

A close-up photograph of a wooden pitcher pouring clear water over smooth, dark, wet stones. The water is captured in mid-pour, creating a dynamic, flowing stream. The background is softly blurred, showing more stones and light reflections.

# Transparency report 2015

Kost Forer Gabbay &  
Kasierer (EY Israel)

The EY logo, consisting of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

**EY**

Building a better  
working world



# Contents

EY Israel Chairman's letter .....	3
Message from the EY Israel managing partners .....	4
About us .....	5
Legal structure, ownership and governance .....	5
Network arrangements .....	6
Commitment to quality.....	8
Infrastructure supporting quality.....	8
Instilling professional values.....	9
Internal quality control system.....	10
Client acceptance and continuance.....	10
Performing audits .....	11
Review and consultation .....	12
Audit partner rotation.....	14
Audit quality reviews .....	14
External quality assurance review .....	15
Compliance with legal requirements .....	15
Independence practices.....	16
Continuing education of statutory auditors .....	18
Revenue and remuneration.....	19
Financial information.....	19
Partner remuneration.....	19
Appendix: EY Israel public interest entity audit clients.....	20

More information about EY can be found at [ey.com](http://ey.com)



## EY Israel Chairman's letter



Welcome to the 2015 Transparency Report of Kost Forer Gabbay & Kasierer (hereafter "EY Israel"). We appreciate that our stakeholders want to understand what we do to advance audit quality, manage risk and maintain our independence as auditors. This report is one of the ways in which we share with you, our stakeholders, what we are doing in each of these areas.

Executing audits in a high-quality manner continues to be our number one priority. It is at the heart of our ability to serve the public interest and grow the global EY network successfully and responsibly, while achieving our purpose of building a better working world. Auditors play a vital role in the functioning of capital markets throughout the world by promoting transparency and supporting investor confidence. Companies, regulators and other stakeholders count on us to deliver quality and excellence in every engagement.

EY is focused on investing in tools to improve what we do, creating the highest-performing teams and building trust and confidence in the audits we perform.

I encourage everyone reading this report – investors, audit committee members, companies, regulators and all our stakeholders – to continue to engage with us on our strategy as well as any of the matters covered in this report.

/s/ Ronen Barel

Ronen Barel  
Chairman  
KOST FORER GABBAY & KASIERER  
A Member of Ernst & Young Global

### Our purpose: Building a better working world

EY is committed to doing its part in building a better working world.

The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to stakeholders. In so doing, we play a critical role in building a better working world for our people, our clients and our communities.



## Message from the EY Israel managing partners



EY Israel serves an important public interest role as an auditor of public interest companies. This role is central to our purpose, values, management and processes. EY Israel's reputation is based on providing high-quality, professional audit services objectively and ethically to each and every company we audit.

We continue to embrace the transparency objectives of the European Union's 8th Company Law Directive, which require the auditors of public interest entities to publish annual transparency reports.

The 2015 EY Israel Transparency Report complies with the Directive and covers the fiscal year ending June 30, 2015. In this report, you can learn more about our internal quality control system: how we instill professional values, how we perform an audit, our review and consultation process, and our approach to audit quality reviews.

EY Israel is focused on continuing to enhance audit quality, informed by several matters including external and internal inspection findings. Continuously improving audit quality can require challenging prior approaches to audit execution, and we focus on continuous improvement by evaluating all inspection findings and taking responsive actions.

Globally, EY has a multi-faceted Sustainable Audit Quality (SAQ) effort underway to support the execution of the highest-quality audits. The SAQ effort includes the launching of new audit tools and methodologies, increased support and enablement for audit teams and communications reinforcing the importance of audit quality.

/s/ Yoram Tietz

Yoram Tietz

Co- Managing partner

KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

/s/ Doron Sharabany

Doron Sharabany

Co- Managing partner



# About us

## Legal structure, ownership and governance

Kost Forer Gabbay & Kasierer (hereafter "EY Israel") is a partnership organized in Israel and is a member firm of Ernst & Young Global Limited (EYG), a UK company limited by guarantee. In this report we refer to ourselves as EY Israel, "we", or "us", or "our". EY or EY Global refers collectively to the global organization of member firms of EYG.

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

EY Israel is part of the Americas Area, which comprises member firms in 30 countries.

