

# Transparency Report 2014

EY Global

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. The 'E' and 'Y' are connected at the top. The background of the entire page is a low-angle, upward-looking view of a modern building's interior, featuring a large, circular skylight with a complex metal and glass structure. A bright yellow diagonal stripe cuts across the middle of the image. In the bottom left corner, there is a decorative graphic of vertical lines of varying heights that tapers to the right, resembling a stylized staircase or a data visualization element.

Building a better  
working world

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This transparency report provides information about the EY global organization. For information about EY member firms in countries with transparency reporting requirements based on the European Union's 8th Company Law Directive, please see the member firm's website.

# Chairman's letter



Welcome to EY's 2014 Global Transparency Report

At EY, we believe that openness, teaming and communication are vital in a well-functioning financial system. That ethos is behind our decision to go beyond the local reports required in certain countries and publish this global transparency report, which covers the fiscal year ended 30 June 2014. In it, we set out the actions we are taking to advance quality, manage risk and uphold our independence as auditors across EY.

A year ago we launched Vision 2020 – our plan to be the leading professional services organization and to have the leading audit practice in our profession by 2020. And as part of Vision 2020, we set out our purpose: Building a better working world. This purpose acknowledges the important role we play in building trust and confidence in the global economy by delivering quality and excellence in every engagement.

The audits our member firms perform are fundamental to this. Auditors play a vital role in the efficient functioning of our capital markets, through promoting transparency and supporting investor confidence in financial reporting. Across EY, our member firms strive to execute high quality audits consistently around the world; this is at the heart of our ability to serve the public interest. Supporting this, we are making significant investments in the Assurance business in improving audit methodologies and tools to continually enhance audit quality.

We're excited about what's next, and clients and other stakeholders have responded positively to our strategy and future plans. During the past year, I have spoken with many stakeholders around the world to understand what's important to them and to discuss the investments we are making. Regular dialogue with our stakeholders remains a priority for EY – and for me personally – and I'd like to take this opportunity to thank all of you who have taken the time to share your views with us in 2014.

I look forward to continuing to work with you and sharing our progress over the coming year. I encourage investors, audit committee members, companies, regulators and all our stakeholders to continue to engage with us on any of the matters covered in this report. I hope you will read it with interest.

A handwritten signature in black ink that reads "Mark Weinberger".

Mark A. Weinberger  
Global Chairman and CEO, Ernst & Young Global Limited

# Independent non-executives' letter



Ernst & Young Global Limited first appointed independent non-executives (INEs) to its Global Advisory Council during the course of 2011. As we move into our second three-year term, this is a moment to reflect both on the impact of these appointments and on how the role should be developed in the future.

The appointments were triggered by the publication by the Financial Reporting Council and the Institute of Chartered Accountants in England and Wales of the UK Audit Firm Governance Code. The work of the INEs is intended to reinforce public confidence in the public interest aspect of EY's decision-making process, to encourage its dealings with a wide range of stakeholders, and to help ensure the appropriate management of reputational risks. As a global organisation, EY took the decision to appoint its INEs at a global level, rather than to focus their activities solely on the UK practice.

This has the advantage of giving us as INEs a good understanding of the risks and opportunities facing the organisation around the world, as well as direct and regular access to its most senior leaders. Such a perspective has been particularly relevant during a three-year period that has seen the development of the very ambitious Vision 2020 strategy. An important role of the INEs has been to ensure that the public interest has been kept front and centre of EY's strategic planning process.

As part of this exercise, a Governance Working Group was set up on which I sat. Its aim was to bring EY's governance practices into line with the demands of Vision 2020, and its recommendations will be put to the partners in the coming months. With their approval, the aim is to go live in the summer of 2015.

One recommendation from this group is to establish a Public Interest Sub-Committee to take account of, among other things, the public interest aspects of decision-making and stakeholder dialogue, as well as of issues raised under whistle-blowing and other procedures. This committee will include all the INEs. The task of the coming months will be to define its mandate and lines of accountability and to come up with a body that can have an impact both at a local level and more generally on the workings of a very large global organisation.

The past three years have been a time of rapid regulatory change around the world and of increasing competition among the big firms as audit rotations increase in frequency. These are, of course, matters of deep interest to us as INEs. We believe that EY has responded appropriately to these changes: engaging with the regulators in a professional manner and challenging their proposals in a constructive manner when appropriate and keeping a rigorous approach to audit quality as the prime consideration in bidding for new business.

Although our attention is necessarily focused on the audit function, other aspects of EY also shape public perceptions of its reputation and through that its long-term well-being. One example of this is tax planning, which became a particularly contentious issue in parts of Europe over the past year. Another is the risks that can emerge in organisations with a very large and diverse global network of businesses.

During the course of the three years, we as INEs have got to know and work well with each other, and we will need to develop further lines of communications in order to fulfil our new responsibilities on the Public Interest Sub-Committee. Our ability to challenge and to bring different ideas to the table has increased as we have got to know EY better and as our role has been better understood by our colleagues. We do not see ourselves as playing the part of conventional non-executive directors of a company; instead, our job is to have an insider's understanding of the workings of the organisation but an outsider's understanding of how its decisions might impact on the wider public interest.

