Our commitment to executing quality audits
Information for audit committees
2014
Auditors play a vital role in the efficient functioning of the capital markets. We recognize and embrace the responsibility that has been entrusted to us as independent auditors.
Contents

Letter from Trent Henry and Tom Kornya ........................................... 2
Our commitment to executing quality audits ....................................... 4
The importance of communication..................................................... 5
Our quality control system.................................................................. 6
Instilling professional values organization-wide.................................... 7
Our audit quality support structure....................................................... 8
How we work to perform quality audits ............................................. 10
Integrated multidisciplinary service delivery ...................................... 12
Our client acceptance and continuance procedures ............................ 13
Our accounting and auditing review and consultation process .......... 14
Our recruiting and professional development objectives..................... 16
Our compliance with legal requirements............................................ 18
Our independence procedures and monitoring efforts ........................19
Our practices related to evaluating and compensating our audit partners ................................................................. 21
Our internal and external inspection programs .................................. 22
Audit quality focus areas and recent enhancements .......................... 24
Our commitment to executing quality audits

Information for audit committees

Audit committee chairs and members:

We're pleased to present this report discussing EY's commitment to executing quality audits and describing our system of quality control. Quality is the bedrock of what we do every day. As a leader in the audit profession, we must serve our stakeholders with passion and integrity and fulfill our independent role to serve with objectivity and skepticism, excellence and professionalism. Our audit practice is not just our largest service offering; it is central to our brand — a brand that defines our organization.

In recent years, many audit committees have taken on a greater role in the oversight of a company’s financial reporting and its dealings with the independent auditor. Empowered and independent audit committees play a vital role on behalf of shareholders in promoting audit quality, protecting independence and preventing conflicts of interest. At EY, we're committed to robust and transparent communication with audit committees. We also believe that greater investor understanding of audit firms' quality control systems and the measures such audit firms are taking to improve audit quality could further bolster confidence in the profession.

The purpose of this report is to describe the system of quality control of EY's Canadian audit practice and the significant investments we've made and continue to make to enhance audit quality. This report has detailed information that will be helpful for audit committees of the entities we audit as they complete their annual assessment or periodic comprehensive review of EY as recommended by the Enhancing Audit Quality (EAQ) initiative.¹

We're committed to doing our part in building a better working world. As part of that, the global EY organization (EYG) has processes and procedures with one goal — providing consistent, quality service worldwide to stakeholders. While EYG has made significant investments in organizing the network of member firms around the world and operating as a highly integrated, multidisciplinary global organization, this report focuses on EY's Canadian audit practice, the investments we've made in people and processes, and initiatives resulting from practice monitoring activities, including internal and external inspection findings. For more information on the global EY organization, please refer to the Transparency Report 2013: EY Global, which is available at ey.com/ca or from your EY contact.

Audits in today's complex financial environment require outstanding people supported by an organization with a clear focus on quality. Our passion for quality begins at the top of the global EY organization, permeates every level and is an ongoing commitment. To execute quality audits in today's challenging environment, we focus on our organization, our service delivery model — including professionals supporting audit engagement teams, our people, our policies and procedures — and our monitoring activities. We do this by:

- Developing and executing a common global audit methodology designed to achieve quality audits with seamless, consistent service, regardless of location
- Supporting an audit delivery model with an organization where a quality tone is stressed throughout and significant investments are directed to continuously maintain a robust system of quality control
- Fostering a culture where all professionals are held accountable for their performance
- Accepting and retaining clients that share our values for integrity in financial reporting
- Attracting and developing talent from various professional disciplines to conduct audits in an independent, objective fashion with integrity and professional skepticism
- Making sure we have an appropriate complement of audit professionals in the field, supported by national resources, with workloads that provide them with the time to execute our audit responsibilities in the quality manner you – and we – expect
- Openly communicating in a timely, robust manner with the audit committees and management of the entities we audit
- Objectively evaluating the work performed by our audit teams and providing enhanced guidance in response to the changing environment
Many of these elements overlap, and they all operate together to enable audit quality. We have made and continue to make significant investments in initiatives to meet the challenges of auditing in an ever-changing world and to enhance the objectivity, independence and professional skepticism we bring to the delivery of our audit services. In this regard, we are focused on making continuing investments and progress in the following important areas:

- **Resources and workload** – The demands on our people have continued to increase. New auditing standards, complexity in accounting standards and heightened expectations are all providing additional challenges for our audit engagement teams. We’ve recognized these demands and have taken actions to increase our resources. This increase in resources accompanies our need to spend more time in planning and executing our work in the quality manner you and we expect. To that end, we have developed improved ways to monitor the workload and deployment of our senior engagement executives to help make sure such workloads are balanced and that our people have the capacity to devote enough time to our audits so that they are executed in a quality manner. This effort continues.

- **Training** – The continuing training and education of our professional staff are key components of our audit quality initiatives. Over the past several years, we have significantly expanded classroom training for our engagement executives; this added several days of training that can be tailored to address current developments and “hot topic” practice issues that have been identified in internal and external inspections. This is a significant but critical investment for us and one that we are committed to expanding.

- **Audit tools** – Our policies, procedures, tools and enablers are important to the execution of quality audits. In the normal course, we refine such policies to be responsive to new standards, current practice developments and internal and external inspection findings. Moreover, the Audit Tool of the Future project is part of a global initiative and investment to design and develop the next-generation suite of audit tools for managing and documenting the audit process, replacing our existing audit support platform and integrating new techniques (including an expanded use of data analytics) to deliver an improved audit. This initiative is a large and important investment for our global organization.

- **A top-down emphasis on audit quality** – The actions of our leadership significantly influence our culture. The promotion of a quality-oriented culture depends on clear, consistent and frequent messages, from all levels of the firm’s management, emphasizing our commitment to audit quality. We believe our focus here has been clear. In addition, this messaging must be supported by actions and increased visibility into the types of investments, many of which are described in this document, we are making in our audit business to continue to improve quality.

- **Accountability for audit quality** – We have longstanding policies designed to sustain and promote a culture that recognizes the performance of quality audit work. This accountability is a market demand that we must meet and is essential to our long-term success. Accountability is critical to effectively meeting our quality control standards and making progress in many of the areas outlined in this document. At EY, we are all responsible for audit quality. This responsibility begins with our leadership and filters down to auditors just starting their careers with the firm.

Over the past decade, our investments in structure, people, methodology and various processes have been substantial, but at the same time have been required to meet the increasing challenges of today’s business and regulatory environment. We believe that audit quality today is higher as a result of our continuous focus on improvement.

We commit to sustain this path because that is what is right, what the investing public demands and what all of our stakeholders deserve.

As always, we welcome comments or questions you might have about our Canadian firm, the global EY organization or the matters discussed in this report. Please contact the EY partner serving your audit committee.