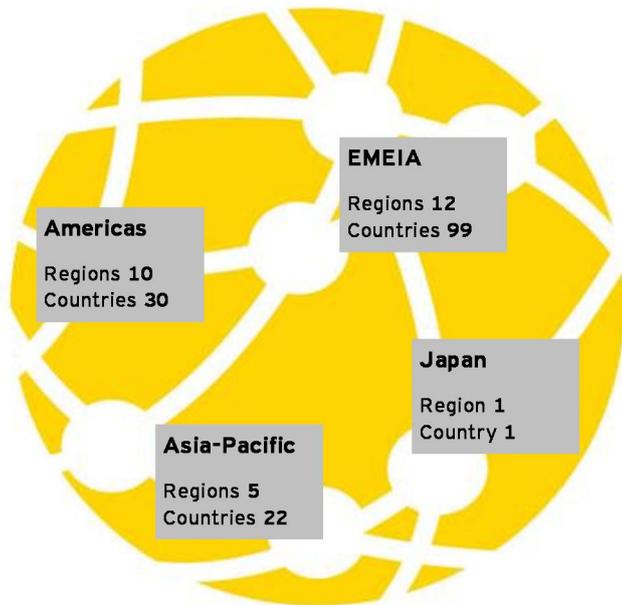
### Governance

The EY Israel executive committee comprises 13 partners and deals with the Firm's general and operational management. Among other basic matters, the EY Israel executive committee is responsible for certain partner matters.

### Americas Ethics Oversight Board

With membership drawn from EY Americas leadership, the service lines and the EY member firms that make up the Americas Area, the Americas Ethics Oversight Board (AEOB) strives to create an environment that encourages all personnel to act responsibly, including reporting misconduct without fear of retaliation. The AEOB is also responsible for evaluating certain breaches of the EY Global Code of Conduct and recommending appropriate consequences and sanctions for misconduct. These can range from training and counseling to separation from the member firm.

## Network arrangements



EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, 190,000 people in member firms in more than 150 countries share a commitment to building a better working world and are united by shared values and an unwavering commitment to quality, integrity and professional skepticism. In today's global market, EY's integrated approach is particularly important in the delivery of high-quality multinational audits, which can span multiple jurisdictions.

EY's central entity, EYG, coordinates the member firms and promotes cooperation among them. EYG does not provide services, but its objectives include promoting the provision of exceptional, high-quality client service by member firms worldwide. Each member firm is a legally distinct entity. Their obligations and responsibilities are governed by the regulations of EYG and various other agreements.

The structure and principal bodies of the global organization during the year ended 30 June 2015 are described below. They reflect the principle that EY, as a global organization, has one shared strategy.

The Executive function of EY includes the Global Executive of EYG (GE), its committees and teams, and the leadership of the four Areas. This structure allows EY to enhance its global scale and the delivery of consistent exceptional client service worldwide, with the Executive responsible for one global approach to strategy, quality, risk management, business planning, investments and priorities.

At the same time, the EY operating model allows for greater stakeholder focus in the 28 Regions, permitting member firms to build stronger relationships with clients and others in each country and be more responsive to local needs.

## Global Governance Council

The Global Governance Council (GGC) is the main governance body of EYG. It comprises one or more representatives from each Region and up to six independent non-executives (INEs). The Regional Representatives, who otherwise do not hold senior management roles, are elected by their RPFs for a three-year term, with provisions for one successive re-appointment. The GGC advises EYG on policies, strategies and the public interest aspects of its decision-making. The approval of the GGC is required for a number of significant matters that could affect EY.

## Independent non-executives

INEs are appointed from outside EY and bring the global organization, and the GGC, the significant benefit of their varied perspectives and views. Together with several other GGC members they form the Public Interest Sub-Committee of the GGC, which addresses public interest matters including stakeholder dialogue. The INEs are nominated by a dedicated committee.

## Global Executive

The GE brings together EY's leadership functions, services and geographies. It is chaired by the Chairman and CEO of EYG and includes its Global Managing Partners of Client Service and Business Enablement; the Area Managing Partners; the global functional leadership for Talent, Risk Management and Finance; the leaders of the global service lines – Assurance, Advisory, Tax and Transaction Advisory Services; and the Global Leader for Public Policy.



The GE also includes the Chair of the Global Accounts Committee and the Chair of the Emerging Markets Committee as well as a representative from the emerging markets practices. The GE and the GGC approve nominations for the Chairman and CEO of EYG and ratify appointments of the Global Managing Partners. The GE also approves appointments of Global Vice Chairs. The GGC ratifies the appointments of any Global Vice Chair who serves as a member of the GE. Furthermore, the GE appoints Area Managing Partners and approves appointments of Regional Managing Partners. The appointments of the Area Managing Partners are subject to ratification by the GGC.

