



Transparency Report 2011

Ernst & Young Global

 **ERNST & YOUNG**
Quality In Everything We Do



Contents

Chairman's letter	3
Ernst & Young's commitment to global integration	4
Organization	7
Internal quality control system	10
Instilling professional values	11
Infrastructure supporting quality	12
Performing audits	13
Review and consultation	15
Client acceptance and continuance	16
Audit quality reviews	17
Compliance with legal requirements	18
Internal communications	19
Independence practices	20
Recruitment, performance management and continuing education	22
Financial information	23
Partner remuneration	24
Stakeholder dialogue	25
Appendix	26

This transparency report provides information about Ernst & Young's global organization.

For information about Ernst & Young member firms in countries with transparency reporting requirements based on the European Union's 8th Company Law Directive, please see the relevant member firm's website.

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More information about Ernst & Young can be found in the Global Review on our website at www.ey.com



Chairman's letter



This past year has marked a period of intensifying policy debates around the world on a range of issues affecting listed companies, the investing public and the audit profession, which collectively underscore the significance of audit for investor confidence and well-functioning capital markets. These debates emphasize the importance of auditor objectivity and professional skepticism, and have led to an examination of the measures put in place to enhance auditor independence and mitigate potential conflicts. As these policy debates continue to take shape over the coming year, it is clear that good governance and transparency around our governing processes will have an even higher value in this challenging environment.

We are therefore proud to offer our Global Transparency Report, in which you can read about Ernst & Young's own processes relating to audit quality and auditor objectivity. We also describe our processes relating to client acceptance, quality reviews and other aspects of our infrastructure supporting quality.

This past year we welcomed our first independent non-executive (INEs) representatives to our Global Advisory Council. We value their broad experience and diverse perspectives and look forward to their ongoing involvement and objective advice on public interest aspects of our organization's decision-making, risk management and stakeholder dialogue. You will find more information about the INEs and our Global Advisory Council in this report.

In the wake of the financial crisis, there are heightened expectations and accountability for all market participants and our profession is no exception. We continue to invest in our quality framework and people, and engage with regulators and policymakers around the world. Collectively, these steps will support investor understanding and bolster confidence in the quality of our services.

As always, I welcome any comments or questions you might have about Ernst & Young and the matters discussed in this Transparency Report.

James S. Turley

Chairman and Chief Executive Officer
Ernst & Young Global





Ernst & Young's commitment to global integration

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people in more than 140 countries are united by our shared values and an unwavering commitment to quality, integrity and professionalism. We make a difference by helping our people, clients and wider communities achieve their potential.

We believe that our highly integrated global organization strengthens the ability of our member firms to deliver seamless, consistent, high-quality service worldwide. Ernst & Young's level of global integration helps reduce risk, increases service quality, and benefits investors as well as Ernst & Young people and clients. In today's global market, our integration is particularly important in the delivery of high-quality multinational audits, which can span several jurisdictions. In our report that follows, we set out core elements of our quality framework that support our seamless, high-quality service delivery.

Global integration enhances the quality of our member firms' services, including audit quality, in a way that benefits investors and other capital markets participants.

In the past, Ernst & Young operated largely as a loose collection of national firms. There was no clear unifying business culture or code of conduct and a range of differing measurement and reward models existed.

We believe this approach is outdated in a world that has become extremely complex, with business, capital and technology moving rapidly and seamlessly across borders. In our view, to provide high-quality service to global clients, Ernst & Young must be highly globally integrated.

Globalization is a fundamental and irreversible long-term trend that is altering the business environment. Even before the financial crisis, capital was shifting from developed to emerging markets and widespread demographic changes were creating a more diverse workforce around the world. These developments are transforming the global landscape and have had, and will continue to have, a profound impact on business, particularly on those companies that operate in many countries.

Companies have to adapt to this new reality – more globalized markets where business demands can change overnight; investors, customers and employees come from many cultures; and traditional ideas and practices may no longer hold true. Leading organizations are those whose business strategy and workforces can navigate differences of geography, culture and tradition, and benefit by promoting diversity of thought through multicultural teams and an inclusive culture.

These trends are also having a significant effect on our own profession. Seamless, consistent, high-quality service around the world requires a great deal of global integration among local firms.

Ernst & Young is the most globally integrated accounting and auditing organization. Global integration, along with an increasingly global mindset, helps our member firms deliver better, more consistent quality, enhancing their ability to serve global clients. Ernst & Young's approach strengthens the ability to establish and execute on policies and practices that raise the bar on service quality, and in particular global audit quality.

We believe that our highly integrated global organization strengthens the ability of Ernst & Young firms to deliver seamless, consistent, high-quality service worldwide.



Ernst & Young has therefore moved to a more global approach to its businesses and the profession. There are a number of benefits to this approach, including a greater scale of resources, more effective use of people, greater consistency in the application and inspection of our audit and other service methodologies, greater consistency in application of global standards such as the International Financial Reporting Standards (IFRS) and a more effective implementation of global strategy. Ernst & Young's high level of global integration drives exceptional service, enhances audit quality, and benefits investors and the capital markets by:

- ▶ Supporting a strong, global, diverse leadership team with one global strategy, while reinforcing local accountability.
- ▶ Strengthening our ability to look across our organization, resulting in improved quality and risk management. Where there are issues in a particular country or service line, our integrated organization helps our member firms work together more quickly and collaboratively to identify and work to remediate them.
- ▶ Sharing of knowledge and experiences from external and internal inspections across the Ernst & Young network to enhance audit quality.
- ▶ Enabling Ernst & Young professionals to have a broader view of the market across our organization, which facilitates strategic investments in markets and addressing specific client issues.