Sincerely,

Trent Henry
Chairman and Chief Executive Officer, Canada

Tom Kornya
Managing Partner, Assurance Services, Canada

---

1 The EAQ initiative, Enhancing Audit Quality: Canadian Perspectives, was a collaboration of the Chartered Professional Accountants of Canada (CPA Canada) and the Canadian Public Accountability Board (CPAB). Further information about the EAQ initiative can be found at www.cpacanada.ca/enhancingauditquality.
Our commitment to executing quality audits

EY has a rich history in Canada – from an office opened in Toronto by Thomas Clarkson in 1864 we’ve built a reputation over the last 150 years based on quality, integrity and trust. Today, we’re part of a global professional services organization of more than 175,000 people operating in more than 150 countries – a global leader in assurance, advisory, tax and transaction advisory services.

Quality audits instill confidence in and lend credibility to the financial reporting that is so vital to the efficient functioning of the capital markets. The substantial procedures and analyses performed by the independent auditor enable the auditor to opine on an entity’s financial statements and, for certain SEC reporting issuers, internal control over financial reporting. Performing this work with integrity, skill, objectivity and professional skepticism is at the heart of our collective responsibility as independent auditors – a responsibility we take most seriously.

Our commitment to audit quality means we must make continuous investments and improvements. Audits can’t be static and still remain effective over time. Audits are conducted in a dynamic marketplace with increasingly challenging and complex business activities. We recognize the importance of this role and take seriously our commitment to executing quality audits. Our organizational structure, methodologies, policies, practices and procedures are all designed to fulfill that important responsibility.

Our strategy and global approach
In December 2012, EYG launched an updated global strategy to make EY the leading global professional services organization over this decade. Executing quality audits is a central tenet of our strategy. The effect of globalization and the consequent risk introduced by changing business models and the complexity of new accounting and auditing pronouncements has raised the stakes of what it takes to deliver high audit quality.

Over the past decade, we’ve transformed our organization to keep up with globalization and the changing needs of our clients and our people. Our global integration is one of our greatest strengths, one that directly benefits our people and clients. Our strategy calls for us to take advantage of our global scale, while empowering our teams to be responsive to local needs.

Global integration allows for a greater scale of resources, more effective development and greater opportunities for our people, and enhanced consistency in the application and inspection of our audit and other service methodologies. It also helps us apply global audit standards and enhances audit quality. All EY member firms share consistent and high standards of quality and integrity in our work, a single global audit methodology and a single audit technology platform. EY’s global integration drives exceptional service and enhances audit quality, and benefits investors and the capital markets.

Importantly, these developments expand on, rather than replace, the need for Canadian perspective and responsibility. 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. It also includes engaging locally with our stakeholders. The broader view of the market offered by our global approach complements local accountability and deepens the local perspective.

The importance of the audit practice to EY
Our Assurance practice, which includes audit, is our largest service line. Performing audits is our largest activity and our central priority, and it’s critical to our brand in the marketplace. In Canada, we audit more than 1,800 entities. They range from multinational public companies that file financial statements with the Canadian Securities Administrators and/or the US Securities and Exchange Commission (SEC) to privately held, family-owned businesses that may supply financial information to a local lender. These entities operate in a wide array of industries, from software to financial services, from retail to real estate, from energy to consumer products and the public sector.

Who is accountable for audit quality?
The answer here is simple: we all are. The responsibility for quality begins at the top of our global organization, at the Global and Americas Executive Boards and senior leadership level, and runs throughout the firm to our partners and our professional staff in all service lines who are involved in performing and supporting audits. In short, everyone who works at EY is responsible for quality. We are mindful of the public franchise that has been entrusted to us. We recognize and embrace the responsibility that this role represents and take our obligation to serve the public interest as independent auditors seriously.
The importance of communication

Communication is at the heart of an open relationship between the audit committee and the auditor. We recognize that we work for and report to the audit committee and are firmly committed to open, timely and robust communication. We believe this dialogue helps promote audit quality.

The recently concluded EAQ initiative includes recommendations for periodic comprehensive review of external audit firms at a five-year minimum as well as annual assessments. The EAQ initiative’s recommendations highlight the need for auditors to communicate more effectively with the audit committees of the entities they audit about audit quality and the systems in place to support audit quality.

We interact with audit committees on various levels and in different venues. At the individual engagement level, our audit partners meet regularly with audit committees to discuss aspects of the audit, communicate information on topics required under professional standards and provide business insights.

We support several networks of Canadian audit committee members to share experiences and exchange ideas for leading practices. Members of our senior leadership meet regularly with groups of leading audit committee members. These different interactions help inform us on matters of importance to audit committees and the changes we must make to address audit committee needs and expectations in a timely and responsive manner.
Our role as auditors is to provide assurance on the financial reports and, for certain SEC reporting issuers, internal control over financial reporting of the entities we audit. We bring together qualified teams and subject matter resources, drawing on our experiences across industry sectors, service lines and geographies. We continually strive to enhance our quality processes across the global organization and our Canadian firm so that the quality of our service is at a consistently high level.

Our system of quality control encompasses hiring highly talented people, making significant investments in our audit methodology, tools and enablers, carefully selecting entities we audit, providing core and specialized training for our professionals, and positioning consultation resources across the country to support our people. We continue to make investments to enhance the quality of the audits we perform.

We recognize that in today’s environment – with continuing globalization and the rapid movement of capital – the quality of our audit services has never been more important to investors and other stakeholders. That’s why we and the EY global organization continue to invest heavily in developing our audit methodology, tools and other resources to support quality service delivery. While investors, the market and other stakeholders continue to demand quality audits, they also demand increasingly efficient and effective delivery of audit services. We continue to seek ways to enhance the effectiveness and efficiency of our Global Audit Methodology and processes without losing sight of our quality audit objective.

As part of our process to continuously enhance audit quality, we also seek to learn from external and internal inspection activities and identify whether we need to make changes to our policies, processes or procedures. In this way, we nurture an environment of continuous improvement.

Effective quality control system

The global EY organization has designed and implemented a comprehensive set of global audit quality control policies and practices, as described in this publication. We supplement them in Canada to comply with local laws or professional standards.

Annually, as part of the EY Global Audit Quality Review (AQR) program, we evaluate whether our system of audit quality control has operated effectively to provide reasonable assurance that we comply with professional, regulatory and stringent internal requirements.

The results of our AQR program and external inspections are evaluated and communicated within the firm to provide the basis for continuous improvement in audit quality and to leverage knowledge and experiences. Our internal practice monitoring, together with our evaluation of the feedback received from independent regulatory inspections, provide us with a basis to conclude that, notwithstanding opportunities for continuous improvement in audit quality, our audit quality control systems are designed appropriately and are operating effectively.

In the following pages, we describe the significant components of our audit quality control system, which is in place to support us in delivering audit quality.
Quality begins with setting the right “tone at the top” of the organization. The global EY organization promotes a culture of integrity. EY’s Global Code of Conduct provides a clear set of standards and behaviours that are grounded in our values, which guide our actions and business conduct. Through a combination of many of our activities, including our training, our coaching and supervision and our compliance programs, we strive to create an environment that encourages all of our people to act responsibly.

We operate under a comprehensive set of policies, processes and procedures that provide a framework for the delivery of quality audit services to serve the interests of the investing public, as well as those of the entities we audit.