The GE's responsibilities include the promotion of 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
- EY's development funds and investment priorities
- EYG's annual financial reports and budgets
- GGC recommendations
- Any other proposal that supports the global objectives

It also has the power to mediate and adjudicate disputes between member firms.

#### GE committees

Chaired by members of the GE and bringing together representatives from the four Areas, the GE committees are responsible for making recommendations to the GE. There are committees for Global Markets and Investments; Global Accounts; Emerging Markets; Talent, Risk Management; Assurance; Advisory; Tax; and Transaction Advisory Services.

#### Global Practice Group

This group brings together the members of the GE, GE committees and Regional leaders. The Global Practice Group seeks to promote common understanding across member firms of EY's strategic objectives and consistency of execution across the organization.

#### EY member firms

Under the regulations of EYG, member firms commit themselves to pursue EY's objectives, such as the provision of high-quality service worldwide. To that end, the member firms undertake to implement the global strategies and plans and to maintain the prescribed 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.

Above all, EY member firms commit themselves to conducting their professional practices in accordance with applicable professional and ethical standards and all applicable requirements of law. This commitment to integrity and doing the right thing is underpinned by EY's Global Code of Conduct and EY's values (see page 9).

Besides adopting the regulations of EYG, member firms enter into several other agreements covering aspects of their membership in the EY organization such as the right and obligation to use the EY 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 may be subject to separation from the EY organization.



# Commitment to quality

## Infrastructure supporting quality

### Quality in our service lines

Vision 2020, which sets out EY's purpose, ambition and strategy, calls for EY member firms to provide exceptional client service worldwide. This is supported by an unwavering commitment to quality and service that is professionally and globally consistent, and means service that is based on objectivity, professional skepticism and adherence to EY and professional standards.

EY service lines are accountable for delivering quality engagements, including managing quality reviews and real-time quality assurance of engagements, which measures compliance with professional standards and all EY policies.

Vision 2020 has reinforced the ownership of quality within the service lines, including audit. It has also resulted in increased clarity around the role of risk management in policies and practices that support and improve quality audit.

The Global Vice Chair – Assurance coordinates member firms' compliance with and implementation of EY policies and procedures for assurance services.

### Professional Practice function

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

Additional resources are often brought in to augment 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 involving areas of civil and political unrest; or sovereign debt and related accounting, auditing, reporting and disclosure implications
- General engagement issues and how to work effectively with audit committees

### Risk management function

The Global Risk Management Leader is responsible for enterprise-wide risk management, including oversight of the quality of EY's four service line functions in Assurance, Advisory, Tax and Transaction Advisory Services.

Member firm partners are appointed to lead risk management initiatives in the service lines and member firms, supported by other staff and professionals. The Global Risk Management Leader is responsible for establishing globally consistent risk management execution priorities and enterprise-wide risk management. These priorities cascade to member firms, and their execution is monitored through an Enterprise Risk Management program.

### Components of audit quality control program

In the following sections, we describe the principal components of the EY Israel audit quality control program:

- Instilling professional values
- Internal quality control system
- Client acceptance and continuance
- Performing audits
- Review and consultation
- Audit partner rotation
- Audit quality reviews
- External quality-assurance reviews
- Compliance with legal requirements



## Instilling professional values

### Sustainable Audit Quality

We understand that audit quality is our primary goal. Globally, EY has a multi-faceted Sustainable Audit Quality (SAQ) effort underway to support the execution of the highest-quality audits. SAQ reinforces our quality-driven culture and supports the delivery of the highest-quality audits. It involves a focus on continuous improvement and emphasis on key areas such as professional skepticism.

SAQ includes: tone at the top; resources; simplification; audit transformation/technology innovation; enablement, quality support and monitoring; and accountability.

#### Tone at the top

Senior EY leadership is responsible for setting the right tone at the top and demonstrating EY's commitment to building a better working world through behavior and actions. While the tone at the top is vital, our people also understand that quality and professional responsibility start with them. Our shared values, which inspire our people and guide them to do the right thing, and our commitment to quality are embedded in who we are and in everything we do.

Our approach to business ethics and integrity is embedded in our culture of consultation, training programs and internal communications. Senior management regularly reinforces the importance of performing quality work, complying with professional standards and adhering to our policies, leading by example and through various communications. Also, our quality review programs assess professional service as a key metric in evaluating and rewarding all professionals.