- ▶ Increasing consistency of audit services and providing specialist resources to support client teams. Where companies cross multiple borders, an integrated model provides a higher level of quality assurance.
- ▶ Bolstering the development, knowledge, and effectiveness of global IFRS, integrated capital markets, industry and other subject-matter resource networks at Ernst & Young.
- ▶ Expanding upon, but not replacing, the local perspective and local responsibility. A strong understanding of the local business and regulatory environment, compliance with local laws and regulations and, where they present a higher or additional hurdle, local professional standards, is integral to every engagement. Global integration complements local responsibility and deepens the local perspective by adding to it the benefit of a cross-market purview.

These same benefits apply to all Ernst & Young's services, not just audit. An integrated focus on quality and risk management, including independence, across all service lines increases the ability to produce clear and consistent guidance and related training in a timely way.

The structure of the Ernst & Young organization, as well as our global policies and procedures on quality, are described in more detail in the further sections of this report, which follow the order set out in Article 40 of the European Union's 8th Company Law Directive.





Organization

We have invested and made challenging decisions to build a highly integrated global organization. Fundamentally, the core goal – the purpose of Ernst & Young’s global integration – is to promote consistent, seamless, high-quality service worldwide to help member firms meet high global standards along with local requirements and, by doing so, perform at the top level in markets worldwide, which fundamentally provides confidence to investors.

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 organization and coordinates the member firms and cooperation among them. EYG does not provide services to clients and each member firm is a legally distinct entity.

This is not a global corporate structure where ownership, legal control or profits are consolidated at a central parent entity. Member firms remain solely responsible for their own work, but they are part of a highly integrated global organization that enables them to deliver enhanced service. Their obligations and responsibilities to the organization are governed by the regulations of EYG and various other agreements.

Through a high degree of global integration, the quality of our member firms’ performance is strengthened. This benefits investors and the capital markets, but it is also one of the best ways to improve quality and thereby limit risk.

The global organization includes the following bodies:

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 four geographic 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 provision for one successive re-appointment. The INEs are nominated by a dedicated committee (please see further detail on the next page). 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.

The members of the Global Advisory Council are listed in the Appendix.

The Global Advisory Council shall approve:

- ▶ Member Firm admissions following Global Executive (described on the next page) recommendation
- ▶ Appointment of the Chairman, Chief Executive Officer and Chief Operating Officer of EYG following Global Executive recommendation
- ▶ New regulations
- ▶ A change in global name
- ▶ New, or amendments to, global strategies and plans
- ▶ Any significant combination, sale or transfer of any part of Ernst & Young or any significant acquisition
- ▶ A global balanced scorecard
- ▶ The process for the evaluation and reward of Global Executive members
- ▶ Business plans, development funds and investment priorities of Ernst & Young
- ▶ Annual financial reports and budgets of EYG

Moreover, the Global Advisory Council shall:

- ▶ Where appropriate, initiate discussions with the Global Executive regarding performance of the Chairman, Chief Executive Officer and Chief Operating Officer of EYG
- ▶ Consider and discuss any other items of any nature brought to its attention, including:
 - ▶ The public interest aspects of the organization’s decision making, stakeholder dialogue and management of reputational risks and other governance issues, including those that are not otherwise effectively addressed by regulation
 - ▶ People management policies and procedures
 - ▶ Issues raised under whistle-blowing policies and procedures



Organization *continued*

Independent Non-Executive Representatives (INEs)

The UK Audit Firm Governance Code, which came into effect in 2010 and applies to our UK business, required the addition of INEs to our governance body. Although the Code technically applies to our UK business only, as a globally integrated organization we believed it was most appropriate to implement the Code's provisions on a global basis, a unique approach consistent with our global integration.

As individuals from outside Ernst & Young, the INEs bring the Global Advisory Council and our global organization as a whole the benefit of significant outside perspectives and views. We draw on the experiences of high-level professionals with globally diverse backgrounds in regulation, business and public service. The INEs collectively enhance shareholder confidence in the public interest aspects of Ernst & Young's decision making, stakeholder dialogue and management of reputational risks.

Appointment

The INEs are nominated by the INE Nominating Committee comprising the Chairman of EYG, the Presiding Partner of the Global Advisory Council and other persons as the Chairman and the Presiding Partner in their discretion deem appropriate. The nominations require approval by the Global Executive and ratification by the Global Advisory Council.

Support

INEs are entitled to receive all necessary information about global affairs. To ensure the effectiveness of each INE, they receive full administrative support, and the cost of any independent professional advice that may be required is met.

Term

The term of an INE is three years with provision for one successive re-appointment at the behest of the INE Nominating Committee and the Global Executive.

Disagreements

Any disagreement with an INE would be resolved by mediation by the Chairman of EYG through a defined process of notification and consultation. In the event of an unresolved disagreement, the INE has the right to resign from the position.

Independence

We have considered the auditor independence standards as they apply to INEs in their role as members of the Global Advisory Council. INEs are not in the chain of command or otherwise covered persons, as defined, and accordingly do not have financial interest restrictions except an INE will not be able to be or become a substantial stockholder of an audit client of an Ernst & Young member firm. In addition, an INE is not able to be an officer, director or employee of an audit client of an Ernst & Young member firm.