Setting the right tone at the top is a key responsibility of our senior leaders, who make clear for our people that quality and professional responsibility are of paramount importance. Our approach to ethics and integrity is embedded in our culture of consultation, our training programs and internal communications. Our internal message has consistently been that no company is more important than professional reputation – the reputation of our firm, EYG and each of our professionals.

We communicate to our people that quality and professional responsibility start with them and are the most important responsibilities they execute on every day. Senior leadership regularly reinforces these expectations and the importance of performing quality work and complying with professional standards and our policies through various forms of communication. Quality is a key element in evaluating and rewarding all our audit personnel, including partners.

Our culture strongly supports collaboration and teamwork and places special emphasis on the importance of consultation in dealing with complex or subjective accounting, auditing, reporting, regulatory and independence matters.

Code of Conduct

We have a culture of integrity and responsibility for the performance of quality audit work for all EY professionals. The Global Code of Conduct, which can be accessed at http://www.ey.com/GL/EN/home/Global-Code-of-Conduct, provides a clear set of the standards and behaviours that guide all of our actions and business conduct. The Global Code of Conduct is organized into five categories containing principles that are to be followed to guide behaviour 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

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

EY/Ethics, a global ethics hotline, gives our people, stakeholders and others outside the organization a confidential means to report activity that may involve unethical or improper behaviour that may be in violation of professional standards or otherwise inconsistent with the Global Code of Conduct. EY/Ethics is operated on behalf of the firm by an external organization that provides confidential and, if so desired, anonymous hotline reporting services for companies worldwide.

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
Our commitment to executing quality audits
Information for audit committees

Our audit quality support structure

Our Quality & Risk Management structure supports quality across the firm’s four service lines — Assurance (including audit), Advisory, Transaction Advisory Services and Tax.

Our Canadian Assurance Managing Partner (AMP) is responsible for the day-to-day execution of the firm-wide assurance strategy, including all aspects of people, quality, growth and operational excellence.

Audit quality implementation leaders
As part of our continuing focus on audit quality and to help us execute various quality processes and procedures, we instituted a senior leadership role, the National Quality Implementation Leader (QIL). The National QIL is supported by local office QILs in several of our offices across the country. The QIL reports to the Canadian Professional Practice Director and assists in matters related to:

- Acceptance and continuance
- Inspection activities (AQR program, and external inspections)
- Quality occurrences (i.e., those situations involving a significant deficiency identified in the internal or external inspections or a restatement of financial statements) and related remediation efforts
- Other audit quality matters

Audit control and methodology leaders
Another resource available to our audit teams is the Canadian Control and Methodology Leader (CAML). The CAML is supported by a network of audit professionals across the country who respond to questions about the EY Global Audit Methodology (EY GAM) and help audit teams implement EY GAM effectively and efficiently.

The CAML’s focus is on matters involving the application of audit standards, our methodology and execution of quality audit work.

Professional Practice organization
Our Professional Practice group is led by the Canadian Professional Practice Director (PPD). The Professional Practice group plays a key role in our accounting and auditing consultation process. Professional Practice partners across the country are the first point of contact in the firm’s accounting and auditing technical resolution structure. A key part of firm’s accounting and auditing technical resolution structure is our distributed network of senior Professional Practice partners who are located across the country and in all major cities where we have offices. This distributed network is a key aspect of our accounting and auditing consultation process. This distributed network is designed to be readily accessible to our partners, audit teams and the entities we audit. We believe this structure provides our partners, audit teams and the entities we audit with more timely guidance and faster issue resolution. This proximity allows the Professional Practice partners to know the local office partners and their capabilities better, be more attuned to the effects of the regional economy and better understand the businesses we audit and related risks. While located geographically in various cities, these partners are part of the Professional Practice group and report to the PPD.

The Professional Practice group provides guidance on accounting, reporting and other technical issues to our personnel, the entities we audit and other stakeholders. Professional Practice also provides timely thought leadership by communicating practical and forward-looking implementation guidance on new and continuing accounting issues. Several members of the Professional Practice group participate on global IFRS subject matter groups in order to help us all keep current on emerging issues in specializedtopic areas and to help us gain exposure to global perspectives on issues. In Canada, we also have representatives on the EY Global IFRS Policy Committee, the Canadian Auditing and Assurance Standards Board and the IFRS Discussion Group of the Canadian Accounting Standards Board.

Professional Practice partners are also members of our Global Capital Markets group, which oversees policies and practices related to public and private capital markets activity. The PPD is also a member of the EY Americas Accounting & Auditing Committee (AAC), which comprises all EY Americas Professional Practice directors, Americas internal and external inspection leaders, IFRS desk leaders, audit methodology leaders and the Global Vice Chair of Professional Practice. The AAC meets frequently to discuss policies, practice issues and quality initiatives.

Professional Practice formulates and communicates our policies and guidance on audit and other attest services and determines that they reflect the professional requirements established by the Canadian Auditing and Assurance Standards Board and other bodies. The group develops audit methodologies, forms and templates, and other enablers to help us deliver consistent, quality attest services.
Professional Practice also oversees the development and delivery of training programs for audit professionals, including core training for all levels and executive-level training on IFRS, US GAAP, auditing standards and the Public Company Accounting Oversight Board (PCAOB) topics. In the last three years, we have significantly increased our training efforts with our Executive Events for all of our audit professionals, from seniors through partners.

The Professional Practice group is also responsible for oversight of several of our quality-related assurance networks, such as the CAML network and a Quality Implementation Leader network.

Professional Practice is also involved in risk management matters, including engagement acceptance and continuance, restatements, whistleblower letters, regulatory filings and comment letter responses, reportable disagreements and resolving conflicts of interest.

The Professional Practice group also leads our internal AQR program and interacts with the Canadian Public Accountability Board (CPAB) and the PCAOB throughout their inspection process. Professional Practice evaluates practice monitoring and inspection findings to determine what changes we may need to make in our policies, processes or procedures.

Quality Control Committee
An element of our quality control system is the Quality Control Committee (QCC). The QCC was formed as part of our commitment to continuous improvement. The QCC, which comprises senior members of our Assurance, Quality and Risk Management functions, meets regularly to evaluate internal and external inspection findings, restatements and consultation activity to determine whether steps need to be taken to improve audit quality.

The QCC:
- Determines what actions should be taken, and what recommendations should be made to the firm's leadership, the Assurance practice or others in the firm, for improving audit quality (e.g., practice guidance, training) and enhancing the system of audit quality control (e.g., improving controls or processes and documenting existing controls)
- Communicates, where appropriate, matters for consideration by others who evaluate individual partner and staff performance and determine promotions, disciplinary actions and compensation (e.g., Assurance leadership)

The QCC obtains a timely understanding of:
- Emerging accounting and auditing issues (such as proposed standards, new standards and practice issues) identified through the consultation process and other means
- The results of practice monitoring activities
- Other identified events that might potentially involve significant departures from applicable professional standards or our policies and processes

The QCC also identifies and communicates lessons learned from past experiences, emerging regulatory, reputational and legal issues, and leading professional practices pertaining to the performance of assurance services.
How we work to perform quality audits

Performing audits in today’s environment is increasingly challenging. Reporting deadlines are shorter, accounting and auditing standards are more complex, business models and technologies are changing and the global business environment remains uncertain. Quality audit execution begins with an appropriate risk assessment and development of the appropriate nature, timing and extent of audit procedures that are responsive to the risks identified. EY GAM focuses on the entity’s business and financial statement risks, and how those risks can be addressed during the audit of the financial statements.