We have been grateful for the way we have been welcomed by our colleagues on the Global Advisory Council, who trusted us again this year with managing the election of the global presiding partner. And we are confident that EY's leadership takes our views seriously and responds promptly to the questions and challenges we raise.

We are ourselves a diverse group: Shyamala Gopinath from India, Klaus Mangold from Germany, Mark Olson from the US and myself from the UK. To our regret, our colleague Lim Hwee Hua from Singapore decided to step down this year after three years of great service on taking up a new assignment in Singapore, and we look forward to welcoming her successor in due course.

At a global level, the priorities for us as INEs in the coming year must be to help lay solid foundations for developing an effective Public Interest Sub-Committee and to bring our perspective and judgment to the detailed implementation of Vision 2020 as it unfolds.

I look forward to reporting progress on all these fronts in 12 months' time.



Sir Richard Lambert – on behalf of the EY INEs  
More information on EY's INEs can be found on page 11.



## EY's commitment to building a better working world

EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 190,000 people in member firms in more than 150 countries are united by a common purpose – building a better working world.

### 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 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.

We are acutely aware of our role in serving the public interest, promoting transparency, and supporting investor confidence and economic growth. It is an important way in which we build a better working world.

All of our services help build trust and confidence, directly through our work or indirectly through what it allows others to achieve. That trust is founded on our commitment to providing professionally and globally consistent quality and service.

Supporting this, we promote a culture of world-class teaming: where people are encouraged to build their skills and experiences, and work together, to deliver exceptional client service. This culture is underpinned by our commitment to attracting leading professionals to EY and in how we develop them.

In addition, we recognize that building a better working world is not something that we can achieve alone. We collaborate with others on the issues that affect our clients and society at large. An important element of this is building strong relationships with regulators and other stakeholders – and maintaining an open and frank dialogue about the issues that affect them and capital markets more broadly. Examples of how we have engaged with stakeholders around the world in 2014 can be found on page 34.

## Vision 2020 and our global approach

Over the past decade we have transformed our organization to keep in step with globalization and the changing needs of EY's people and clients. Today, global integration is one of our greatest strengths.

It enables us to implement our global strategy effectively and helps our member firms deliver consistent quality and exceptional client service. Other benefits include a greater scale of resources and more opportunities for our people. In terms of audit, our integrated approach helps us to apply global audit standards, enhances audit quality, and supports the consistent application and inspection of our audit and other service methodologies. But the benefits go beyond just audit. Importantly, an integrated focus on quality and risk management, including independence, across all service lines increases our ability to produce clear, consistent guidance and related training in a timely way.

Our integrated approach expands upon, rather than replaces, the need for local perspective and local responsibility. Vision 2020, which sets out EY's purpose, ambition for the future and strategy, calls for us to press our global advantage, while empowering our teams to respond to local needs. A strong understanding of the local business and regulatory environment is integral to every EY engagement. This includes compliance with local laws and regulations and local professional standards, as well as engaging locally with our stakeholders. This local accountability is complemented by the broader view of the market offered by our global approach.

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

Benefits of our global approach:

- A strong, global, diverse leadership team with one global strategy, complementing local accountability
- Ability to look across EY, resulting in improved quality and risk management
- A broader view of the market for investment purposes and to address specific client issues
- Sharing knowledge and experiences from external and internal inspections to enhance audit quality
- Consistency of audit services and better access to specialist resources
- Higher level of quality assurance for cross-border companies
- Supports the development and effectiveness of global International Financial Reporting Standards (IFRS), integrated capital markets, industry and other subject matter resource networks



# About us

## Organization

The purpose of EY's global integration is to promote consistent, high-quality service worldwide, helping member firms meet high global standards along with local requirements. By doing so, member firms perform at the highest level in markets worldwide, which provides confidence to investors.

EY refers collectively to the global organization of member firms of Ernst & Young Global Limited (EYG), a UK company limited by guarantee. EYG is the central entity of the EY organization. It 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, which enables them to deliver enhanced service. Their obligations and responsibilities to the organization are governed by EYG regulations 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 structure and principal bodies of EYG during the year ended 30 June 2014 are described below. They reflect the principle that EY, as a global organization, has one shared strategy.

In July 2013, EY streamlined its operating model by creating the Executive and the Regions. The Executive includes the Global Executive (GE), its committees and teams, and the leadership of EY's four Areas: Americas; EMEIA (Europe, Middle East, India and Africa); Asia-Pacific; and Japan. This streamlined structure allows EY to further enhance its global scale and the delivery of consistent and 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 new operating model promotes greater stakeholder focus in the Regions, allowing for member firms to build stronger relationships with clients and other stakeholders in each country and to be more responsive to local needs.