We have considered further requirements regarding the INEs and their independence as defined, from Ernst & Young. INEs are not permitted to have direct or material indirect business relationships or direct or indirect joint investments with Ernst & Young member firms or have immediate family members who are partners or employees of an Ernst & Young member firm.

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 as well as the Global Vice Chair – Public Policy. The Global Executive also includes a representative from the emerging markets practices.

The Global Executive's terms of reference include the promotion of the global objectives and the development, approval and, where relevant, implementation of:

- ▶ Global strategies and plans
- ▶ Common standards, methodologies and policies to be promoted within member firms
- ▶ People initiatives, including criteria and processes for admission, evaluation, development, reward and retirement of partners
- ▶ Quality improvement and protection programs
- ▶ Proposals regarding regulatory matters and public policy
- ▶ Policies and guidance relating to member firms' service of international clients, business development, markets and branding
- ▶ Business plans, development funds and investment priorities of Ernst & Young
- ▶ Annual financial reports and budgets of EYG
- ▶ Global Advisory Council recommendations
- ▶ The power to mediate and adjudicate disputes between member firms
- ▶ Any other proposal that supports the global objectives





The Global Executive and the Global Advisory Council approve nominations for the Chairman, the 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 appointment 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. The members of the Global Executive are listed in the Appendix.

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. We have 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's strategic objectives and consistency of execution across the organization.

EYG member firms

The member firms of EYG 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.

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 right 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 of 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

Providing high-quality professional audit services in an independent, objective and ethical manner is fundamental to the member firms' success as independent auditors. We continue to invest in initiatives to promote enhanced objectivity, independence and professional skepticism. These are fundamental attributes of a high-quality audit.

The role of member firms as auditors is to provide assurance on the fair presentation of audit clients' financial reports. Member firms bring together qualified teams to serve their clients, drawing on their expertise – across industry sectors, services and geographies. We continually strive to improve quality and risk management processes across member firms with the goal of achieving consistently high-quality client service worldwide.

Ernst & Young recognizes that in today's environment – characterized by continuing globalization and the rapid movement of capital – the quality of the member firms' audit services has never been more important. Reflecting the strength of Ernst & Young's commitment to delivering quality in everything we do, we have continued to invest in developing the audit methodology, tools and other resources needed to support quality service delivery. While investors, the market and stakeholders continue to demand high-quality audits, the market also demands increasingly efficient and effective delivery of audit services. We continue to seek ways to improve the effectiveness and the efficiency of our global audit methodology and processes while maintaining audit quality.

We work to understand instances where a member firm's audit quality may not be up to our expectations and those of stakeholders including external audit firm regulators. As part of our process to continuously improve audit quality, we seek to learn from external and internal inspection activities and to identify root causes of any occurrences from inspection and other findings.

Effectiveness of quality control system

Ernst & Young has designed 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). Each member firm is individually responsible to its clients and is required to adopt these global policies and procedures, supplementing them as necessary to comply with local laws and professional guidelines and to address specific business needs. Each member firm is also required to execute the Ernst & Young global Audit Quality Review (AQR) program.

Each member firm evaluates annually whether its system of audit quality control has operated effectively so as to provide reasonable assurance that it and its personnel comply with applicable professional and Ernst & Young standards and regulatory requirements.

The results of each member firm's AQR program and external inspections are evaluated and communicated within Ernst & Young to provide the basis for continuous improvement in audit quality and to leverage knowledge and experiences. Ernst & Young's Global Executive receives and reviews the results of the execution of the global AQR program because our leadership is committed to audit quality and to understanding where improvements need to be made.

In the following pages, we describe the principal components of our global audit quality control program:

- ▶ Instilling professional values
- ▶ Infrastructure supporting quality
- ▶ Performing audits
- ▶ Review and consultation
- ▶ Client acceptance and continuance
- ▶ Audit quality reviews

We continually strive to improve quality and risk management processes across member firms with the goal of achieving consistently high-quality client service worldwide.





Instilling professional values

Setting the right “tone at the top” is a key responsibility of senior leadership teams and establishes for our people that quality and professional responsibility are of paramount importance. 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. The member firms assess quality of professional service as a key metric in evaluating and rewarding all professionals.

Our internal message consistently has been that no single client is more important than professional reputation – the reputation of Ernst & Young 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.

Our global 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.

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 the member firms’ and their people’s actions and business conduct. It is organized into five categories containing principles that are to be followed by everyone within Ernst & Young 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, and respecting intellectual capital.

The Global Code of Conduct is overseen by the Global Executive or its delegates who are responsible for evaluating potential breaches, deciding on appropriate sanctions or remediation and monitoring consistent application thereof. Through procedures to monitor compliance with policies and processes and through frequent communications, we strive to create an environment that encourages all personnel to act responsibly, including reporting misconduct without fear of retaliation.

The Global Code of Conduct can be found here:
<http://www.ey.com/GL/EN/home/Global-Code-of-Conduct>

We also have EY/Ethics, a global ethics hotline, to provide Ernst & Young people, clients and others outside of the organization with a confidential means to 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.

“The most important part of my job is to do everything I can to ensure the people of Ernst & Young wake up every morning with a personal sense of what is right and wrong. Nothing is more important than their own personal integrity and commitment to quality.”

James S. Turley,
Chairman and Chief Executive Officer

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.





Infrastructure supporting quality

Our Quality & Risk Management infrastructure supports the delivery of quality across Ernst & Young's four service lines.

The Global Managing Partner – Quality & Risk Management (GMP – Q&RM) coordinates organization-wide quality initiatives across Ernst & Young's four service lines: Assurance, Advisory, Tax and Transaction Advisory Services.