To deliver quality audit services, the global EY organization has invested in a global audit methodology that promotes consistency in audit processes, judgment frameworks and audit procedures. We continue to invest significantly in our professionals and in the development of new audit methodologies and technologies to help audit teams perform effective and efficient risk-based quality audits in today’s increasingly complex environment.

One common audit methodology
One of the cornerstones of EY GAM is making risk assessments that we use to determine the nature, timing and extent of our audit procedures (and reconsidering and modifying those assessments, when appropriate, throughout the audit). EY GAM also emphasizes applying appropriate professional skepticism in the execution of audit procedures. EY GAM is based on International Standards on Auditing, which are consistent with the Canadian Auditing Standards, and is supplemented with content developed to comply with PCAOB and AICPA auditing standards and regulatory or statutory requirements when required. EY GAM is a technology-enabled, top-down, risk-based approach that focuses on the drivers of the business, the associated risks and the potential effects on the financial statements.

EY GAM is organized into interdependent phases designed to focus on the entity’s business and financial statement risks and how those risks affect the audit of the financial statements. The methodology and guidance in EY GAM represent a comprehensive methodology consisting of three key components: requirements; supplemental guidance; and supporting forms, templates and examples. The requirements reflect the typical flow of how we execute 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 to help our teams perform and document audit procedures.

EY GAM is updated regularly to reflect new standards, emerging auditing issues, and implementation experiences and to respond to external and internal inspection results. In addition, through regular communications and other reminders, we emphasize key topics of interest to regulators, including professional skepticism, revenue recognition and engagement quality reviews.

Technology enablers
Our audit teams use many technology enablers to execute and document the work performed under EY GAM. GAMx is our primary audit support platform that helps drive uniform execution of EY GAM and appropriate audit documentation. GAMx provides links to knowledge databases (audit guidance and interpretations), professional standards, documentation templates and other tools necessary to effectively execute and document a risk-based audit. GAMx provides a team-collaboration environment that facilitates information sharing and the documentation of procedures and conclusions and enables secure peer-to-peer communications so that, regardless of geography, our people can work together as if they were in the same location.

Audit teams use other software applications and forms and templates during various phases of the audit to help them perform and document audit considerations, data acquisition and analysis. GAMx-SA is our documentation tool designed specifically for audits of small, non-complex businesses. Our Non-Complex Entity Audit Approach enables the appropriate application of EY GAM objectives in an effective and efficient manner to private non-complex entities and certain listed non-complex entities.
The EY Global organization is making significant investments in our audit practice aimed at improving audit quality, consistency and relevance for the entities we audit. More specifically, the EY Global organization is investing US$400 million on a global basis to build new audit tools and improve methodology, processes and technology. Our Audit Transformation efforts also include the development of new data analysis tools to help us efficiently analyze large amounts of data and support critical thinking to identify issues, trends and anomalies. These efforts were actively underway in 2013, principally as they relate to the Audit Tool of the Future project. This important effort will result in a new platform for managing and documenting the audit, replacing GAMx and integrating updated technology. We expect the new tool will enhance audit quality and performance by better aligning the significant risks identified during an audit with the audit procedures that address those risks. Greater tailoring of audit procedures to the specific characteristics of the entity being audited will also result in a more effective audit process. We are piloting the new tool in 2014, followed by a full rollout in 2015.

Overall, the global Audit Transformation effort is a significant and necessary investment. We believe these initiatives, especially the development of our new audit tool, will further improve the quality of our work.

Formation of audit engagement teams
EYG and firm policies require an annual review of partner assignments by Canadian Assurance leadership so that our professionals leading audits possess the appropriate competencies (i.e., knowledge, skills, abilities and experience) to fulfill their responsibilities and, if applicable, that they’re in compliance with the audit partner rotation requirements. Partner assignments for public companies also require concurrence by the PPD.

In many engagements, we require internal specialists to be assigned as part of the audit team to help perform audit procedures and obtain appropriate audit evidence. We ensure that our specialists are engaged in situations requiring special skills or knowledge, such as taxation, information technology systems, asset valuation and actuarial analysis.

Audit partner rotation
An aspect of audit partner assignments is compliance with applicable audit partner rotation requirements. EY views mandatory audit partner rotation as one of the measures that helps strengthen auditor independence. We comply with the audit partner rotation requirements of the regulatory bodies as applicable. Audit partner rotation provides a fresh perspective and promotes independence from company management while retaining some important aspects of audit team continuity, expertise and knowledge of the business. Audit partner rotation, independence requirements, effective systems of internal quality controls, audit committee oversight and independent audit regulatory oversight help strengthen independence and objectivity and are important safeguards of audit quality.

For audits of public companies, we rotate the partner-in-charge of the audit, the engagement quality reviewer and certain other audit partners (as defined) no less frequently than the maximum consecutive years of service permitted under the Canadian reporting issuer and/or SEC independence rules. We track partner rotation in our electronic database.

How we see it:
- One global audit methodology
- One global audit technology
- One goal – consistent, quality service
Audits today are increasingly complex. New financial instruments have been introduced, new revenue recognition models have been developed and new accounting and auditing standards have been issued. Effective integration and communication between the audit team and service lines that support the audit team greatly enhance audit quality and service execution.

To tackle today’s complexity, we bring together a multidisciplinary team. Resources in valuation, information technology systems, taxes, actuarial science, derivatives and other fields help audit teams execute audit procedures, identify issues, evaluate management assumptions and sensitive estimates, and document judgments and decisions. Effective collaboration between Assurance professionals and other EY professionals is an important element in the design and execution of an effective and efficient audit strategy that focuses on the key accounting, valuation and financial reporting matters. These other professionals are members of our audit engagement team, their work product is part of our audit workpapers, and their activities are reviewed and supervised by the audit executives on the engagement.

The ability to bring professionals in various fields together in an integrated team enhances audit quality. Whether the issue involves valuation of derivatives or harder-to-value investments in an illiquid market, pension obligations, workers’ compensation or environmental liabilities, uncertain tax positions, corporate responsibility reporting or the investigation of a whistleblower allegation, our ability to bring together resources from various disciplines to address issues as part of one audit engagement team enhances audit quality and service execution. A coordinated effort involving EY resources with experience in areas such as tax, information technology systems, actuarial and valuation to support the audit team is vital to our ability to deliver the consistent, quality services the entities we audit deserve and the investing public expects. These other disciplines can also provide other permitted services to the companies we audit. By providing such services to these companies, we contribute to audit quality by enhancing our knowledge of the company’s operations. We provide these services with a careful eye to the independence implications, and teams work with our Independence group so that only permitted services are provided. Audit committee preapproval is obtained when applicable.