Our culture strongly supports collaboration, and places special emphasis on the importance of consultation in dealing with complex or subjective accounting, auditing, reporting, regulatory and independence matters. We believe it is important to determine that engagement teams and clients correctly follow consultation advice, and we emphasize this when necessary.

Our stance consistently has been that no single client is more important than professional reputation – the reputation of EY Israel and the reputation of each of our professionals.

### Code of conduct

We promote a culture of integrity among our professionals. The EY Global Code of Conduct provides a clear set of the standards that guide our actions and our business conduct. It is organized into five categories containing principles that are to be followed by everyone at EY Israel 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 EY 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.

The EY/Ethics Hotline provides our people, clients and others outside of the organization with a means to report activity confidentially that may involve unethical or improper behavior and that may be in violation of professional standards or otherwise inconsistent with the EY Global Code of Conduct. The hotline is operated by an external organization that provides confidential and, if desired, anonymous hotline reporting services for companies worldwide.

When a report comes into the EY/Ethics Hotline, either by phone or internet, it receives immediate attention. Depending on the content of the report, appropriate individuals from Risk Management, Talent, Legal or other functions are involved to address the report. All matters are handled by experienced individuals, with oversight from the global Risk Management function. For those matters that are reported outside of the EY/Ethics Hotline, the same procedures are followed.

#### 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



## Internal quality control system

EY Israel's reputation for providing high-quality professional audit services independently, objectively and ethically is fundamental to our 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.

At EY Israel, our role as auditors is to provide assurance on the fair presentation of the financial reports of the companies we audit. We bring together qualified teams to provide our services, drawing on our proven experience across industry sectors and services. We continually strive to improve our quality and risk management processes, so that the quality of our 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. As part of Vision 2020, EY continues 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. In addition to the investment mentioned, EY continues to seek ways to improve the effectiveness and the efficiency of its audit methodology and processes, while maintaining audit quality. We work to understand where our audit quality may not be up to our own 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, and we believe that an important part of the audit inspections process is to take effective and appropriate action to improve quality.

### Effectiveness of quality control system

EY has designed and implemented a comprehensive set of global audit quality control policies and practices. These policies and practices meet the requirements of the International Standards on Quality Control issued by the International Auditing and Assurance Standards Board (IAASB). EY Israel 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 EY Audit Quality Review (AQR) program in order to evaluate whether our system of audit quality control has operated effectively in a manner so as to provide reasonable assurance that EY Israel and our people comply with applicable professional and internal standards and regulatory requirements.

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

The GE is responsible for implementing quality improvement and protection programs. As such, it reviews the results of our internal AQR program and external regulatory reviews, as well as any key actions designed to address areas for improvement.

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

## Client acceptance and continuance

### EY policy

The Client Acceptance and Continuance Policy sets out principles for member firms to determine whether to accept a new client or a new engagement or to continue with an existing client or engagement. These principles are fundamental to maintaining quality, managing risk, protecting our people 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 EY Conflicts of Interest Global Policy defines global standards for addressing categories of potential conflicts of interest and a process for identifying them. It also includes provisions for managing potential conflicts of interest as quickly and efficiently as possible through the use of appropriate safeguards. Such safeguards range from obtaining a client's consent for EY member firms to act for two or more clients to declining an engagement in order to avoid an identified conflict.

The EY Conflicts of Interest Global Policy, and associated guidance, was updated in early 2015. The updates take into account the increasing complexity of our engagements and client relationships, and the need for speed and accuracy in responding to our clients. They also align with the latest International Ethics Standards Board for Accountants (IESBA) standards.

#### Putting policy into practice

We use the EY Global Tool for Acceptance and Continuance (GTAC), 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 through the acceptance and continuance requirements and identifies the policies and references to professional standards needed to assess both business opportunities and associated risks.

As part of this process, we carefully consider 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 if the services the client wants are appropriate for us to provide. The approval process is rigorous, and no new 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 EY Israel's 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.

#### Close monitoring

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 audit clients are discontinued. As with the client acceptance process, our PPD is involved in the client continuance process and must agree with the continuance decisions.

Both client acceptance and client continuance decisions consider the engagement team's assessment of whether the company's management could pressure us to accept inappropriate accounting, auditing and reporting conclusions to undermine quality. Considerations and conclusions on the integrity of management are essential to acceptance and continuance decisions.