The GMP – Q&RM is overseen by the Chairman and Chief Executive Officer and the Chief Operating Officer of EYG and is a member of the Global Executive. Member firm partners are appointed to lead our quality and risk management initiatives in the service lines and member firms, supported by other staff and professionals. The GMP – Q&RM is also responsible for establishing globally consistent Q&RM execution priorities. These priorities are cascaded to member firms and their execution is monitored.

The Global Vice Chair – Assurance coordinates member firms' compliance with, and implementation of, Ernst & Young's policies and procedures for assurance services.

The Global Vice Chair – Professional Practice referred to as the Professional Practice Director (PPD) is overseen by both the GMP – Q&RM and Global Vice Chair – Assurance and works directly with the Area PPDs to establish global audit quality-control policies and procedures. The Area PPDs are overseen by the Global PPD, the Area Q&RM Leader and the Area Assurance Leader. This helps provide greater assurance as to the objectivity of audit quality and consultation processes.

The Global PPD and Area PPDs also lead and oversee the Professional Practice group, a global and area network of technical subject-matter specialists in accounting and auditing standards who consult on accounting, auditing, and financial reporting matters, and perform various practice monitoring and risk management activities.

The Global PPD oversees the development of the Ernst & Young Global Audit Methodology (EY GAM) and related technologies to be consistent with relevant professional standards and regulatory requirements. The Professional Practice group also oversees the development of the guidance, training and monitoring programs and processes used by member firm professionals to consistently and effectively execute audits. The PPDs, together with other professionals who work with them in each member firm, are knowledgeable about Ernst & Young people, clients and processes and are readily accessible for consultations with audit engagement teams.

There is often the need for additional resources to augment the resources in the Professional Practice group, including networks of professionals focused on:

- ▶ Internal control reporting and related aspects of our audit methodology
- ▶ Accounting, auditing and risk issues for specific industries and sectors
- ▶ Event-specific issues such as the financial crisis, areas of civil and political unrest, and sovereign debt and related accounting, auditing and financial reporting and disclosure implications
- ▶ General engagement issues and how to work effectively with audit committees

"Whenever we work with our clients in any of our service lines, our focus is on quality. That means getting the right information, consulting with the right people, making the right judgments, and taking the right actions."

Victoria Cochrane, Global Managing Partner – Quality & Risk Management





Performing audits

To deliver high-quality audit services globally, we have invested in a global audit methodology through which audit engagements benefit from consistent audit processes, judgments and audit procedures across our member firms.

One of the cornerstones of Ernst & Young Global Audit Methodology (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 skepticism in the execution of audit procedures. EY GAM is based on International Standards on Auditing (ISAs) and is supplemented with local content developed by individual member firms to comply with the local auditing standards and regulatory or statutory requirements of the countries in which the member firms practice.

EY GAM is organized into interdependent phases designed to focus on the client's business and financial statement risks and how those risks affect the audit of the financial statements. EY GAM follows 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 professionals perform an audit and provides links to the GAM Performance Guidance. The GAM Performance Guidance is organized in exhibits and provides more specific guidance on how and why our Ernst & Young professionals perform the procedures outlined in the methodology. 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.

We make enhancements to EY GAM 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 Independent Audit Regulators (IFIAR) including professional skepticism, 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. These procedures are developed by Global Independence professionals and are augmented, if necessary, by member firm Independence professionals to comply with local professional standards, independent requirements and requirements of law.

Technology enablers

Numerous technology enablers are used by audit engagement teams to assist in executing and documenting the work performed under EY GAM. For example, GAMx is an audit support tool that drives uniform execution of EY GAM and appropriate audit documentation, strengthening member firms' ability to deliver consistent, high-quality audits worldwide. 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 Ernst & Young 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 policies require an annual review of partner assignments by member firm Assurance leadership and PPDs to make sure that the professionals leading listed-company audits possess the appropriate competencies, i.e., the knowledge, skills, abilities, and experience to fulfill their engagement responsibilities, and that they are in compliance with applicable auditor rotation requirements.

The assignment of people to audit engagement teams is also made under the direction of member firm Assurance leadership. Factors considered when assigning people to audit teams include competence (including knowledge of required accounting and auditing requirements and standards), 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.





Audit partner rotation

Mandatory audit partner rotation is one of the measures that Ernst & Young supports to help strengthen auditor independence. Member firms comply with the audit partner rotation requirements of the code of the International Ethics Standards Board for Accountants (IESBA) and each individual country's standard setter and/or regulator. Ernst & Young 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 listed companies where rotation of the audit partner is not mandated by local independence regulation, or is less restrictive than the IESBA requirements, the Global Independence Policy requires the lead engagement partner and the engagement quality reviewer be rotated after seven years. 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 quality reviewer role until a minimum of two years has elapsed.

To monitor partner rotation requirements effectively, member firms have tools with which they track rotation within their respective firms. Ernst & Young also has implemented a process for rotation planning and decision making that involves consultation with, and approvals by, member firm Professional Practice and Independence professionals.





Review and consultation

Consultation requirements and related policies and procedures are designed to involve the right resources so that audit teams can reach appropriate and timely conclusions.

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 reviews important areas of accounting, financial reporting and audit execution, as well as the 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, Global Professional Practice refreshed guidance on accounting, auditing and financial reporting consultations and issued updated guidance 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, taking into account the increasing global complexity. 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 audit engagement teams with guidance on what matters require consultation.

Our 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.

Consultation is a part of the decision-making process, not just a process to provide advice.