## Global Advisory Council (GAC)

The GAC is the main advisory body of EYG. It comprises a number of member firm partners and partner level professionals (referred to as partners) drawn from across the four Areas as well as independent non-executive representatives (INEs). The partners, who otherwise do not hold senior management roles, are elected by their peers for a three-year term, with provisions for one reappointment. The GAC advises EYG on policies, strategies and the public interest aspects of their decision-making. The approval of the GAC is required for a number of significant matters that could affect EY.

The members of the GAC are listed in the appendix.

The GAC shall approve:

- Member firm admissions following Global Executive recommendation
- Appointment of the Chairman and CEO 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 EY or any significant acquisition
- A global balanced scorecard of strategic priorities, to be used in setting goals for the businesses and personnel
- The process for evaluating and rewarding Global Executive members
- Development funds and investment priorities of EY
- Annual financial reports and budgets of EYG

Moreover, the GAC shall:

- Where appropriate, initiate discussions with the Global Executive regarding performance of the Chairman and CEO 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

### Independent non-executives representatives (INEs)

INEs are appointed from outside of EY and bring the global organization and the GAC the significant benefit of their varied perspectives and views. The INEs are nominated by a dedicated committee. More information on EY's INEs can be found in the next section.

### Global Executive (GE)

The GE brings together EY's leadership functions, services and geographies. It is chaired by the Chairman and CEO of EYG and includes the Global Managing Partners of Client Service and Business Enablement; the Area Managing Partners; the global functional leaders for Talent, Risk Management, Finance and Corporate Development; 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 GAC 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 GAC ratifies the appointments of any Global Vice Chair who serves as a member of the GE. Furthermore, the GE approves appointments of Area Managing Partners and Regional Managing Partners. The appointments of the Area Managing Partners are subject to ratification by the GAC.

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
- GAC 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, 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.

#### 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 Regions, which consist of member firms or sections of those 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, EYG 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.

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 are subject to separation from the EY organization.

## Independent non-executives representatives

EY has invited world-class leaders in related fields to serve as INEs on the GAC. They provide an independent voice to the highest levels of management and insight into the interests of EY's key stakeholders. EY follows the UK Audit Firm Governance Code model for INEs by selecting individuals who command respect and collectively enhance shareholder confidence by virtue of their independence, stature, experience and expertise.

### Appointment

INEs are nominated by the INE Nominating Committee comprising the Chairman/CEO of EYG, the Presiding Partner of the GAC, and other persons as the Chairman/CEO and the Presiding Partner in their discretion deem appropriate. The nominations are approved by the GE and ratified by the GAC.

### Support

INEs are entitled to receive information about global affairs. To facilitate their effectiveness, they receive administrative support and any

independent professional advice that may be required.

### Term

The term of an INE is three years with provision for one reappointment at the request of the INE Nominating Committee and the GE.

### Disagreements

Any disagreement between an INE and others on the GAC would be resolved by mediation with the Chairman/CEO of EYG through a defined process of notification and consultation.

### Independence

EYG has considered the auditor independence standards as they apply to INEs in their role as members of the GAC, and EYG is satisfied these standards have been met.

## EYG's INEs

### Shyamala Gopinath

Shyamala Gopinath is the former Deputy Governor of the Reserve Bank of India (RBI), a post she held from September 2004 to June 2011. She joined the RBI in 1972 and worked in different capacities, including as Executive Director from June 2003 until her elevation to Deputy Governor. She also served for two years on deputation to the International Monetary Fund. She is currently Chairperson of The Clearing Corporation of India and a public interest director on the board of the National Stock Exchange of India.

### Sir Richard Lambert

Sir Richard Lambert is the Chancellor of the University of Warwick, a member of the Supervisory Board for the Foreign and Commonwealth Office (UK), a former Director-General of the Confederation of British Industry and former editor of the Financial Times. Sir Richard was knighted for services to business in the UK's 2011 New Year Honours list.

### Klaus Mangold

Klaus Mangold serves as a director at many companies, including Alstom S.A., Continental AG, TUI AG, Metro AG and Rothschild GmbH. His former directorships include DaimlerChrysler Services AG, and he has been the Chairman of the East-West Committee of German Industry. He is a Commander of the Legion of Honor (France) and Professor of the European Business School.

### Mark Olson

Mark Olson's former positions include Federal Reserve Board Governor; Chairman of the US Public Company Accounting Oversight Board; Staff Director of the US Senate Securities Subcommittee of the Banking, Housing, and Urban Affairs Committee; President of the American Bankers Association; and bank president and CEO of Security State Bank. He was a partner at Ernst & Young LLP from 1988 to 1999.



# 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 made possible 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.

Our 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 of our policies.

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

The Global Vice Chair – Assurance coordinates member firms' compliance with and implementation of EY's 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 resources 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 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

### Risk Management

The Global Vice Chair – Risk Management (GVC-RM) is responsible for enterprise wide risk management, including overseeing organization-wide quality initiatives across EY's four service lines in Assurance, Advisory, Tax and Transaction Advisory Services.

The GVC-RM is overseen by the Global Managing Partner – Business Enablement and is a member of the GE. Member firm partners are appointed to lead Risk Management initiatives in the service lines and member firms, supported by other staff

and professionals. The GVC-RM is also 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 a formal Enterprise Risk Management program.