## Performing audits

As part of Vision 2020, EY has invested significantly in improving audit methodologies and tools, with the goal of performing the highest-quality audits in the profession. This investment is consistent with EY's goal to have the leading audit practices in the profession by 2020 and reflects the commitment to building trust and confidence in the capital markets and in economies the world over.

#### Audit methodology

In May 2015, EY released a new Global Audit Methodology (EY GAM), which was redesigned to make it easier to read and use, and to support our new documentation tool, EY Canvas. EY has made extensive use of technology to simplify the presentation and, as a result, the content is more accessible and user-friendly.

EY GAM provides a global framework for delivering high-quality audit services through the consistent application of thought processes, judgments and procedures in all audit engagements. Making risk assessments, reconsidering and modifying them as appropriate, and using these assessments to determine the nature, timing and extent of audit procedures are fundamental to EY GAM. EY GAM also emphasizes applying appropriate professional skepticism in the execution of audit procedures. EY GAM is based on International Standards on Auditing (ISAs) and is supplemented in Israel to comply with Israel auditing standards and regulatory or statutory requirements.

Using technology, our auditors select the audit approach within our methodology applicable to the reporting requirements of the entity being audited. For example, there are approaches to audit both listed entities and entities considered non-complex.



The auditor is presented with a version of EY GAM organized into interdependent phases and designed to focus on the client's business and financial statement risks and on how those risks affect our audit of the financial statements. EY GAM consists of two key components: requirements; and supporting forms and examples. The requirements reflect the typical flow of how EY Israel executes an audit. The forms and examples include leading practice illustrations and assist in performing and documenting audit procedures.

Enhancements to the audit methodology are made regularly as a result of new standards, emerging auditing issues and matters, implementation experiences, and external and internal inspection results.

In addition, EY monitor current and emerging developments continually and issue timely audit planning and other reminders. These reminders emphasize areas noted during inspections as well as key topics of interest to the International Forum of Independent Audit Regulators (IFIAR). These include professional skepticism, group audits, revenue recognition and engagement quality reviews.

EY GAM requires compliance with relevant ethical requirements, including independence from the company EY audit.

### Technology

Our audit engagement teams use technology to assist in executing and documenting the work performed in accordance with EY GAM. During fiscal year 2015, we began the phased deployment of the next generation global audit platform, EY Canvas. EY Canvas is web-based, built using state-of-the-art technology to provide heightened data security and allow us to easily evolve our software to respond to changes in the accounting profession and regulatory environment.

Audit engagements in EY Canvas are automatically configured with information relevant to our client's listing requirements and industry, helping keep our audit plans customized and up-to-date and providing direct linkage to our audit guidance, professional standards and documentation templates. It is built with a fresh, clear design and user interface that allows users to visualize risks and their relationship to our planned response and work performed in key areas. EY Canvas also enables a linkage for our group audit teams to communicate interoffice risks and instructions, so that the primary team for each audit has control over planning and monitoring of the group audit. Over the coming year, we will phase out our existing audit support tool, GAMx.

Audit engagement teams use other software applications, forms and templates during various phases of an audit to assist in making and documenting audit considerations, sourcing data and analysis.

EY Israel has a number of data analysis tools for use in audits. These help our engagement teams analyze a client's data, enhancing our risk assessment processes and enabling the audit of higher-risk transactions.

### Formation of audit engagement teams

EY Israel policies require an annual review of partner assignments by our Assurance leadership and 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 professionals to an audit engagement 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

Our policies describe the requirements for timely and direct senior professional participation as well as the level of review required for the work performed. Supervisory members of the audit engagement team perform a detailed review of the audit documentation for accuracy and completeness. Engagement partners perform a second-level review to determine adequacy of the audit work as a whole and the related accounting and financial statement presentation. A tax representative reviews the significant tax and other relevant working papers. For listed and certain other companies, an engagement quality reviewer (described below) reviews important areas of accounting, financial reporting and audit execution, as well as the financial statements of the company we audit and our audit report.



The nature, timing and extent of the reviews of audit work depend on many factors, including:

- The risk, materiality, subjectivity and complexity of the subject matter
- The ability and experience of the audit team members preparing the audit documentation
- The level of the reviewer's direct participation in the audit work
- The extent of consultation employed

Our policies also describe the roles and responsibilities of each audit engagement team member for managing, directing and supervising the audit, as well as the requirements for documenting their work and conclusions.