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 an audit 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. Member firm PPDs review and approve all engagement quality review assignments for listed companies.

Resolving differences of professional opinion

Ernst & Young has a collaborative culture and encourages its 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 Ernst & Young people by requiring members of an audit engagement team to raise any disagreements that are considered to be material or that may affect the opinion on the financial statements being audited. Such policies are introduced at the entry level and reinforced thereafter to instill in Ernst & Young people both the responsibility and authority to require a thorough 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 consultation 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.



Client acceptance and continuance

Providing the right services to the right clients is an essential foundation of Ernst & Young's quality and risk management processes.

Our 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 Ernst & Young personnel and meeting regulatory requirements. The objectives of the policy are to:

- ▶ Establish a rigorous process for evaluating risk and making decisions to accept or 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 potential 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 any potential conflict.

The Global Tool for Acceptance and Continuance (GTAC) is Ernst & Young's 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 a member firm takes on a new engagement or client, it determines if it can commit sufficient resources to deliver quality service, especially in highly technical areas, and that the services the client wants are appropriate for the member firm to provide. The approval process is rigorous, and no new listed audit engagement may be accepted without the approval of a member firm PPD.

In their annual audit client continuance process, member firms review their service delivery and ability to continue to provide quality service and confirm that clients share Ernst & Young's commitment to quality and transparency in financial reporting. The partner in charge of each audit, together with member firm Assurance leadership, annually reviews the member firm's 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, a member firm 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. We invest heavily in the global AQR program and all member firms are required to execute it, report results and responsive action plans. The global AQR program is particularly important in the delivery of high-quality, multinational audits.

The primary goal of the global AQR program is to determine whether global and member-firm systems of quality controls are appropriately designed and followed in the execution of audit engagements to provide member firms reasonable assurance of compliance with policies and procedures, professional standards and regulatory requirements. The global AQR program also aids our continual efforts to identify areas where member firms' performance can be improved or where we can enhance our policies and procedures. It complies with guidelines in the International Standard on Quality Control No. 1, as amended (ISQC No. 1).

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. It is supplemented by the member firms where necessary to comply with local professional standards and regulatory requirements.

The engagements reviewed each year are selected on a risk-based approach emphasizing clients that are large, complex or of significant public interest. The global AQR program includes detailed, risk-focused file reviews covering a large 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 2010, the global AQR program encompassed the inspection of approximately 1,300 audit engagements conducted in more than 90 member firms, covering approximately one-third of all Ernst & Young audit partners.

In addition, practice level reviews are performed to assess compliance with Global and member firm quality control policies and procedures in the functional areas set forth in ISQC No. 1. The global AQR program complements external practice monitoring and inspection activities that exist in many countries, such as regulatory inspection programs and external peer reviews.

The global AQR program requires hundreds of professionals worldwide serving as reviewers and team leaders. These professionals 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.

AQR results are compiled and reported at many different levels and in different ways. For example, the AQR results are summarized at the global and member firm level and by type of service, industry, and other key characteristics. In addition to reporting the results to the Global and Area Executives, they are shared more broadly in meetings, memos and other communications to client-serving professional staff. Whether there are material or minor findings or deficiencies, we look at the findings of internal and external inspections to identify root causes, develop actions plans and seek to improve audit quality.

Results of the global 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. Member firm assurance leadership and PPD groups, with input from the Q&RM groups, address measures to resolve audit quality issues noted from the AQR program, regulatory inspections, and peer reviews. The actions identified are monitored by members of the PPD and Q&RM groups. These programs provide important practice monitoring feedback for continuing quality improvement efforts of the member firms.

In 2010, the global AQR program encompassed the inspection of approximately 1,300 audit engagements conducted in more than 90 member firms, covering approximately one-third of all Ernst & Young audit partners.





Compliance with legal requirements

The Ernst & Young Global Code of Conduct provides a clear set of standards that guide our member firms' actions and business conduct. Member firms comply with applicable laws and regulations and our values underpin our commitment to doing the right thing.

This important commitment is supported by Ernst & Young policies and procedures including:

Anti-bribery

The anti-bribery global policy provides Ernst & Young people with direction around certain unethical and illegal activities relating to their business. It emphasizes the obligation of Ernst & Young people to comply with anti-bribery laws and provides greater definition of what is bribery. It also identifies Ernst & Young people's reporting responsibilities when they discover bribery.

Insider trading

The global insider-trading policy reaffirms the obligation not to trade in securities with insider information, provides greater detail with respect to what insider information is and identifies with whom Ernst & Young people need to consult if they have questions regarding their responsibilities.

Data privacy

The data privacy global policy sets out principles for protecting the personal data of Ernst & Young people, member firms' individual clients, client personnel or third parties. This policy is consistent with applicable laws and regulations concerning data protection and privacy when processing personal data.

Document retention

Member firms are required to retain documents in accordance with professional, legal and regulatory obligations. We emphasize 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 a member firm or one of its clients that may relate to a member firm's work.



Internal communications

We believe it is important to provide client engagement teams with up-to-date information to help them perform their professional responsibilities.