#### Contents of this section

In the following sections, we describe the principal components of our 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
- Compliance with legal requirements

## Instilling professional values

### 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 its behavior and actions. While 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, our training programs and our 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 the quality of professional service as a key metric in evaluating and rewarding all professionals.

Our global culture strongly supports teaming 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.

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

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### Code of conduct

We promote a culture of integrity among our professionals. The 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 and is to be followed by everyone at EY to guide behavior across all areas of activity:

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

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

The EY/Ethics Hotline provides our people, clients and others outside of the organization with a means to confidentially report activity that may involve unethical or improper behavior and that may be in violation of professional standards or otherwise inconsistent with our 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

Providing high-quality professional audit services independently, objectively and ethically 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 the financial reports of the companies we audit. Member firms bring together qualified teams to provide services, drawing on their knowledge across industry sectors and services. We strive continually to improve our quality and risk management processes across member firms 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 member firms' audit services has never been more important. As part of Vision 2020, we continue to invest heavily in developing the audit methodology, tools and other resources needed to support quality service delivery – consistent with EY's goal to have the leading audit practice in our profession by 2020. This reflects the strength of our commitment to building a better working world and specifically to building trust and confidence in the capital markets and in economies the world over.

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 efficiency of the 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 appropriate quality improvement actions.

### Effectiveness of quality control system

EY has designed a comprehensive set of global audit quality control policies and practices. These 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 EY Audit Quality Review (AQR) program in order to evaluate whether its system of audit quality control has operated effectively (in a manner that provides reasonable assurance that each member firm and its people comply with applicable professional and internal standards and regulatory requirements).

The results of each member firm's AQR program and external inspections are evaluated and communicated within EY 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 internal AQR programs and external regulatory reviews, as well as any key actions designed to address areas for improvement.

## Client acceptance and continuance

### EY policy

The Client Acceptance and Continuance Global Policy sets out principles for member firms to determine whether to accept a new client or engagement or to continue 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 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.

### Putting policy into practice

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

The client acceptance process requires 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 if the services the client wants are appropriate for the member firm to provide. The approval process is rigorous; no new audit engagement may be accepted without approval by a member firm PPD.

In their annual client continuance process, member firms review their service delivery and ability to continue to provide quality service, confirming that their clients share EY'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 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, a member firm 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 the member firm 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 will spend US\$400m on improving audit methodologies and tools to continue to enhance audit quality. At the same time, a major investment in technology and services, of US\$1.2b, will deliver transformational technologies to help EY member firms better connect with their clients. This investment is consistent with EY's goal to have the leading audit practice in its profession by 2020 and reflects our commitment to building a better working world and specifically to building trust and confidence in the capital markets and in economies the world over.

### Audit methodology

EY's Global Audit Methodology (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. Applying a consistent audit methodology throughout our organization allows us to bring together audit teams with diverse competencies across geographies to execute audits and to communicate results using a common approach – an approach that enhances audit quality. 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 executing audit procedures. EY GAM is based on International Standards on Auditing (ISAs) and is supplemented by member practices to comply with the local auditing standards and regulatory or statutory requirements.

EY GAM is organized into interdependent phases designed to focus on the client's business and financial statement risks and on how those risks affect the audit of the financial statements. EY GAM consists of three key components: requirements; supplemental guidance; and supporting forms, templates and examples. The requirements reflect the typical flow of how an EY member practice executes an audit. The supplements provide the requirements and guidance for specific situations and circumstances that may arise during an audit.

The forms, templates 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. For example, EY GAM has been updated for the new requirements of ISA 610, *Using the Work of Internal Auditors*, relating to using internal auditors to provide direct assistance on the audit. In addition, we 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 we audit.

### Technology

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

EY has a number of data analysis tools for use in audits. These help engagement teams analyze a client's data, enhance risk assessment processes and enable the investigation of higher risk transactions for further investigation.

#### Formation of audit engagement teams

EY policies require an annual review of partner assignments by member firm Assurance leadership and PPDs. This review makes 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 member firm 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 experts are assigned as part of the audit engagement team to help perform audit procedures and obtain appropriate audit evidence. These professionals are used in situations requiring special skills or knowledge, such as information systems, asset valuation, tax and actuarial analysis. As part of being a multidisciplinary organization, EY professionals from non-audit service lines become integral members of the audit team. Their professional expertise and their knowledge of EY's purpose, culture and standards support the provision of audit quality.

## Review and consultation

### Reviews of audit work

EY 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 being audited and the member firm's 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

These 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 the team's work and conclusions.

### Consultation requirements

EY 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.

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

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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 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 engagement quality reviewer's responsibility 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 performing and documenting 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. Member firm PPDs approve 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 we continue to promote a culture that reinforces a person's responsibility, and authority, to make their own views heard and canvass 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, 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. 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 the requirement for audit partner rotation 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), each individual country's standard setter and/or regulator, and the US Securities and Exchange Commission (SEC) where required. EY 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; together, they are important safeguards of audit quality.

