced at the entry level and reinforced thereafter to instill in our people both the responsibility and authority to require a thorough hearing and vetting of differing viewpoints.

Differences of professional opinion that arise during an audit generally are resolved at the audit engagement team level. However, if any individual involved in the discussion of an issue is not satisfied with the decision, he or she has both the right and the obligation to see that the issue is referred to the next level of authority. If the engagement quality reviewer makes recommendations that the engagement partner does not accept and the matter is not resolved to the reviewer's satisfaction, the report is not issued until the matter is resolved by following the appropriate consultative processes for resolution of professional differences. When a matter that goes beyond the audit engagement team is ultimately resolved, our policies require it to be documented in the same manner as described previously for consultations.

**Document retention and data privacy**

Ernst & Young Cyprus' record retention policy applies to all engagements and personnel. This policy emphasizes that all documents must be preserved whenever any person becomes aware of any actual or reasonably anticipated claim, litigation, investigation, subpoena or other government proceeding involving us or one of our clients that may relate to our work. The policy also addresses Cyprus legal requirements applicable to the creation and maintenance of working papers relevant to the work performed.

Ernst & Young has a global policy on data privacy that sets out the principles to be applied to the use and protection of personal data, including that relating to current, past and prospective personnel, clients, suppliers and business associates. It provides a foundation for maintaining the privacy of all personal data used by Ernst & Young Cyprus. Furthermore, Ernst & Young Cyprus has a policy to address its specific Cyprus data privacy requirements and business needs.

## Internal and external accountability

### Audit partner rotation

Mandatory audit partner rotation is one of the measures that Ernst & Young supports to help strengthen auditor independence. We comply with the audit partner rotation requirements of the code of the International Ethics Standards Board for Accountants (IESBA) which has been adopted by the Institute of Certified Public Accountants of Cyprus. Ernst & Young Cyprus supports audit partner rotation because it provides a fresh perspective and promotes independence from company management while retaining expertise and knowledge of the business. Audit partner rotation, combined with independence requirements, enhanced systems of internal quality controls, and independent audit oversight help strengthen independence and objectivity and are important safeguards of audit quality.

For Public Interest Entities, the Global Independence Policy requires the lead engagement partner and the engagement quality reviewer be rotated after seven years; this requirement is also mandated in the Cyprus law. For a newly listed audit client, the lead engagement partner and the engagement quality reviewer may remain in place for an additional two years before rotating off the team, regardless of the time they served prior to the listing. Following rotation, the partner may not resume the lead or engagement quality review role until a minimum of two years has elapsed.

To monitor requirements on partner rotation effectively, we have tools with which we track partner rotation. We also have implemented a process for partner rotation-planning and decision-making that involves consultation with and approvals by our Professional Practice and Independence professionals.

### Client acceptance and continuance

Ernst & Young's client acceptance and continuance policy sets out principles to determine whether to accept a new client or a new engagement, or to continue a relationship with an existing client. These principles are fundamental to maintaining quality, managing risk, protecting our personnel and meeting regulatory requirements. The objectives of the policy are to:

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

In addition, the global conflicts policy forms the framework for the client and engagement acceptance and continuance process as far as it relates to conflicts of interest. It defines categories of conflicts of interest as a global standard as well as a process for identifying potential conflicts of interest.

Furthermore, the global conflicts policy includes provisions for managing conflicts of interest, which have been identified by that process, as quickly and efficiently as possible, through the use of appropriate safeguards. Such safeguards range from obtaining the relevant clients' consent to act for two or more clients to member firms ceasing to act in order to remove an identified conflict.

The Global Tool for Acceptance and Continuance (GTAC) is an intranet-based system for efficiently coordinating client and engagement acceptance and continuance activities in line with global, service line and member firm policies. GTAC takes users step-by-step through the acceptance and continuance requirements and connects to the resources and information needed to assess both business opportunities and associated risks.

The client acceptance process involves a careful consideration of the risk characteristics of a prospective client and several due-diligence procedures. Before we take on a new engagement or client, we determine if we can commit sufficient resources to deliver quality service, especially in highly technical areas, and that the services the client wants are appropriate for us to provide. The approval process is rigorous, and no new listed audit engagement may be accepted without the approval of our PPD.