What it means to you:

- Subject matter professional assisting audit teams
- Integrated service delivery
- One goal – consistent, quality service
Our client acceptance and continuance procedures

Providing services to the right organizations is an essential foundational element of our quality and risk management processes.

Our acceptance and continuance policies describe principles we use to determine whether to accept a new client or a new engagement, or to continue a relationship with an existing audit entity. These principles are fundamental to maintaining quality, managing risk and meeting regulatory requirements. The objectives of the policy are to:

- Establish a rigorous process for evaluating risk and making decisions to accept or continue clients or engagements
- Meet applicable independence requirements
- Identify and deal appropriately with any conflicts of interest
- Identify and decline situations 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

The global conflicts policy establishes the framework for evaluating potential conflicts of interest. It defines categories of conflicts of interest and the process for identifying potential conflicts. The policy also describes how to manage potential conflicts as quickly and efficiently as possible through the use of appropriate safeguards. Such safeguards range from obtaining consents from the entities involved to ceasing to act to avoid a potential conflict.

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

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

In our annual continuance process, we review our ability to continue to provide quality service and confirm that the entities we audit share our commitment to quality and transparency in financial reporting. The partner in charge of each audit, the AMP and the PPD annually review our relationship with the entity to determine whether continuance is appropriate. As a result of this review, certain audit engagements are identified as requiring, and are then subjected to, additional oversight procedures during the audit. Some engagements are discontinued. As with the acceptance process, the AMP and PPD are involved in the continuance process and must concur with the continuance decisions.

Both acceptance and continuance decisions depend on, among other things, the absence of any perception that a company’s management pressures the audit team to accept inappropriate accounting and reporting or uses financial pressures to undermine audit quality. Considerations and conclusions on the integrity of management are essential to acceptance and continuance decisions.
Consultation requirements and related policies and procedures are designed to involve the right resources so that we can reach appropriate and timely conclusions.

Our policies describe the requirements for timely, direct executive participation in audits and various levels of review of the work performed. Members of the audit team perform a detailed review of the audit documentation, while engagement executives perform a second-level review. A tax professional reviews the significant tax and other relevant workpapers. An engagement quality review partner reviews important areas of accounting, financial reporting and audit execution, and the audited financial statements and our accompanying report(s).

The nature, timing and extent of these reviews depend on many factors, including the materiality, subjectivity and complexity of the subject matter; the ability and experience of the audit team member who prepared the audit documentation; the level of the reviewer's direct participation in the audit work; and the extent of consultation employed.

Our policies also describe the roles and responsibilities of each team member and the requirements for documenting the audit procedures performed and conclusions reached.

Consultation requirements
We have a long history of promoting a culture of consultation as the best means to provide a quality audit. Many of today's financial reporting issues can be challenging and the accounting guidance has become more complicated. In this environment, we continue to believe our consultation culture is a sign of strength. The partner in charge of the audit is ultimately responsible for the audit, accounting and reporting conclusions (which are supported by the firm) relating to the financial statements being audited. Our consultation process is a decision-making process that results in an answer supported by the firm.

Consultation requirements and related policies and procedures are designed to involve the right resources so that audit teams can reach appropriate conclusions. For complex and sensitive matters, we encourage – and in specific situations require – consultation with others who may have more experience or specialized knowledge, primarily Professional Practice and Independence personnel.

We document these consultations and obtain written concurrence from the person(s) consulted to demonstrate his or her understanding of the matter and agreement with its resolution. As described earlier, an important element of our consultation network is our distributed group of Professional Practice partners who are readily accessible to our audit teams and the entities we audit. Our Professional Practice partners have a wealth of experience dealing with accounting, auditing and financial reporting matters.

Engagement quality reviews
Engagement quality reviews (EQRs) performed by audit partners in compliance with professional standards are conducted for all audits of public companies and certain non-public companies (e.g., entities with a potential IPO, widely circulated financial statements, certain government entities). The reviewers are experienced professionals with significant subject matter knowledge. Because they are independent of the engagement team, they can objectively evaluate significant accounting, auditing and reporting matters. The EQR for a public company is an activity that generally spans the entire audit cycle and is not limited to a review of the financial statements when we issue our report(s). Policies and procedures for these reviews, which recently have been strengthened to place more emphasis on this important quality feature, provide specific guidelines on the nature, timing and extent of the procedures to be performed. EQR assignments for audits of public companies and those non-public companies deemed to present higher risk are reviewed and approved by the PPD.
Audit engagement team disagreement-resolution process

Another strength of our collaborative culture is that we encourage our people to speak up if they disagree or are uncomfortable with an audit engagement matter. We require team members to raise any disagreements that are considered to be material or that may affect our opinion on the financial statements being audited. These policies are introduced at the entry level and reinforced thereafter to instill in our people both the responsibility and authority to require a thorough vetting of different viewpoints.

Differences of professional opinion that arise during an audit generally are resolved at the audit team level. However, anyone not satisfied with the decision has the right and the obligation to see that the issue is referred to the next level of authority. If the engagement quality reviewer makes recommendations that the engagement partner does not accept and the matter is not resolved to the reviewer’s satisfaction, the report is not issued until the matter is resolved by following the consultation processes for resolution of professional differences. When a matter that goes beyond the audit engagement team is resolved, our policies require the matter’s resolution to be documented in the same manner as other professional practice consultations.

Consultation is a part of our decision-making process.

- Collaborative and open discussion
- Distributed network of resources available to respond quickly
- Firm-supported answers
Our recruiting and professional development objectives

Changes in demographics are affecting the composition of the workforce and motivating us to field diverse and globalized teams. Attracting and developing talented people are critical to our success. By offering a wealth of experiences and opportunities, both in Canada and internationally, we develop outstanding people who can achieve their potential.

Our core training programs involve self-study, web-based learning and in-person classroom training. EYG’s multimillion-dollar annual investment in training further develops our people, provides opportunities for networking and enhances audit quality. Our Executive Events training programs for senior staff, managers, senior managers and partners focus on emerging accounting and auditing matters as well as lessons learned from our internal and external inspections.

The people joining EY today, especially those joining directly from a university campus, are more global in their outlook than ever before. They are more open to diverse points of view and engaged in the world around them. EY is, and must continue to be, an organization that embraces all kinds of differences and brings together people of different backgrounds and capabilities. This diversity of thought strengthens the quality of our work and helps the entities we audit make more informed decisions. We believe strongly in diversity and inclusiveness as drivers of organizational effectiveness and quality service.

Globally, EY aspires to have a leading people culture everywhere in the world. Creating a culture that attracts, retains and develops outstanding people and helps them thrive leads to higher-quality service.

Recruiting and hiring

Recruiting and retaining talented individuals, and then creating the right teams, are key elements of success. Recruiting for our audit practice is performed primarily on university campuses and supplemented, when necessary, by hiring people with prior work experience.

Candidates are evaluated based on the following competencies:
- Technical skills and knowledge
- Intellectual competencies
- Leadership skills
- Team/personal skills
- Motivation
- Communication skills
- Administrative skills

Professional development

EY and You (EYU) is the globally consistent career development framework. Through EYU, our professionals have opportunities for the right experiences, learning and coaching to help them grow and achieve their potential.