For public interest entities where rotation of the audit partner is not mandated by local independence regulation or is less restrictive than the IESBA requirements, the EY Global Independence Policy requires the lead

engagement partner and the engagement quality reviewer to be rotated after seven years. For a new public interest entity (including a newly listed company) client, the lead engagement partner and the engagement quality reviewer may remain in place for an additional two years before rotating off the team, regardless of the time they served prior to the listing. Following rotation, the partner may not resume the lead or engagement quality review role until at least two years have elapsed.

Member firms have tools to track partner rotation that enable effective monitoring of compliance with requirements. EY has also implemented a process for partner-rotation planning and decision-making that involves consultation with, and approvals by, member firm Professional Practice and Independence professionals. This process includes open discussion with audit committees in the interest of providing appropriate transition and uninterrupted audit quality.

## Audit quality reviews

The Global AQR program is the cornerstone of our process to monitor audit quality. All EY member firms execute the Global AQR program, report results and develop responsive actions plans. The program's primary goals are to determine whether global and member firm quality controls systems are appropriately designed and followed in executing audit engagements and to provide member firms 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 member firms' professional standards and regulatory requirements. It also aids member firms in their continual effort to identify areas where they can improve performance or enhance policies and procedures.

The Global AQR program is implemented annually and is coordinated and monitored by representatives of the PPD network, with oversight by Assurance leadership.

The engagements reviewed each year are selected via 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 and non-listed audit engagements to measure compliance with internal policies and procedures, EY GAM requirements, and relevant local professional standards and regulations. It also includes reviews of a sample of non-audit engagements. 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 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. Our goal is that all audit engagements meet the highest levels of quality, and we strive to improve any situations where these levels are not met.

In 2013, the Global AQR program included inspection of approximately 1,380 audit engagements conducted in more than 90 member firms, covering approximately one-third of all EY audit partners, and is comparable with the number of engagements inspected in 2012.

Whether there are material or minor findings or deficiencies, EY looks at the findings from internal and external inspections to identify root causes, develop action plans and improve audit quality.

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 executing 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, AQR results are summarized at the global and member firm levels and by service type, industry and other key aspects. In addition to reporting the results to Global and Area executives, they are shared more broadly in meetings, memos and other communications to client-serving professional staff.

The results of the Global AQR program and external practice-monitoring and inspection activities are evaluated and communicated to improve quality. 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 network. Actions taken are monitored by members of the Professional Practice and Assurance leadership. Risk Management supports and monitors the quality frameworks employed by all service lines, including results and improvement plans from quality review programs, as part of a comprehensive enterprise risk management initiative.

## Compliance with legal requirements

The EY Global Code of Conduct provides a clear set of standards that guide our member firms' actions and business conduct. Member firms must comply 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 regarding international trade sanctions. EY monitors sanctions issued in multiple geographies and provides guidance to our people on impacted activities.

### Data privacy

The Global Personal Data Privacy Policy sets out the principles to be applied to the use and protection of personal data, including data 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 member firms.

### Document retention

EY member firms apply their retention policies to all engagements and personnel. 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 any of its work.



# Independence practices

EY believes that auditor independence is fundamental to the quality of audits and investor confidence in financial reporting and more broadly in the capital markets. We invest heavily in practices to make sure we are independent in both fact and appearance.

The Global Vice Chair – Independence leads and oversees the Global Independence function, a component of our Global RM group. The GMP–RM oversees the Global Vice Chair – Independence. The Global Independence function coordinates a network of Area and member firm independence leaders and establishes 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 develop the tools, technology and programs that enable member firms to monitor compliance with independence rules and policies.

EY's independence practices are designed to enable member firms and people to comply with the independence standards applicable to specific engagements, including, for example, the independence standards of the IESBA of the International Federation of Accountants (IFAC) and local independence standards.

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.

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Failure to comply with applicable professional independence requirements will factor into a person's promotion and compensation decisions and may lead to other disciplinary measures.

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Member firms implement global applications, tools and processes to support their professionals in complying with independence policies.

## EYG Independence Policy

The EYG 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, with more stringent requirements where prescribed by a given regulator. The policy also contains guidance to help people apply the independence rules. The EYG Independence Policy is readily accessible and easily searchable through EY's intranet.

## Global Independence System (GIS)

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

## Global Monitoring System (GMS)

The GMS is another important global tool that helps identify proscribed securities and other impermissible financial interests. People 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, the individual receives a notice and is required to dispose of the security. Identified exceptions are reported through the Global Independence Incident Reporting System for regulatory matters. GMS also facilitates annual and quarterly confirmation of compliance with independence policies, as described below.



### Independence compliance

EY has a number of processes and programs designed to monitor 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, member firms are included in an Area-wide process to confirm compliance with the EYG 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 include reviewing for non-audit services, business relationships with the companies they audit and financial relationships of member firms.