### Consultation requirements

Our consultation policies are built upon a culture of collaboration, whereby audit professionals are encouraged to share perspectives on complex accounting, auditing and reporting issues. Consultation requirements and related policies are designed to involve the right resources, so that audit teams reach appropriate conclusions.

Consultation is built into the decision-making process; it is not just a process to provide advice.

For complex and sensitive matters, we have a formal process requiring consultation outside of the audit engagement team with other personnel who have more experience or specialized knowledge, primarily Professional Practice and Independence personnel. In the interests of objectivity and professional skepticism, our policies require members of Professional Practice, Independence and certain others to withdraw from a consultation if they currently serve, or have served, within a specified period of time, the client to which the consultation relates.

Our policies also require that we document all consultations, including written concurrence from the person or persons consulted, in order to demonstrate their understanding of the matter and its resolution.

### Engagement quality reviews

Engagement quality reviews are performed by audit partners in compliance with professional standards for audits of all listed companies and those considered higher risk.

Engagement quality reviewers are experienced professionals with significant subject matter knowledge. They are independent of the engagement team and able to provide 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 spans the entire engagement cycle, including planning, risk assessment, audit strategy and execution. Policies and procedures for the performance and documentation of engagement quality reviews provide specific guidelines on the nature, timing and extent of the procedures to be performed and the required documentation evidencing their completion. Our PPD approves all engagement quality review assignments for listed companies and those considered higher risk.

### Audit engagement team resolution process for differences of professional opinion

EY has a collaborative culture that encourages and expects people to speak up, without fear of reprisal, if a difference of professional opinion arises or if they are uncomfortable about a matter relating to a client engagement. Policies and procedures are designed to empower members of an audit engagement team by requiring them to raise any disagreements relating to significant accounting, auditing or reporting matters.

These policies are made clear to people as they join EY, and EY continues to promote a culture that reinforces a person's responsibility and authority to make his own views heard and canvas the views of others.

Differences of professional opinion that arise during an audit generally are resolved at the audit engagement team level. However, if any person 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 until agreement is reached or a final decision is made. Until such time, the parties to the discussion do not withdraw, step aside or otherwise extract themselves from the process.

Furthermore, if the engagement quality reviewer makes recommendations that the engagement partner does not accept or the matter is not resolved to the reviewer's satisfaction, the audit report is not issued until the matter is resolved by following consultation processes for resolving differences of professional opinion. Our documentation requirements for disagreements and their resolution are the same as for other consultations. Anyone involved in the process may separately document his or her personal position in an attachment to the documentation of the final decision.



## Audit partner rotation

EY supports mandatory audit partner rotation to help strengthen auditor independence. EY Israel complies with the audit partner rotation requirements of the code of the International Ethics Standards Board for Accountants (IESBA) for listed companies in Europe, as well as the U.S. Securities and Exchange Commission (SEC), where required. EY Israel 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, helps strengthen independence and objectivity and are important safeguards of audit quality.

## Audit quality reviews

The Global Audit Quality Review (AQR) program is the cornerstone of our process to monitor audit quality. EY Israel executes the Global AQR program, reports results and develops responsive actions plans. The primary goal of the program is to determine whether systems of quality controls, including those of EY Israel, 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 Israel professional standards and regulatory requirements. It also aids EY Israel's continual efforts to identify areas where we can improve our performance or enhance our policies and procedures.

Implemented annually, the program is coordinated and monitored by representatives of the PPD network, with oversight by the Assurance Leadership.

The engagements reviewed each year are selected on a risk-based approach emphasizing audit 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 audit engagements to measure compliance with internal policies and procedures, EY GAM requirements, and relevant local professional standards and regulatory requirements. These measure compliance with the relevant professional standards and internal policies and procedures that should be applied in executing non-audit services. In addition, practice-level reviews are performed to assess compliance with quality control policies and procedures in the functional areas set out in ISQC No. 1. The Global AQR program complements external practice

monitoring and inspection activities, such as regulatory inspection programs and external peer reviews.

AQR reviewers and team leaders are selected for their skills and professional competence in accounting and auditing, as well as their industry specialization; they often work in the Global AQR program for a number of years and are highly skilled 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.

The results of the Global AQR program and external practice-monitoring and inspection activities are evaluated and communicated to improve quality. Any quality improvement plans describe the follow-up actions to be taken, the people responsible, the timetable and deadlines, and sign-off on completed actions. Measures to resolve audit quality issues noted from the Global AQR program, regulatory inspections and peer reviews are addressed by our Assurance leadership and our PPD with input from Risk Management groups. The actions are monitored by our PPD and Assurance leadership. These programs provide important practice monitoring feedback for our continuing quality improvement efforts.