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

The learning component of EYU is based on an extensive and globally consistent learning curriculum that helps EY people develop the right technical and personal leadership skills wherever they are around the world. The core audit training courses are supplemented by learning programs that are developed in response to changes in auditing standards, accounting and reporting standards, independence and professional standards and emerging practice issues. In recent years, we've invested in additional classroom training for our professionals, especially managers, senior managers and partners.

Professional development also occurs through coaching and the experiences our professionals receive on the job. Coaching helps to transform knowledge and experience into practice. Experienced professionals are expected to coach and develop less-experienced personnel to create a continual learning environment.
Performance management
A comprehensive performance management process requires our professionals 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 professionals grow and succeed in their careers. Under the PMDP, periodic performance reviews are combined with annual self-appraisal and annual reviews. As part of the annual review process, each professional, in conjunction with a counselor (an assigned, more experienced professional), identifies opportunities for further development. Professionals and their counselors are guided by a set of service line competencies that articulate the knowledge and skills that should be developed for a particular rank.

Mobility
During the course of their careers, our professionals may seek out or be approached by the firm to consider transfers to other locations, both domestic and international. Transfers could also include three to five year residencies in Professional Practice or Independence for managers, senior managers and partners. We encourage mobility as a way to accelerate personal and career development.

Global exchange program
The Global Exchange Program (GEP) supports the global organization’s ability to deliver seamless, consistent, quality service worldwide by offering international assignments to high-performing assurance professionals in member firms to accelerate their learning and career development. International assignments of varying durations are available to professionals, from seniors through partners. We are committed to developing high-performing professionals who have a truly global skill set and understanding of business, political and social matters. Mobility helps our people develop both personally and professionally. The GEP makes a real difference by developing professionals who can help meet the increasing needs of our stakeholders in strategic and emerging markets.
Our commitment to executing quality audits

The EY Global Code of Conduct provides a clear set of standards that guide our professionals’ actions and business conduct. We comply with applicable laws and regulations and our values underpin our commitment to doing the right thing.

This important commitment is supported by EY global policies and procedures including:

**Anti-bribery**
The global anti-bribery policy provides our people with direction around unethical and illegal activities relating to their day-to-day activities. It emphasizes the obligation of our people to comply with anti-bribery laws and provides greater definition of what bribery is. It also identifies our people's reporting responsibilities when they discover potentially illegal acts.

**Insider trading**
The global insider-trading policy reaffirms the obligation not to trade in securities with inside information, provides greater detail about what inside information is and identifies with whom our people need to consult if they have questions about their responsibilities.

**Data privacy**
The data privacy policy describes principles to be applied to the use and protection of personal data of our people, the entities we serve, their personnel or other third parties. This policy is consistent with applicable laws and regulations concerning data protection and privacy when processing personal data.

**Document retention**
We have record retention policies that apply to all engagements and personnel. We are required to retain documents in accordance with professional, legal and regulatory obligations. We emphasize that all documents must be preserved whenever any person becomes aware of any actual or reasonably anticipated claim, litigation, investigation, subpoena or other government proceeding involving EY or one of the entities we serve that may relate to our work. EY policies also address legal requirements in the Canada involving the creation and maintenance of working papers relevant to the audit work performed.
Our independence procedures and monitoring efforts

Independence is a fundamental concept of the audit profession and pervades all our dealings with our stakeholders. Maintaining our independence is essential to achieving audit quality, and we all have personal independence responsibilities that we continually monitor.

Our independence policies and processes are designed to enable all of us to comply with the independence standards that apply to specific engagements, including, for example, the independence standards applicable to Canadian Reporting Issuer (CRI) audits or the standards of the SEC. The foundation we must all follow is the Code of Ethics for Professional Accountants published by the International Ethics Standards Board for Accountants. All professionals and certain other employees are required to participate in annual independence learning. The goal is to help us all understand both our personal obligation and the firm's to be free from interests that might be regarded as being incompatible with objectivity, integrity and impartiality in performing our audits.

The Public Company Independence Procedures (PCIP) process is an advance approval consultation that documents the results of independence procedures completed by engagement or pursuit teams in connection with the acceptance of a prospective CRI or SEC audit client, an initial public offering of a private company audit client, a significant acquisition by a CRI or SEC audit client and certain other situations. We consider and evaluate independence from several relevant perspectives, including the financial relationships of both the firm and professionals, employment relationships, business relationships, the permissibility of non-audit services that may be provided to entities we audit, partner rotation, fee arrangements, partner remuneration and, where applicable, audit committee pre-approval.

Independence provides the infrastructure and resources to help our professionals and the firm meet applicable professional standards, regulatory requirements and our standards of quality with respect to independence. Our Independence professionals have a wealth of experience dealing with complex independence matters, and we should never hesitate to seek their input.

Independence Policy
EY's Global Independence Policy contains the independence requirements for all of us. Our separate Canadian Independence Policy sets forth the minimum standards expected from the firm and all Canadian professionals with respect to independence issues.

Independence System
The Global Independence System (GIS) is an intranet-based tool that identifies the public entities as to which independence is required and the independence restrictions that apply to each one. Most often these proscribed entities are public companies and their affiliates, but they can be other entities for which we provide attest or assurance services. The tool includes family-tree data relating to affiliates of the public companies we audit and is updated periodically by audit teams. The entity data includes notations that indicate the independence rules that apply to each entity so that our professionals can readily see both the entity and the independence notations. GIS is frequently used by our professionals to determine the type of services that can be provided based on the independence notations.

Independence Monitoring System
The Independence Monitoring System (IMS) is a global tool that identifies proscribed securities and other impermissible financial interests. Professionals with the rank of manager or higher are required to report the securities that they or their immediate family members hold into the IMS. If a security is proscribed, the individual will receive a notice and is required to dispose of the security. Identified exceptions are reported through the Global Independence Incident Reporting System for regulatory matters.
Independence confirmations
Each member firm and associated entities are included in an annual process to confirm compliance with independence policies and requirements and to report identified exceptions, if any. All professional personnel at EYG member firms and certain others based on their role or function are required to confirm compliance with EYG independence policies and procedures no less than annually. All EY partners are required to confirm compliance with certain independence matters quarterly.

Independence compliance team
The Independence Compliance Team conducts testing and visits to assess compliance with several independence matters, including reviewing for non-audit services, business relationships with the entities we audit and financial relationships of member firms. A separate compliance group, the Independence Compliance Audit Group, establishes the annual program for testing compliance with personal independence confirmation requirements and reporting information into IMS. All professionals are subject to potential selection for independence testing.

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

Global independence learning
EYG develops and deploys independence learning programs. The annual independence learning program covers our independence requirements focusing on recent policy changes and recurring themes and topics of importance. Professionals and certain other personnel are required to complete the annual independence learning. Timely completion is required and monitored closely. We supplement this program with local content that covers Canadian, PCAOB and AICPA requirements that differ from or are in addition to the Global Independence Policy. We have many other independence learning programs in the new hire program, certain milestone programs and core service line curricula.