We have made significant investments in our knowledge and communications networks to enable rapid dissemination of information. Ernst & Young internal communications systems are built around intranet and email applications. Those systems provide access to hundreds of knowledge databases. Examples of knowledge databases and email communications are:

- ▶ *Global Accounting & Auditing Information Tool (GAAIT)* – our standard accounting and auditing research tool. It includes local and international accounting and auditing standards and interpretative guidance.
- ▶ *Global Accounting and Auditing News* – a weekly newsletter providing coverage of global Assurance and Independence policies and procedures, news from the International Accounting Standards Board and International Federation of Accounts (IFAC), and internal commentary and guidance regarding international accounting, auditing and independence developments.
- ▶ *Global Connection* – a weekly newsletter that reports on the latest news and information about the Ernst & Young organization and its services.
- ▶ *Global Capital Markets News* – a periodic newsletter that highlights issues and topics of interest for engagement teams.
- ▶ *TAS Connection, Tax Connection and Advisory Connection* – regular service-line specific newsletters.
- ▶ *EY Point of View and Overviews* – a publications that provide perspective on current public policy and regulatory developments of importance to our profession, stakeholders and capital markets.

Quality control policy and practice manuals and other guidance materials are included in Ernst & Young's intranet, which promotes consistency, accuracy, quality and accessibility of our internal and external communications, and functions as a risk management tool. This information, along with guidance materials from outside organizations, is updated regularly and maintained in an electronically searchable format.

Internal surveys and continuous improvement

We regularly gather data from various quality control processes, such as AQR, consultation processes and other methods to assist in further improving policies, practices and training. We supplement this data with surveys of Ernst & Young people. The Global People Survey gauges what Ernst & Young people think about Ernst & Young's culture and how member firms conduct business, one of the best indicators of their focus on quality. Results from these and other feedback tools help identify where member firms are doing well and where improvements can be made. The results also guide us in establishing action plans and initiatives.

The Global People Survey gauges what Ernst & Young people think about Ernst & Young's culture and how member firms conduct business, one of the best indicators of their focus on quality.



Independence practices

Independence is a concept fundamental to the audit profession and is pervasive in all dealings between audit firms and their audit and assurance clients. Maintaining Ernst & Young's independence is pivotal for achieving audit quality.

The Global Vice Chair of Independence leads and oversees the Global Independence function, a component of our Global Q&RM group. The GMP – Q&RM oversees the Global Vice Chair of Independence. The Global Independence function coordinates a network of Area and member firm independence leaders and is responsible for establishing independence policies, procedures, compliance, monitoring, training, consultation and communication to guide member firms in applying, interpreting and complying with applicable auditor independence rules. Professionals working in the Global Independence function also have responsibility for developing the tools, technology and programs that enable member firms to monitor compliance with independence rules and policies.

Ernst & Young policies and processes are designed to enable member firms and 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 IFAC and local independence standard setting bodies. All professionals and certain other employees are required to participate in annual independence learning, to help maintain independence when performing services for audit clients. The goal is to help Ernst & Young people understand both their personal and their member firms' 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 member firms and professionals, employment relationships, business relationships, the permissibility of non-audit services that may be provided to audit clients, partner rotation, fee arrangements, partner remuneration, and Audit Committee pre-approval where applicable.

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

Global Independence has deployed several global applications, tools and processes to support member firms, 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 Ernst & Young's intranet.

Global Independence System

The Global Independence System (GIS) is an intranet-based tool that helps member firms, 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 Ernst & Young professionals can readily see both the entity and the independence notations. GIS is frequently used by Ernst & Young professionals to determine the type of services that can be provided to the client based on the independence notations.

Global Monitoring System

The Global Monitoring System (GMS) is another important global tool that assists member firms and 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.





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

The 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 reporting information into GMS. All professional personnel are subject to potential selection for independence testing. The Global Independence Compliance Team oversees that member firms have appropriately completed the required personal independence compliance testing. The results of the testing program are presented to the Quality & Risk Management Executive Committee, including plans for ongoing improvement.

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 (described elsewhere herein) 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 monitored closely. Member firms will also supplement this program with local content to cover local independence requirements that differ from the Global Independence Policy.

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

Member firms' portfolios of services are assessed and monitored on an ongoing basis, confirming that they are permitted by law and professional standards, are supported by the right methodologies, procedures and processes and are consistent with our global strategy. When appropriate, member firms will exit or restrict services that could present independence or other risks. The Service Offering Reference Tool (SORT) provides Ernst & Young people with information about all Ernst & Young services worldwide. 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 tools

Member firms oversee compliance with business relationship independence requirements through their business relationship evaluation tools. Member firms, professionals and other employees are required to evaluate and obtain approval of potential business relationships with an audit client of a member firm in advance so that their 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.





Recruitment, performance management and continuing education

Changes in demographics are affecting the composition of the workforce and motivating Ernst & Young to organize so member firms can field truly diverse and global teams.

The people joining Ernst & Young today, especially those joining straight out of university, are more global in their outlook than ever before. They are more open to diverse points of view and engaged in the world around them. Ernst & Young is, and must continue to be, an organization that embraces all kinds of differences and brings together people of different backgrounds and ideas. While member firms train Ernst & Young people thoroughly in Ernst & Young culture, values and code of conduct, they strive to retain their different perspectives. This diversity of thought strengthens the quality of member firms' work and helps clients make more informed decisions. We are strong believers in diversity and inclusivity as drivers of organizational effectiveness and quality service.

A highly integrated organization helps provide expanded opportunities for Ernst & Young's people in terms of professional experience, development, mobility, flexible work structures, and community focus. We expect these opportunities to continue to grow over time.

We aspire to have a leading people culture everywhere in the world. Creating a culture that attracts and retains outstanding people and helps them thrive leads to higher quality service.

Recruitment and hiring

Recruiting and retaining talented individuals, and then creating the right teams across borders, are key to success. Member firm recruiting for the Assurance practices is performed primarily on university campuses and supplemented, when necessary, by hiring people with prior work experience.