In our annual client continuance process, we review our service delivery and ability to continue to provide quality service and confirm that clients share Ernst & Young Cyprus' commitment to quality and transparency in financial reporting. The partner in charge of each audit, together with our Assurance leadership, annually reviews our relationship with the audit client to determine whether continuance is appropriate. As a result of this review, certain audit engagements are identified as requiring, and are then subjected to, additional oversight procedures during the audit, and some clients are discontinued. As with the client acceptance process, our PPD is involved in the client continuance process and must concur with the continuance decisions.

Both client acceptance and client continuance decisions depend on, among other things, the absence of any perception that a company's management pressures the audit engagement team to accept inappropriate accounting and reporting or uses financial pressures to undermine audit quality. Considerations and conclusions on the integrity of management are essential to acceptance and continuance decisions.

## Audit quality reviews

The global Audit Quality Review (AQR) program is a cornerstone of Ernst & Young's efforts to maintain and improve audit quality. Ernst & Young Cyprus executes the global Audit Quality Review (AQR) program, reports results and develops responsive actions plans. The primary goal of the global AQR program is to determine whether systems of quality controls, including those of Ernst & Young Cyprus, are appropriately designed and followed in the execution of audit engagements to provide reasonable assurance of compliance with policies and procedures, professional standards and regulatory requirements. The global AQR program complies with guidelines in the International Standard on Quality Control No. 1, as amended (ISQC No.1) and is supplemented where necessary to comply with Cyprus professional standards and regulatory requirements. The AQR program also aids Ernst & Young Cyprus' continual efforts to identify areas where we can improve our performance or enhance our policies and procedures.

The global AQR program is implemented annually and is coordinated and monitored by representatives of the PPD network, with oversight by the Global Q & RM network.

The engagements reviewed each year are selected on a risk-based approach emphasizing clients that are large, complex or of significant public interest. The AQR program includes detailed, risk-focused file reviews covering a sample of listed and non-listed audit engagements to measure compliance with internal policies and procedures, EY GAM requirements and relevant local professional standards and regulatory requirements. In addition, practice level reviews are performed to assess compliance with quality control policies and procedures in the functional areas set forth in ISQC No. 1. The AQR program complements external practice monitoring and inspection activities, such as regulatory inspection programs and external peer reviews. Whether there are material or minor findings or deficiencies, Ernst & Young Cyprus looks at the findings or internal and external inspections to identify root causes, develop action plans and seeks to improve audit quality.

The professionals who serve as AQR reviewers and team leaders are selected based on their skills and professional competence in both accounting and auditing as well as their industry specialization. Additionally, team leaders and reviewers frequently work in the AQR program over a period of several years and possess a high level of skill in the execution of the program. Team leaders and reviewers are assigned to inspections outside of their home location and are independent of the audit teams reviewed.

Results of the AQR program and external practice-monitoring and inspection activities are evaluated and communicated so that quality improvement actions can be taken at the appropriate level. Measures to resolve audit quality issues noted from the AQR program, regulatory inspections and peer reviews are addressed by our Assurance leadership and our PPD. The actions identified are monitored by our PPD. These programs provide important practice monitoring feedback for our continuing quality improvement efforts.



# External quality assurance review

Ernst & Young Cyprus' audit practice and its registered statutory auditors are subject to inspection by the Public Oversight Committee. As part of its inspection mandate, the Public Oversight Committee evaluates the Firm's quality control systems and reviews selected engagements. Prior to the enactment of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 in April 2011 which introduced the Public Oversight requirements, external inspections were being carried out by the Institute of Certified Public Accountants of Cyprus (ICPAC) on a profession's self-regulated basis. The last quality assurance review was performed during May 2006 by the UK Association of Chartered Certified Accountants on behalf of ICPAC and in accordance with the ICPAC's Regulations.