Each year, EY's global Independence team establishes a program for testing compliance with personal independence confirmation requirements and with reporting information into GMS. EY oversees that member firms have appropriately completed the required personal independence compliance testing. Results of the testing program are presented to the 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 monitored through a variety of mechanisms. These include the use of tools (e.g., GTAC – see page 17 – and Service Offering Reference Tool (SORT) – see below), training, and required procedures completed during the performance of audits and internal inspection processes.

EY develops and deploys various 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.

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Our 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 incompatible with objectivity, integrity and impartiality in serving an audit client.

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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. Member firms will also supplement this program with local content to cover local independence requirements that differ from the EYG Independence Policy.

In addition to the annual learning program, independence 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 (SORT)

Member firms' portfolio of services are assessed and monitored 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. When appropriate, member firms exit or restrict services that could present undue independence or other risks. 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 (BRET)

BRET supports our business relationships' compliance with independence requirements. Our people are required to use BRET in many circumstances to evaluate and obtain advance

approval of any potential business relationship with an audit client.

#### **Audit committees and corporate governance**

EY recognizes the important role audit committees and similar corporate governance bodies play in overseeing auditor independence. Empowered and independent audit committees have a vital role on behalf of shareholders in

protecting independence and preventing conflicts of interest. Member firms 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 preapproval of services, where applicable.



## Creating high-performing teams

EY member firms are building a better working world for their people by developing outstanding leaders and creating a culture of high-performance teaming. Our people are encouraged to build their skills and experiences, learn from each other, and deliver exceptional client service. This culture of high performance is supported by EY's commitment to recruiting, managing and retaining top talent; learning and development; and EY's inclusive culture.

One of our strategic objectives is to attract and build lifelong relationships with a diverse group of talented assurance professionals.

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We are proud of our inclusive people culture, and we are committed to doing even more to advance our people's development.

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### Recruitment and hiring

Recruiting for an audit practice is performed primarily by member firms on university campuses and supplemented, when necessary, by hiring people with prior work experience. Candidates are evaluated based on the following competencies:

- Intellectual competence
- Leadership skills
- Team/personal skills
- Motivation
- Communication skills

EY aspires to have a leading people culture everywhere in the world. We believe that creating a culture that attracts, retains and develops outstanding people leads to higher quality service.

### Valuing diversity and inclusiveness

The global workforce is becoming more diverse as a result of an increasingly mobile international workforce and demographic and social shifts. For global organizations such as EY, an important aspect of creating the right working environment is a focus on inclusiveness.

Inclusiveness is essential to making the diverse mix work. It is about equity and opportunity – making sure that differences are celebrated so that talented people from any background can rise to the top and providing opportunities to develop and advance for all from day one.

It is a source of pride for us that EY is regularly cited by external organizations as being a leader in diversity practices and for providing an excellent working environment.

## Continuing professional education of statutory auditors

### Professional development

EY's career development framework, EYU, provides our 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 of 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. 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 accounting and auditing.

In addition to formal learning, professional development occurs through the 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. We also manage the assignment of our people to particular engagements in a systematic way that ensures they have exposure to a range of experiences as part of their own development.

### 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 the respective rank. These expectations derive from, and align with, EY's global strategy and values.

## Knowledge and internal communications

We understand the importance of providing client engagement teams with up-to-date information to help them perform their professional responsibilities.

EY has invested significantly in knowledge and communication networks to rapidly disseminate information and to help people collaborate and share best practice. Examples include:

- Global Accounting & Auditing Information Tool (GAAIT), EY's standard accounting and auditing research tool, includes local and international accounting and auditing standards and interpretative guidance.
- Publications that keep practitioners and clients informed of the latest reporting regulations and guidance, such as International GAAP, IFRS developments and illustrative financial statements, are produced by IFRS Services in Global Professional Practice.
- *Global Accounting and Auditing News* is a weekly newsletter that covers global Assurance and Independence policies and procedures, news from the International Accounting Standards Board (IASB) and the IFAC, and internal commentary and guidance regarding international accounting, auditing and independence developments.
- *EY News and views*, *Point of view* and *Overviews* are publications that provide important perspectives on current public policy and regulatory developments to our profession, stakeholders and capital markets. These publications are also available publicly via our website and other channels.
- Practice alerts and webcasts include a range of global and country-specific practice alerts and specific webcasts within the Assurance service line, including those highlighting inspection findings as an opportunity for improvement.
- *Your EY Daily News* is an email that alerts colleagues to new content on the intranet, including news about EY's services, clients and people.
- An internal social network, private to EY, is used by colleagues to share information, work collaboratively, find resources and build relationships. It is fully mobile and can be accessed via the intranet on any device or network.
- Industry-specific insights and learning are provided by each of EY's 16 industry sectors, supported by a dedicated Sector Knowledge Leader and knowledge managers. Account teams also have access to research and analysis professionals. Sector-specific insights and learning are shared via an intranet space, which also highlights sector-specific news, thought leadership, learning modules and key contacts.
- Client publications address key business issues, such as the biennial global fraud survey, quarterly economic forecasts and insights into issues for businesses considering cross-border investment. Client teams are provided with support materials to take the relevant insights to each client.