## External quality assurance review

EY Israel's audit practice is subject to inspections by Peer Review of the Institute of Certified Public Accounts of Israel and the U.S. Public Company Accounting Oversight Board ("PCAOB"). As part of its inspections, the inspectors evaluate the quality control systems and review selected engagements.

The last quality assurance inspection by Peer Review took place in 2014. The last quality assurance inspection by the PCAOB took place in 2014.

We respect and benefit from the inspection process. We thoroughly evaluate points raised during the inspection in order to identify areas where we can improve audit quality. Together with our AQR process, external inspections aid us in making our audits and related control processes of the highest quality in the interests of investors and other stakeholders.

## Compliance with legal requirements

The EY Global Code of Conduct provides a clear set of standards that guide our actions and business conduct. EY Israel complies with applicable laws and regulations, and EY's values underpin our commitment to doing the right thing. This important commitment is supported by a number of policies and procedures, including:

### Anti-bribery

The Anti-bribery Global Policy provides our people with direction around certain unethical and illegal activities. It emphasizes the obligation of our people to comply with anti-bribery laws and provides greater definition of what constitutes bribery. It also identifies reporting responsibilities when bribery is discovered. In recognition of the growing global impact of bribery and corruption, efforts have been increased to embed anti-bribery measures across EY, and training is mandated for all our people.

### Insider trading

The Insider Trading Global Policy reaffirms the obligation of our people not to trade in securities with insider information, provides detail on what constitutes insider information and identifies with whom our people should consult if they have questions regarding their responsibilities.

### Trade sanctions

Given the level of EY's global integration, it is important that we are aware of the ever-changing situation in respect of international trade sanctions. EY monitors sanctions issued in multiple geographies and provides guidance to our people.

### Data privacy

The Global Personal Data Privacy Policy 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. This policy is consistent with applicable laws and regulations concerning data protection and privacy when processing personal data. It provides a foundation for maintaining the privacy of all personal data used by EY Israel. Furthermore, we have a policy to address our specific Israel data privacy requirements and business needs.

### Document retention

EY Israel's 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. It also addresses Israel legal requirements applicable to the creation and maintenance of working papers relevant to the work performed.



## Independence practices

EY Independence policies require EY Israel and our people 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) and Israel independence standard.

We consider and evaluate independence from several perspectives, including: our financial relationships and those of our people; employment relationships; business relationships; the permissibility of non-audit services we provide to audit clients; partner rotation; fee arrangements; audit committee preapproval, where applicable; and partner remuneration and compensation.

EY Israel has implemented EY's global applications, tools and processes to support us, our professionals and other employees in complying with independence policies.

### EY Global Independence Policy

The EY Global Independence Policy contains the independence requirements for member firms, professionals and other personnel. It is a robust policy predicated on the IESBA Code of Ethics, supplemented with more stringent requirements where prescribed by a given regulator. The policy also contains guidance to help people apply the independence rules. The EY Global Independence Policy is readily accessible and easily searchable through EY's intranet.

### Global Independence System

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

### Global Monitoring System

The Global Monitoring System (GMS) is another important global tool that assists in identifying proscribed securities and other impermissible financial interests. Professionals ranked as manager and above are required to enter any securities they hold, or those held by their immediate family, into the GMS. When a person enters a proscribed security or if a security they hold becomes proscribed, they receive a notice and are required to dispose of the security. Identified exceptions are reported through the Global Independence Incident Reporting System (GIIRS) for regulatory matters.

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

### Independence compliance

EY has established a number of processes and programs aimed at monitoring the compliance with independence requirements of EY member firms and their people. These include the following activities, programs and processes:

#### Independence confirmations

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

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

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

#### Global independence compliance reviews

EY conducts a number of testing and member firm visits to assess compliance with independence matters. These reviews include aspects of compliance related to non-audit services, business relationships with the companies we audit and financial relationships of member firms.

EY Israel confirms that the Internal Audit last occurred during 2014.

Each year, EY's global Independence team establishes a program for testing compliance with personal independence confirmation requirements and with reporting of information into GMS. For the 2014 testing cycle, EY Israel tested approximately 30 partners and other personnel.



#### Non-audit services

We monitor compliance with professional standards governing the provision of non-audit services to audit clients through a variety of mechanisms. These include the use of tools (e.g., GTAC – see page 11 and Service Offering Reference Tool (SORT) – see below), training and required procedures completed during the performance of audits and internal inspection processes.