# Independence practices

Ernst & Young independence policies and processes are designed to enable Ernst & Young Cyprus and our professionals to comply with the independence standards applicable to specific engagements, including, for example, the independence standards of the International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (IFAC) which have been adopted by the Institute of Certified Public Accountants of Cyprus. All professionals and certain other employees are required to participate in annual independence learning, to help maintain our independence when performing services for audit clients. The goal is to help our people understand both their personal and Ernst & Young Cyprus' obligations to be free from interests that might be regarded as being incompatible with objectivity, integrity and impartiality in serving an audit client.

We consider and evaluate independence from several relevant perspectives, including the financial relationships of both our Firm and professionals, employment relationships, business relationships, the permissibility of non-audit services we provide to audit clients, partner rotation, fee arrangements, partner remuneration and Audit Committee pre-approval where applicable and partner remuneration and compensation.

A professional's failure to comply with applicable professional independence requirements will generally factor into promotion and compensation decisions, and may lead to other disciplinary measures.

We have implemented Ernst & Young global applications, tools and processes to support us, our professionals and other employees in complying with independence policies.

## **Global Independence Policy**

Ernst & Young's Global Independence Policy contains the independence requirements for member firms, professionals and other employees. It is a robust policy predicated on the IESBA independence code, with more stringent requirements where prescribed by a given regulator. The Global Independence Policy also contains helpful supplementary guidance on a wide range of topics to aid professionals and other employees in applying the complex independence rules. The Global Independence Policy is readily accessible through our intranet.

## **Global Independence System**

Ernst & Young's Global Independence System (GIS) is an intranet-based tool that helps us, our professionals and other employees determine the listed entities from which independence is required and the independence restrictions that apply to each one. Most often these are listed audit clients and their affiliates, but they can be other types of attest or assurance clients. The tool includes family-tree data relating to affiliates of the listed audit client and is updated periodically by client-serving engagement teams. The entity data includes notations that indicate the independence rules which apply to each entity so our professionals can readily see both the entity and the independence notations. GIS is frequently used by our professionals to determine the type of services that can be provided to the client based on the independence notations.

## **Global Monitoring System**

Ernst & Young's Global Monitoring System (GMS) is another important global tool that assists us and our professionals in identifying proscribed securities and other financial interests that are not permissible to own. Professionals of manager or higher rank are required to report the securities, which they or their immediate family members hold, into the GMS. When an individual enters a proscribed security into GMS, the individual will receive a notice and be required to dispose of the security in a timely manner. Identified exceptions are reported through the Global Independence Incident Reporting System (GIIRS) for regulatory matters.

GMS also permits annual and quarterly confirmation of compliance with Ernst & Young independence policies, as described in greater detail below.

### **Independence compliance**

EYG has established a number of processes and programs aimed at monitoring the compliance with independence requirements of Ernst & Young professionals and member firms. These include the following activities, programs and processes:

#### ***Independence confirmations***

Annually, each member firm and its associated entities are included in an Area-wide process to confirm compliance with the Global Independence Policy and requirements and to report identified exceptions, if any.

All Ernst & Young professional personnel and certain others based on their role or function are required to confirm compliance with Ernst & Young independence policies and procedures no less than annually. All partners are required to confirm compliance quarterly.

Timely and accurate completion of annual and quarterly independence confirmations is a high priority for the responsible leadership teams.

#### ***Global Independence Compliance Team***

Ernst & Young's Global Independence Compliance Team (GICT) conducts an array of testing and member firm visits to assess compliance with several independence matters, including reviewing for non-audit services, business relationships with audit clients and financial relationships of member firms.

Furthermore, the GICT establishes the annual program for testing compliance with personal independence confirmation requirements and with reporting of information into GMS.

Ernst & Young Cyprus confirms that the GICT completed an internal review of independence compliance during 2011.

#### **Non-audit services**

Compliance with professional standards governing the provision of non-audit services to audit clients is designed to be achieved through a variety of mechanisms including the use of GTAC ( as described on page 12) and SORT (described below), training, tools and required procedures completed during the performance of audits and our internal inspection processes.



### **Global independence learning**

EYG develops and deploys a variety of independence learning programs within Ernst & Young.

The annual independence learning program covers the Global Independence Policy and focuses on changes but also recurring themes and topics of importance. The annual independence learning must be completed by professionals and certain other personnel. Timely completion of annual independence learning is required and is monitored closely. In addition to the annual independence learning program, there are numerous other independence learning programs or content such as in the new hire program, certain milestone programs and core service line curricula.