Service Offering Reference Tool
We assess and monitor our portfolio of services on an ongoing basis, confirming that they are permitted by law and professional standards, are supported by the right methodologies, procedures and processes and are consistent with our global strategy. When appropriate, we exit or restrict services that could present independence or other risks. The Service Offering Reference Tool (SORT) provides our people with information about all EY services worldwide. SORT includes guidance about which services can be delivered to entities we audit and entities we do not audit as well as independence and other risk management issues.

Business relationship evaluation tool
We oversee our compliance with business relationship independence requirements through our business relationship evaluation tool (BRET). The firm, its professionals and other employees are required to evaluate and obtain approval of potential direct or indirect business relationships with third parties, including entities we audit, in advance so that our business relationships are consistent with the independence standards.

Independence:
- We view it as fundamental to our role as auditors
- We provide extensive tools to monitor compliance
- We require annual learning
- We require regular confirmation of independence compliance
Quality is at the center of our business strategy and a key component of our performance-management systems.

Partners and other professionals are evaluated and compensated based on criteria that include specific quality and risk management indicators, covering both actions and results.

The Global Partner Performance Management (GPPM) process is a globally consistent evaluation process for partners around the world. It reinforces global priorities by linking partner performance to appropriate 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 our evaluation process to document partners’ goals and performance. A partner’s goals are required to reflect various global priorities.

Our partner compensation philosophy calls for meaningfully differentiated rewards based on a partner’s level of performance. Partners are assessed annually on their performance in quality execution, leading people, operational excellence and market leadership and growth. To recognize different market values for different skills and roles, and to attract and retain high-performing individuals, other factors are also considered when determining partner compensation including seniority, roles and responsibilities, long-term potential and mobility.

In accordance with the SEC’s and Canadian independence rules, our audit partners do not earn or receive compensation based on the provision of any non-audit services by EY to companies they audit.

Non-compliance with quality standards results in remedial actions that may include a compensation adjustment in addition to required special training, additional supervision or reassignment. A serious non-compliance matter or pattern of non-compliance may result in actions that include separation from the EY.

In view of the importance we place on quality in the GPPM process, the PPD provides audit-quality related input to the AMP for each audit partner in that sub-area. This input is a key contributor to the overall evaluation of the audit partner.

Partner Evaluation and Compensation — What you need to know:

- Quality is a key element of the performance review process
- The PPD provides input related to audit quality to the AMP for every client-serving audit partner
- An evaluation of quality occurrences is performed to assess responsibility
- Audit partners are not compensated for the provision of any non-audit services to the companies they audit
Our commitment to executing quality audits

Information for audit committees

Our internal and external inspection programs

Audit Quality Review program
The annual AQR program is a cornerstone of our efforts to monitor audit quality and identify areas where we can improve. In addition to reviewing the results of inspections conducted by the CPAB and the PCAOB, we conduct a robust internal inspection program each year to assess whether our system of quality control is operating effectively. This results in the review of approximately 40 public and private company audit engagements. Selections are based on various risk and other considerations.

We analyze the results of these inspection activities to determine whether we need to change or enhance our audit methodology, policies, practices, procedures or training. In cases where material findings are identified, we evaluate these findings to identify potential causes, develop and execute remedial action plans and seek ways to enhance audit quality.

CPAB and PCAOB inspections
CPAB and the PCAOB conduct annual inspections of our system of quality control and selected public company audit engagements. We value this process and review the inspection findings to determine if changes or enhancements are required in our policies, processes or procedures.

In our most recent inspection reports, CPAB and the PCAOB have identified certain areas in which they believe improvement is necessary. We concur with these observations, and in certain cases they are consistent with areas we identified through our AQR program. Areas identified by the inspection process are critical inputs to our development of action plans for improvement. These action plans are communicated throughout the year and in executive learning events.

Our overriding objective is to make certain that all aspects of our auditing and quality control processes are of high quality. While we believe that our present system of quality control provides reasonable assurance that our work meets applicable standards and regulatory requirements, we value the external inspection process because it helps us, along with our extensive internal monitoring activities, identify areas where we can continue to improve our performance.

CPAB inspections
In March 2014, CPAB published their protocol for audit firm communication of CPAB inspection findings with audit committees (the Protocol). The Protocol is effective for inspections commencing on or after 1 March 2014. The Protocol adds the expectation that auditors will discuss the contents of CPAB’s annual public report with audit committee. The CPAB public report highlights recurring audit quality issues across firms without identifying the audit firm or the entity being audited.

CPAB inspects the audit files of reporting issuers on a systematic rotational basis. CPAB communicates, in confidence, the inspection findings on individual audit files to the audit firm. Going forward, in years the entity’s file is inspected, the Protocol directs the auditor to share significant inspection findings with the audit committee of the entity.

We will provide the audit committees of the entities we audit with a copy of CPAB’s most recent public report and will speak to the matters raised in the report that reflect issues of importance to us and our audit clients. We will describe our initiatives in addressing the audit quality issues raised by CPAB in a manner that is customized to focus on matters of relevance to the entity.

When an entity’s file is selected for inspection, we’ll provide the audit committee with:

- A description of the focus areas identified by CPAB
- An indication of whether or not there were any significant inspection findings in each of the focus areas
- Any significant inspection findings as reported in writing by CPAB, accompanied by a written description of EY’s response and CPAB’s disposition

The audit partner will work with the audit committee to establish mutually agreeable protocol and expectations, and ensure confidentiality is maintained when the inspection findings are available for discussion.

PCAOB inspections
The Sarbanes-Oxley Act of 2002 requires the PCAOB to conduct inspections of each registered public accounting firm that provides audit reports for issuers. The 2012 inspection was the PCAOB’s fifth inspection of the Canadian firm and the inspection report was issued on 1 October 2013.
The inspection process is designed and performed in a manner to give the PCAOB a basis for assessing the degree of the audit firm's compliance with applicable requirements and standards related to auditing SEC issuers. The process includes reviews of components of selected issuer audits performed by the firm. These reviews are intended both to identify deficiencies, if any, in the conduct of those audits and to determine whether the results of those reviews indicate deficiencies in the design or operation of the firm's system of quality control over audits of SEC issuers. In addition, the inspection includes review of the design of, and in some cases the application of, policies and procedures related to certain of the firm's quality control processes that could be expected to influence audit quality.

During the 2012 inspection, the PCAOB reviewed aspects of EY's auditing of seven issuer audit clients and our audit work on one other issuer audit engagement in which we played a role but were not the principal auditor.

The PCAOB’s approach to its review of our quality control processes was intended to further its understanding of how we manage audit quality and to assess whether our system of quality control is appropriately designed and implemented to achieve the goal of conducting audits that are in compliance with applicable standards.

Summary of principal observations from the inspection report — Part I
Part I is the publicly available portion of our report and has been posted on the PCAOB’s website. In Part I, the PCAOB describes engagements where it appeared to the inspection team that EY, at the time it issued its audit report, had not obtained sufficient audit evidence to support its opinion on the issuer’s financial statements. Our response to the draft inspection report is included in Part IV of the inspection report.