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, our globally consistent career development framework. Through EYU, we provide Ernst & Young people 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 Ernst & Young people develop the right technical and personal leadership skills wherever they are 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. Audit professionals are required 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% (8 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 the experiences Ernst & Young 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 Ernst & Young 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 Ernst & Young 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.





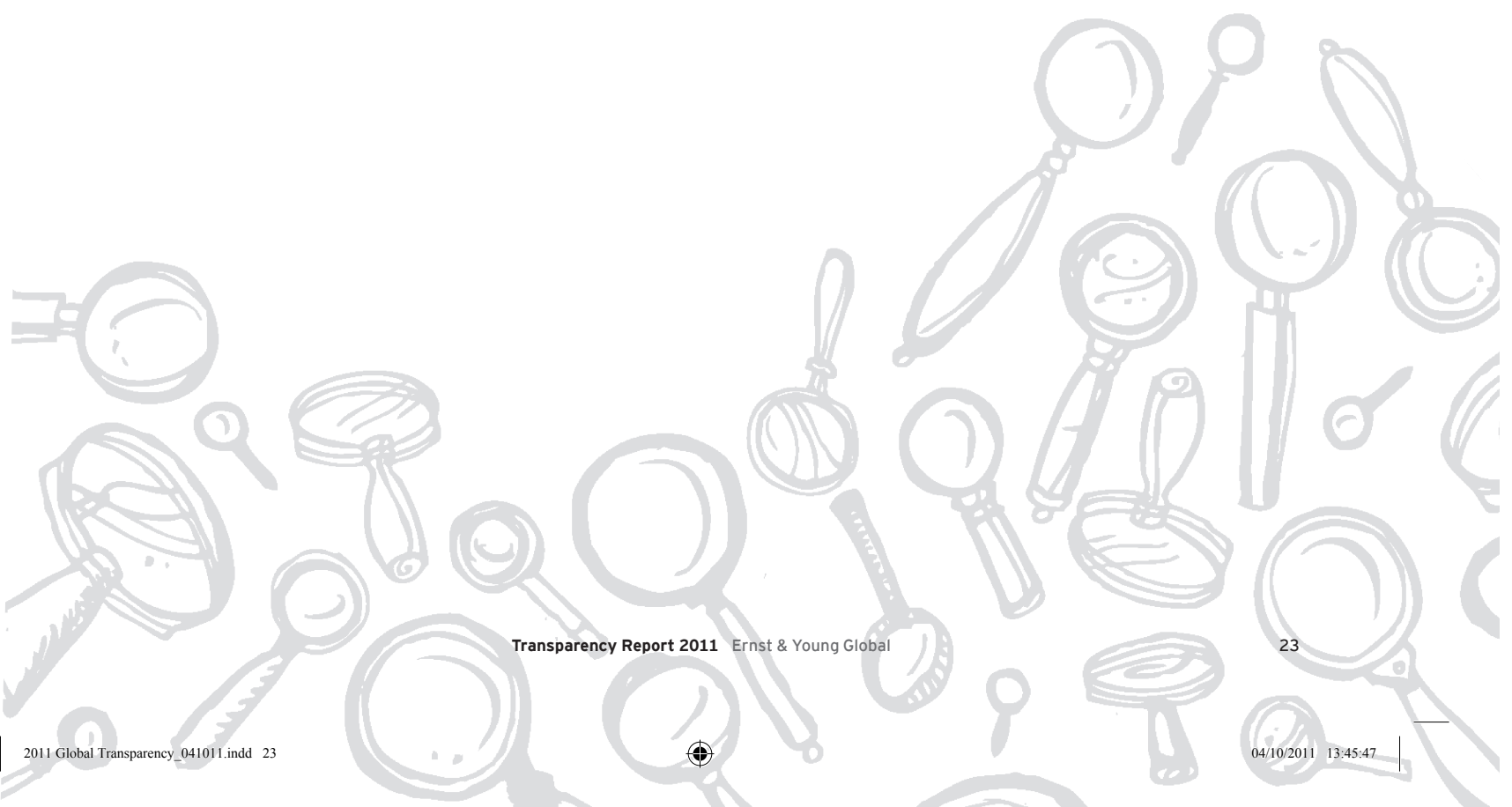
Financial information

The financial information presented below represents combined worldwide revenues of member firms for the financial year ended 30 June 2011.

Ernst & Young is not a global corporate structure where ownership, legal control or profits are consolidated at a central parent entity. Revenues include expenses billed to clients. Revenues between member firms have been eliminated. Also, revenue amounts disclosed herein include revenue from both audit and non-audit clients.

Revenue is presented in the table on this page in accordance with Art. 40 para. 1 (i) of the EU's 8th Company Law Directive. Other Assurance Services revenue includes accounting and financing services, risk-related services including internal controls, internal audits, technology and security, Sarbanes-Oxley (SOX) compliance, actuarial, fraud and forensics, and other attestation services. Other non-audit services revenue includes transaction, valuation, performance improvement, restructuring and other advisory related services.

Services	Revenues – US\$ millions
Statutory audit	9,409
Other assurance	4,743
Tax	6,011
Other non-audit	2,717
Total	22,880





Partner remuneration

Quality is at the center of Ernst & Young's 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 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 member firms' 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 Ernst & Young's 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

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, 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 the member firm.