### **Service Offering Reference Tool**

We assess and monitor our portfolio of services on an ongoing basis, confirming that they are permitted by law and professional standards, and to make sure that we have the right methodologies, procedures and processes in place as we develop new service offerings. When appropriate, we exit or restrict services that could present independence or other risks. The Service Offering Reference Tool (SORT) provides our people with information about our service offerings. SORT includes guidance around which services can be delivered to audit and non-audit clients, and independence and other risk management issues.

### **Business Relationship Evaluation Tool**

We oversee compliance with business relationships independence requirements through our Business Relationships Evaluation Tool. Our Firm, our professionals and other employees are required to evaluate and obtain approval of potential business relationships with an audit client in advance so that our business relationships are consistent with applicable independence professional standards.

### **Audit Committees and corporate governance**

In addition to our internal applications, processes and tools that enable compliance with Independence rules and policies, Ernst & Young recognizes the important role audit committees and similar corporate governance bodies play in the oversight of auditor independence. Empowered and independent audit committees play a vital role on behalf of shareholders in protecting independence and preventing conflicts of interest. Ernst & Young is committed to robust and regular communication with our clients' audit committees or those charged with governance. Our compliance with required audit committee communications as well as mandatory pre-approval of services, where applicable, is monitored through our systems and processes and is tested by our quality review programs all of which are described elsewhere herein.



# Continuing education of statutory auditors

## **Recruitment and hiring**

A strategic objective is to attract and build life-long relationships with talented audit professionals. We are proud of our people culture, and we are committed to doing even more to advance our people's development.

Recruiting for the Assurance practice is performed primarily on university campuses and supplemented, when necessary, by hiring people with prior work experience. We aspire to have a leading people culture everywhere in the world. Creating a culture that attracts, retains and develops outstanding people, leads to higher quality service.

Candidates are evaluated based on the following competencies:

- ▶ Technical skills and knowledge
- ▶ Intellectual competence
- ▶ Leadership skills
- ▶ Team/personal skills
- ▶ Motivation
- ▶ Communication skills
- ▶ Administrative skills

## **Professional development**

Following its launch we continue to deploy EYU, Ernst & Young's globally consistent career development framework. Through EYU, we provide our people with opportunities for the right experiences, learning and coaching to help them grow and achieve their potential.

EYU expands the commitment to coaching via various forms of counseling and mentoring, from the moment people are recruited through the various phases of their careers.

The learning component of EYU is based on an extensive and globally consistent learning curriculum that helps all of our people develop the right technical and personal leadership skills wherever they are located around the world. The core audit training courses are supplemented by learning programs that are developed in response to changes in accounting and reporting standards, independence and professional standards, and emerging practice issues. We require our audit professionals to obtain at least 20 hours of continuing professional education each year and at least 120 hours over a three-year period. Of these hours, 40 % (eight hours each year and 48 hours over a three-year period) must cover technical subjects related to auditing and accounting.

In addition to formal learning, professional development occurs through coaching and experiences our professionals receive on the job. Coaching helps to transform knowledge and experience into practice. Experienced professionals are expected to coach and develop less experienced personnel to create a continual learning environment.

## **Performance management**

A comprehensive performance management process requires our people to set goals, have clear work expectations, receive feedback and talk about their performance. The Performance Management and Development Process (PMDP) is designed to help our people grow and succeed in their careers. Under the PMDP, periodic job performance reviews are combined with annual self-appraisal and annual reviews. As part of the annual review process, each professional, in conjunction with his or her counselor (an assigned, more experienced professional), identifies opportunities for further development. Professionals and their counselors are guided by a set of service line competencies that articulate the knowledge and skills that should be maintained and developed for the respective rank.

# Financial information

The financial information presented below for Ernst & Young Cyprus refers to the financial year ended on 30 June 2011. This financial information includes expenses billed to clients and revenues related to billings to other EYG member firms. Also, revenue amounts disclosed herein include revenues from both audit and non-audit clients.