Part I of our 2012 report contains descriptions of aspects of four audits. We have thoroughly evaluated all matters described in Part I of the report and, where appropriate, took actions to address findings in accordance with PCAOB standards and our policies.

Summary of principal observations from the inspection report — Part II
Part II of the inspection report contains observations about certain aspects of EY's quality control system. This assessment of our quality control system rests both on the PCAOB’s review of our stated quality control policies and procedures and on inferences that it draws from identified deficiencies in audit performance.

Part II is not made publicly available upon initial release. We have one year to address the matters described in Part II to the PCAOB's satisfaction. If we fail to demonstrate to the PCAOB's satisfaction that we've addressed the potential defects, the PCAOB will make Part II of the report, or relevant sections thereof, publicly available.

The actions we take in response to the PCAOB's observations are influenced by many factors, including, for example, the timing of the communications from the PCAOB; the nature of the specific observations; the time required to evaluate and implement changes in policies, processes and training; and our ability to subsequently monitor the effectiveness of the changes implemented. Therefore, we view the PCAOB's inspection process and our responses to its observations and recommendations as a continuous, iterative process and one that transcends any individual annual inspection reporting period.

Our overriding objective is to make certain that all aspects of our auditing and quality control processes are of the highest quality. While we believe that our present system of quality control provides reasonable assurance that our work meets applicable standards and regulatory requirements, we value the PCAOB inspection process because it assists us, along with our extensive internal practice monitoring activities, in identifying areas where we can continue to improve our performance. Thus, we have already taken steps, or have actions planned or underway, to address the matters the PCAOB has outlined in its report and will continue to take steps as necessary to improve the overall quality of our audits. We believe these actions demonstrate our commitment to continually enhance our system of quality control and actively address matters that come to our attention in a timely manner.
Audit quality focus areas and recent enhancements

Execution of quality audits requires the dedication, professionalism, sound judgment and technical expertise of many individuals within EY, ranging from our staff to our partners to our senior leaders who set the tone for quality, integrity and doing the right thing to fulfil our mission to the investing public. Quality is the bedrock of what we do every day. Our commitment to audit quality means we must make continuous investment and improvement.

During the past year, we embarked on other quality initiatives targeted to improve on recent internal and external inspection findings. Our approach to evaluating and responding to inspection findings, as well as the necessity to increase monitoring of our execution of various audit quality initiatives, has also required investment in additional resources.

Continuous improvement in audit quality requires challenging prior approaches to audit execution. We focus on continuous improvement by evaluating all inspection findings and taking responsive actions. Some of those actions may show an immediate effect; others may take longer to demonstrate improvement, require expanded monitoring and necessitate further revision. Depending on the specific area, measurable progress may be evident quickly, but in some circumstances such progress may be more of a journey to improvement and will take longer. Regardless of the timing of the benefit, we are committed to taking appropriate actions to achieve continuous improvement in audit quality.

Some of the recent enhancements we’ve undertaken include:

- **Making improvements in our audits of internal control over financial reporting (ICFR)** – Recent PCAOB findings for EY, and the profession as a whole, indicate the need for improvement in audits of ICFR. In October 2013, the PCAOB staff issued Staff Audit Practice Alert No. 11, *Considerations for Audits of Internal Control over Financial Reporting*, highlighting PCAOB observations on aspects of audits of internal control over financial reporting identified in recent inspection reports of audit firms.

- **Establishing audit execution milestones** – We believe that more timely execution will improve the effectiveness of the audit through the timely identification, evaluation and resolution of potential issues. Additionally, more timely execution gives us the ability to monitor our efforts more effectively. To help us achieve this objective, we have implemented a milestones program in many of our markets, in which audit teams establish goals (earlier in the audit cycle) for when planning, interim audit work and other key audit efforts will be completed, including review by the executives on the audit. Completion of such audit procedures will result in more timely decisions on any necessary changes to the audit scope and approach.

- **Enhanced training and on-the-job coaching efforts** – Training and education of our professionals are key components of our overall audit quality initiatives. As noted above, we have significantly expanded classroom training for executives over the last few years. This effort will continue. We have also implemented engagement team-directed practice aids, referred to as coaching kits, on over 15 specific topics related to audits conducted in accordance with PCAOB auditing standards that we believe, based on results of internal and external inspections, will help our teams better address areas where we can improve audit execution.

- **Monitoring the effectiveness of our audit quality initiatives** – Monitoring the effectiveness of the actions we take to improve our work is an important part of our quality control system. Monitoring allows us to evaluate the progress we’re making on our efforts to continuously improve audit quality and to make appropriate changes to our action plans where necessary to facilitate further improvement.
As outlined above, our annual AQR program is an important part of our efforts to monitor audit quality and identify areas where improvements can be made. By its nature, our AQR program is a post-audit report issuance exercise. We began a pre-audit report issuance review program in 2012 that goes beyond the procedures performed by the engagement quality review partner during the course of the audit. Since 2013, we’ve continued to expand the level of our pre-audit report issuance review activity through our pre-issuance review program and CAML network live review program.

Our pre-issuance review program consists of technical accounting reviews designed to assess how well our teams are responding to important accounting issues and are generally performed by members of our Professional Practice group. The CAML network live review program assesses how well our teams understand and are applying our audit methodology, guidance, tools and enablers and provides live feedback to our teams on areas of the audit where there is opportunity to improve prior to the issuance of our report.

- **Resources and workload management** – Demands on our professionals have continued to increase, with new, complex auditing and accounting standards as well as the need for us to conduct greater monitoring of our quality initiatives. We continue to aggressively hire top graduates from leading universities. We continue to closely evaluate the workloads of our audit professionals so that they will have the time necessary to perform quality work. Given the importance that monitoring plays in the successful execution of many of our quality initiatives, we’ve substantially expanded the resources in our quality organization, including expansion of the QIL network. The QIL network helps us execute and monitor various quality processes and procedures across the country and will assist as necessary in rebalancing resources and workloads across the practice.

**In Summary...**

Overall, we believe our audit quality control systems are designed appropriately and operate effectively. We also recognize we must continue to work to improve our performance in certain areas and believe we have taken necessary actions, or have plans and investments underway, that will permit us to achieve progress in these areas.

Over the past decade, we have undertaken significant reforms. Our investments in structure, people, methodology and various processes have been substantial, but at the same time, have been required to meet the increasing challenges of today’s business and regulatory environment.

We believe that audit quality today is higher as a result of our continuous focus and improvement. We commit to sustain this path because that is what’s right, what the investing public demands and what all our stakeholders deserve.
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.

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

For more information about our organization, please visit ey.com/ca.

© 2014 Ernst & Young LLP. All Rights Reserved.
A member firm of Ernst & Young Global Limited.

1268730
ED00

This publication contains information in summary form, current as of the date of publication, and is intended for general guidance only. It should not be regarded as comprehensive or a substitute for professional advice. Before taking any particular course of action, contact Ernst & Young or another professional advisor to discuss these matters in the context of your particular circumstances.

We accept no responsibility for any loss or damage occasioned by your reliance on information contained in this publication.

ey.com/ca