#### Global independence learning

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

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

The annual independence learning program covers independence requirements focusing on recent changes to policy, as well as recurring themes and topics of importance. Timely completion of annual independence learning is required and is monitored closely.

In addition to the annual learning program, independence awareness is promoted through a number of events and materials, including the new-hire program, 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 new service offerings are developed. We restrict services from being provided that could present undue independence or other risks. 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, as well as independence and other risk management issues.

#### Business Relationship Evaluation Tool

The Business Relationship Evaluation Tool (BRET) and local tool process helps to support our business relationships' compliance with independence requirements. Our people are required to use BRET and local tool in many circumstances to evaluate and obtain advance approval of potential business relationship with an audit client.

#### Audit committees and corporate governance

We recognize the important role audit committees and similar corporate governance bodies play in the oversight of auditor independence. Empowered and independent audit committees perform a vital role on behalf of shareholders in protecting independence and preventing conflicts of interest. We are committed to robust and regular communication with audit committees or those charged with governance. Through our quality review programs, we monitor and test compliance with our standards for audit committee communications, as well as the pre-approval of services, where applicable.



## Continuing education of statutory auditors

### Professional development

The EY career development framework, EYU, provides EY people with opportunities for the right experiences, learning and coaching to help them grow and achieve their potential.

The learning component of EYU is based on an extensive and globally consistent learning curriculum that helps all our people develop the right technical and personal leadership skills, wherever they are located around the world. 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.

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.

### Knowledge and internal communications

In addition to professional development and performance management, we understand the importance of providing client engagement teams with up-to-date information to help them perform their professional responsibilities. EY makes significant investments in knowledge and communication networks to enable the rapid dissemination of information to help people collaborate and share best practices. Examples include:

- Global Accounting & Auditing Information Tool (GAAIT), which includes local and international accounting and auditing standards as well as interpretive guidance.
- Publications such as International GAAP, IFRS developments and illustrative financial statements.
- *Global Accounting and Auditing News*, a weekly update covering assurance and independence policies, developments from standard setters and regulators as well as internal commentary thereon.
- *Point of view and Overviews*, which provide important perspectives on current public policy and regulatory developments.
- Practice alerts and webcasts covering a range of global and country-specific matters designed for continuous improvement in the member firms' Assurance practices.

### 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 expectations that articulate the knowledge, skills and behaviors that should be maintained and developed for their respective rank. These expectations derive from, and align with, EY's global strategy and values.

# Revenue and remuneration

## Financial information

The financial information presented below for EY Israel audit clients which listed on a regulated market in the EU/EEA (European Economic Area) Member States.

Financial information for the period ended 30 June 2015

Service	Revenue (\$m)	Percent
Audit	1.6	67%
Other assurance services	0.5	21%
Tax advisory	0.3	12%
Other non-audit services	0	0%
<b>Total</b>	<b>2.4</b>	<b>100%</b>

### Prior year performance

Financial information for the period ended 30 June 2014

Service	Revenue (\$m)	Percent
Audit	1.1	65%
Other assurance services	0.2	12%
Tax advisory	0.4	23%
Other non-audit services	0	0%
<b>Total</b>	<b>1.7</b>	<b>100%</b>

## Partner remuneration

The Global Partner Performance Management (GPPM) process is a globally consistent evaluation process for all partners in EY 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 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.

The lead audit engagement partners of listed companies in Europe do not compensate based on the sale of non-assurance services to their audit clients. This reinforces to our partners their professional obligation to maintain our independence and objectivity.

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

- Technical excellence
- Living the EY 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 EY brand

We operate under a system that requires partner's overall year-end rating to be aligned with the partner's quality rating.

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
- Mobility

Instances of non-compliance with quality standards result in remedial actions, which may include compensation adjustment, additional training, additional supervision or reassignment.



## Appendix: EY Israel audit clients which listed on a regulated market in the EU/EEA Member States

In the financial year ended on 30 June 2015, EY Israel performed audits of the following public interest entities which listed on a regulated market in the EU/EEA (European Economic Area) Member States:

Advanced Vision Technology (A.V.T.) Ltd.

Brack Capital Properties NV

Electronics Line (3000) Ltd.

Matomy Media Group Ltd.

Orad Hi-Tec Systems Ltd.

PPHE hotel group limited

Pluristem Life Systems Inc.

Vizrt Ltd.

## EY | Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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