Service	Revenue	Percent
Statutory audit	€9,0m	67,2%
Other assurance	€1,2m	9,0%
Tax advisory	€3,1m	23,1%
Other non-audit	€0,1m	0,7%
<b>Total</b>	<b>€13,4m</b>	<b>100%</b>

Revenue is presented in the above table in accordance with applicable Cyprus law provision. Other Assurance Services revenue includes accounting and financing services, risk related services including internal controls, internal audits, technology and security, transaction, valuation, actuarial, fraud and forensics, and other attestation services. Other Non-Audit Services revenue includes performance improvement, restructuring and other advisory related services.

# Partner remuneration

Quality is at the center of our business strategy and a key component of our performance-management systems. Partners and other professionals are evaluated and compensated based on criteria that include specific quality and risk management indicators, covering both actions and results.

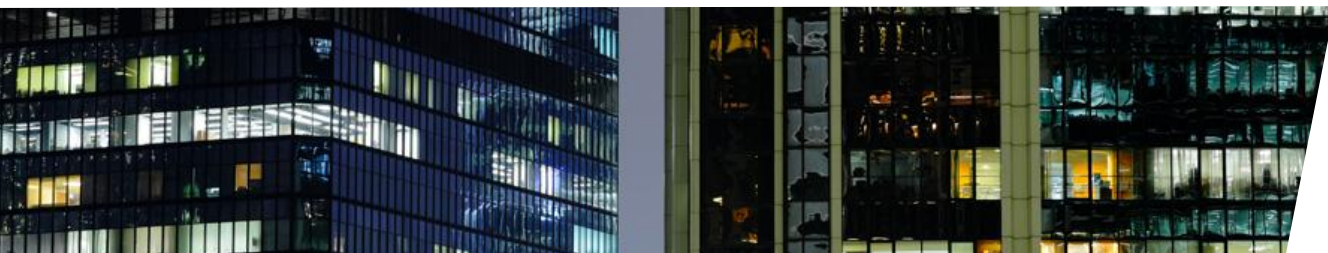
The Global Partner Performance Management (GPPM) process is a globally consistent evaluation process for all partners in Ernst & Young member firms around the world. It reinforces the global business agenda by linking their performance to wider goals and values. GPPM is an ongoing cyclical process that includes goal setting, personal development planning, performance review and recognition and reward. It is used as the cornerstone of the evaluation process to document partners' goals and performance. A partner's goals are required to reflect various global priorities, one of which is Quality.

Specific quality and risk management performance measures have been developed to take account of:

- ▶ Technical excellence
- ▶ Living our values as demonstrated by behaviors and attitude
- ▶ Demonstrating knowledge of and leadership in quality and risk management
- ▶ Compliance with policies and procedures
- ▶ Compliance with laws, regulations and professional duties
- ▶ Contributing to protecting and enhancing the Ernst & Young brand

Our partner compensation philosophy calls for meaningfully differentiated rewards based on a partner's level of performance, as measured by the GPPM process. Partners are assessed annually on their performance in quality service delivery, leading people, operational excellence and market leadership and growth. To recognize different market values for different skills and roles, and to attract and retain high-performing individuals, the following factors are also considered when calculating total reward: seniority, role and responsibility, long-term potential and mobility.

Instances of non-compliance with quality standards result in remedial actions, which may include compensation adjustment, additional training, additional supervision, or reassignment. A pattern of non-compliance or particularly serious non-compliance may result in actions that include separation from our Firm.



# Appendix: Public interest entity audit clients

In the financial year ended on 30 June 2011, Ernst & Young Cyprus performed statutory audits of the following public interest entities:

Bank of Cyprus Public Company Ltd

Blom Bank SAL Cyprus Branch

Constantinou Bros Properties Plc

Credit Libanais S.A.L. Cyprus Branch

Eurolife Ltd

General Insurance of Cyprus Ltd

Interpipe Ltd

Joint Stock Company Trasta Komercbanka Cyprus Branch

Mirland Development Corporation Ltd

MOL Reinsurance Co Ltd

Orca Investment Plc

Société Générale Bank - Cyprus Limited

TMM Real Estate Development Plc

Universal Life Insurance Public Company Ltd



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**About Ernst & Young**

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit  
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