Stakeholder dialogue

The global financial crisis and continuing financial instability have highlighted the importance of public confidence in the capital markets. We are acutely aware of the important role the audit profession plays in supporting investor confidence in financial reporting. Regular two-way dialogue with our stakeholders, and in particular investors, is a priority for us. We listen carefully to our stakeholders to inform our views and actions and, as the most globally integrated organization in our profession, Ernst & Young brings a unique perspective to these conversations.

Ernst & Young shares a common interest with investors and other stakeholders in the quality of financial reporting, the quality of audits, enhancing transparency and good governance. To help maintain their trust and confidence, Ernst & Young seeks to listen and learn what they say about these areas to be able to respond constructively. We are committed to continuous enhancement of the quality of the work of member firms and engaged with investors and other stakeholders to hear their views about our member firms' effectiveness and how what they do might be improved.

Furthermore, as discussed earlier, the INEs who are members of the Global Advisory Council are collectively enhancing our stakeholder dialogue.

Stakeholder engagement channels

Investors, investor groups and other global stakeholders

Ernst & Young engages with investors and global investor groups that share our commitment to raise standards of corporate governance across the globe.

For example, along with the other large globally active accounting and audit organizations, Ernst & Young participates in the Global Investor-Auditor Dialogue. This global dialogue is an informal network of leading global institutional investors and major global auditing networks to exchange views on current financial reporting and auditing issues. Ernst & Young is also an active member of the International Corporate Governance Network and our member firms participate in a number of investor groups in different countries.

Furthermore, we convene dialogues with stakeholders in order to understand their perspectives and to explore topics of mutual interest. This helps member firms to deliver on stakeholders' expectations with respect to the public interest aspects of their work.

For example, in 2011 Ernst & Young launched a program of corporate governance dinners, bringing together shareholders, independent directors, corporate secretaries and others to consider broad issues related to corporate governance.

Management and audit committees

A fundamental part of member firms' engagement with management and audit committees of listed companies is through the audit process itself.

Member firms have regular and ongoing conversations with management during the normal course of an audit that covers all aspects of the engagement, including governance matters.

Member firms typically meet with their clients' audit committee several times a year to discuss items related to the planning, interim and final phases of their audits. Member firms also have discussions with audit committees about current developments in auditing and financial reporting. This interaction with audit committees contributes to achieving audit quality.

In addition, meetings with groups of audit committee chairs are held on a regular basis to seek input on pragmatic approaches to enhance audit and financial reporting, as well as the overall functioning of financial markets, including ways to strengthen communications between Ernst & Young, leading companies and their directors for the benefit of investors and the public interest.

Across the globe, Ernst & Young runs a program for clients of all service lines called Assessment of Service Quality (ASQ), which seeks input on how member firms consistently deliver quality service. It also helps member firms build strong, mutually respectful relationships at all levels and across all the sectors of the businesses. It enables Ernst & Young to monitor the quality of service and to act on feedback received.

The program seeks both quantitative and qualitative information through:

- ▶ Face-to-face interviews with key people in the business, including audit committee chairs and board members where relevant. Interviews are conducted by senior partners who are independent of any service delivery on the business sectors.
- ▶ Questionnaires that are used to gather objective feedback about specific engagements or the overall client relationship.

Other activities

Ernst & Young continues to contribute to public policy debates in markets around the world and engages with many different international organizations.

Appendix

Global Advisory Council members

Name	Location
Oscar Aguirre	Mexico City
Laurence Avram Diday	Paris
Coen Boogaart	Amsterdam
Johan van den Bos	Amsterdam
Owen Chan	Hong Kong
John Cole	London
Shirley Edwards	McLean
Peter Englisch	Essen
Leslie Fiorentino	Boston
Eric Golenvaux	Brussels
Francisco González Carrera	Madrid
Shyamala Gopinath*	Mumbai
Kelly Grier	Chicago
Katsuhiko Hara	Tokyo
Alexei Ivanov	Moscow
Sofia Kalomenides	Athens
Richard Lambert*	London
Mylene Levac-Wolf	Montreal
Pekka Luoma	Helsinki
Michael Lynch-Bell	London
Klaus Mangold*	Stuttgart
Andrew Miller	St. Louis
Randall Millar	Chicago
Kreesen Naidu	Durban
Luiz Carlos Nannini	São Paulo
Vic Noel	Manila
Samar Obaid	Amman
Mark Olson*	Washington, DC
Tae Wook Park	Seoul
Jay Persaud	Detroit
Meredith Scott	Sydney
Amitabh Singh	Gurgaon
Thomas Stenz	Zurich
Penny Stocks	London
John Thomopoulos	New York
Akira Toda	Tokyo
Michael Wachtel	Melbourne
C.Y. Wang	Los Angeles
Steve Wills	London
Donald Zimmerman	Atlanta

**Independent Non Executive*

Global Executive members

Name	Location
Beth Brooke	Washington, DC
Victoria Cochrane	London
Mike Cullen	London
John Ferraro	London
Peter Griffith	Los Angeles
Stephen Howe Jr.	New York
Yoshitaka Kato	Tokyo
Norman Lonergan	London
Pip McCrostie	London
Christian Mouillon	London
John Murphy	London
Albert Ng	Shanghai
Mark Otty	London
Lou Pagnutti	Hong Kong
James S. Turley	New York and London
Mark Weinberger	Washington, DC



Auditors play a vital role in promoting transparency and supporting investor confidence and economic growth. We embrace the opportunity to be more transparent ourselves.



Ernst & Young

Assurance | Tax | Transactions | Advisory

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 www.ey.com.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

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EYG no. FM0003