Quality control policy and practice manuals and other guidance materials are included on our intranet. They promote consistency, accuracy, quality and accessibility in our internal and external communications, and they function 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 AQRs, consultation processes and other methods, to further improve policies, practices and training. We supplement this data with surveys of our people every year. The Global People Survey gauges what people think about EY'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 help us establish action plans and initiatives.

# Revenue and remuneration

## Financial information

The financial information presented below presents combined worldwide revenues of member firms for the financial year ended 30 June 2014.

EY 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, and revenues between member firms have been eliminated. Also, revenue amounts disclosed herein include revenue from audit and non-audit clients.

Revenue is presented in the tables on this page in accordance with Art. 40 para. 1 (i) of the European Union's 8th Company Law Directive. "Other assurance" services revenue includes accounting and financing services; certain due diligence services; and 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.

### Revenues for financial year ended 30 June 2014

Services	Revenues (US\$m)
Statutory audit	10,336
Other assurance	6,051
Tax	6,170
Other non-audit	4,870
<b>Total</b>	<b>27,427</b>

### Revenues for financial year ended 30 June 2013

Services	Revenues (US\$m)
Statutory audit	9,736
Other assurance	5,477
Tax	6,946
Other non-audit	3,671
<b>Total</b>	<b>25,830</b>

## Partner remuneration

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

The Global Partner Performance Management (GPPM) process is a globally consistent evaluation process for all partners in member firms around the world. It reinforces the global business agenda by linking their performance to wider goals and values. An ongoing, cyclical process, the GPPM 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.

We prohibit evaluating and compensating lead audit engagement partners and other key audit partners on an engagement based on the sale of non-assurance services to their audit clients. This reinforces with EY 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

The EY 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 delivering quality, exceptional client service and people engagement alongside our financial and market metrics.

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We operate a cap system so that a partner's overall year-end rating is always aligned with the partner's quality rating.

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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 noncompliance with quality standards result in remedial actions, which may include compensation adjustment, additional training, additional supervision or reassignment. A pattern of noncompliance or particularly serious noncompliance may result in actions that include separation from EY.



# Working with our stakeholders and communities

## Stakeholder dialogue

As auditors of listed companies and other public interest entities, we are acutely aware of the important public interest role we play in promoting trust and confidence in business, capital markets and economies.

We take our public interest responsibilities seriously, and we work hard to maintain an open and frank dialogue with our stakeholders as part of our broader commitment to building a better working world. When meeting with our stakeholders, we seek to better understand their points of view and provide our perspective. We support improvements in corporate governance, financial reporting and other matters that affect our capital markets more broadly.

Our environment is shaped by a wide range of policymakers, including governments, regulators, standard setters and international organizations. We are engaging increasingly with global organizations like the Financial Stability Board, the International Forum of Independent Audit Regulators, the Basel Committee on Banking Supervision, the Organisation for Economic Co-operation and Development (OECD) and the International Organization of Securities Commissions. We also participate in global forums, such as those held by the World Economic Forum in Davos and elsewhere, that bring together thought leaders on issues important to us and our stakeholders.

### Selected stakeholder engagement in 2014

During the past year, international organizations and policymakers around the world have focused on a number of issues affecting our profession, including audit quality, the role and relevance of audit, and developments in corporate and auditor reporting. Policy options such as enhanced auditor reporting, more meaningful corporate disclosure, mandatory audit firm rotation or tendering, and increased transparency of audit committee auditor

oversight continue to be debated in a number of jurisdictions.

Notably, in 2014 the European Union adopted audit legislation that will have a significant effect in the EU and beyond. Among other provisions, the legislation imposes mandatory audit firm rotation for the statutory audits of public interest entities across the EU. The legislation will also apply to EU public interest entity subsidiaries of companies headquartered outside the EU. Therefore, while the impacts of the legislation will be greatest in the EU, it will affect many companies and their investors outside the EU.

We have met regularly with investors, regulators, legislators and other stakeholders in 2014 to discuss all these issues. These conversations have highlighted the importance of strong corporate governance, with active and engaged audit committees that are transparent with shareholders about their oversight of the external auditor. Due to the importance of sound corporate governance to effective financial reporting, EY has also enhanced our engagement with the OECD as it works to revise its Corporate Governance Principles. Significant changes have occurred in corporate governance frameworks in the 10 years since the Principles were last updated, including the growth of independent audit committees in many countries. The Principles serve as guidance for corporate governance frameworks in jurisdictions around the world and therefore have a global impact.

Investors are among our key stakeholders. This past year EY has continued to increase our investor engagement around the world to make sure we understand investor perspectives on auditing, financial reporting, corporate governance and other capital market issues. The aim is to bring together the key participants in the reporting community for dialogue on issues that are of mutual interest. EY has engaged with

investors in several different ways, including co-hosting a conference with the Hungarian Ministry for National Economy in Budapest on corporate governance, attended by investors, companies and academics from several central and eastern European countries.

EY also held a workshop with investors in the UK to discuss aspects of EY's audit methodology, governance and other key topics. EY also continued to hold private dialogue dinners with investors and other stakeholders from around the globe to foster discussion about ways to improve corporate governance. These dinners are independently moderated and held on a Chatham House Rule or off-the-record basis to encourage frank discussion.

EY continues to participate in the Global Auditor Investor Dialogue, an informal network of leading

global institutional investors and major global auditing networks, to exchange views on current financial reporting and auditing issues. EY also continues to be a member of the Asian Corporate Governance Association and a frequent sponsor of International Corporate Governance Network conferences. Engagement with these organizations enhances our perspectives on a wide variety of policy matters. We value the opportunity to better understand the views of investors and others.

#### For more about our views

A selection of our most recent thought leadership is available on our EY Insights application for mobile and tablet devices, and you can find many of our leaders on Twitter and other social media.

## Commitment to our communities

Our commitment to building a better working world begins with our people and extends to the work done with clients and other stakeholders in the marketplace. The net effect is the benefit this generates for communities around the world. The most significant impact we have on society is by our support of global and local economic stability and growth, which addresses some of the major issues that the world is facing.

We support organizations and activities that contribute to building a better working world at the global, regional and local level. We are proud to be part of the UN Global Compact and have pledged to uphold its ten universally accepted principles in the areas of human rights, labor, the environment and anticorruption. We report our progress every year.

### Supporting communities through time and resources

We contribute by giving our people's time and our financial resources to not-for-profit organizations that are aligned with our corporate responsibility strategy, as we believe that this is where we make the biggest impact and address the most pressing needs of the communities in which we live and work.

### Demonstrating environmental stewardship

We believe that we have an important role to play in building an environmentally sustainable world. As such, we're challenging ourselves to work in an environmentally responsible manner and to find new ways to reduce our carbon footprint, which comes mainly from business travel and energy consumption.

We continue to build out our greenhouse gas measurement and reporting. Working with our Climate Change and Sustainability Services professionals, we have established a global methodology for calculating environmental impacts and are looking for ways to evolve and employ leading practices to make sure we have a credible global footprint.

### The UN Global Compact's ten principles

#### *Human rights*

- 1 Businesses should support and respect the protection of internationally proclaimed human rights; and
- 2 Make sure that they are not complicit in human rights abuses.

#### *Labor*

- 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- 4 The elimination of all forms of forced and compulsory labor;
- 5 The effective abolition of child labor; and
- 6 The elimination of discrimination in respect of employment and occupation.

#### *Environment*

- 7 Businesses should support a precautionary approach to environmental challenges;
- 8 Undertake initiatives to promote greater environmental responsibility; and
- 9 Encourage the development and diffusion of environmentally friendly technologies.

#### *Anti-Corruption*

- 10 Businesses should work against all forms of corruption, including extortion and bribery.

# Appendix

## Global Advisory Council members

Name	Location
Albert Anelli	Montreal
Laurence Avram Diday	Paris
Mark Beischel	Cincinnati
Coen Boogaart*	Amsterdam
Owen Chan	Hong Kong
John Cole	London
Shirley Edwards	McLean
Leslie Fiorentino	Boston
Marcello Gelashvili	Moscow
Eric Golenvaux	Brussels
Francisco González Carrera	Madrid
Shyamala Gopinath (INE)	Mumbai
Kelly Grier	Chicago
Tarsicio Guevara	Mexico City
Katsuhiko Hara	Tokyo
Istvan Havas	Budapest
Sonu Iyer	New Delhi
Richard Lambert (INE)	London
Pekka Luoma	Helsinki
Klaus Mangold (INE)	Stuttgart
Jonathan McCarter	Houston
Andrew Miller	St. Louis
Celestine Munda	Nairobi
Samar Obaid	Amman
Mark Olson (INE)	Washington, DC
Tae Wook Park	Seoul
Jamayssar Persaud	Philadelphia
Meredith Scott	Sydney
Thomas Stenz	Zurich
Penny Stocks**	London
Akira Toda	Tokyo

Name	Location
Peter Tryhane	New York
Johan van den Bos	Amsterdam
Stefan Viering	Stuttgart
Michael Wachtel	Melbourne
Andrea Weichert	Sao Paulo
Steve Wills	London
Voon Kar Yong	Kuching
Donald Zimmerman	Atlanta

\* FY14 Presiding Partner

\*\* FY15 Presiding Partner-elect

## Global Executive members

Name	Location
Nancy Altobello	New York
Beth A. Brooke-Marciniak	Washington, DC
Carmine DiSibio	New York
John Ferraro	London
Koichi Hanabusa	Tokyo
David Holtze	London
Steve Howe Jr	New York
Norman Lonergan	London
Pip McCrostie	London
Rajiv Memani	Gurgaon
Christian Mouillon	Paris
Mark Otty	London
Jay Nibbe	London
Lou Pagnutti	London
Felice Persico	Milan
Steven Phan	Singapore
Uschi Schreiber	New York
Mark Weinberger	Washington, DC and London

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### 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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