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We are pleased to present our report on the commitment of Ernst & Young LLP (EY Canada) to audit quality. Delivering high-quality audits is central to our purpose of building a better working world and is our top priority. Innovation, continuous improvement and consistency of execution are key themes in our Assurance practice with technology being a catalyst to drive continuous improvements in quality.

As independent auditors, we take seriously our responsibility to serve the public interest and our role in the capital markets. We know that we work to serve investors and that, in addition to being technically skilled to execute quality audits, our people must act with the highest level of integrity, objectivity, skepticism and independence.

Our stakeholders want to better understand how we execute audits and continue to improve audit quality. This report is one of the ways that we provide transparency on these important objectives. Our audit practice is not just our largest service offering; it is central to our brand – a brand that defines our organization.

This report describes what we are doing to innovate and drive continuous improvement in audit quality and how we are using data analytics and other technologies to audit more effectively. The audit profession is not immune to the business model disruption being experienced across many industries driven by advances in technologies such as blockchain, artificial intelligence and robotic process automation. The audit of the future will be very different. At EY, we are making the investments in people, processes and technologies to ensure we maintain high-quality audits in the current environment and drive innovation to lead the way for the audit of the future.

We hope this report helps you understand our commitment to audit quality and serving the public interest. We welcome your comments and questions about EY and the matters discussed in this report. Please contact an EY partner for more information.
We are committed to performing audits independently, objectively and with professional skepticism, to serve the public interest, promote transparency and enhance investor confidence. Our system of quality control is fundamental to our ability to consistently perform high-quality audits. It underpins everything we do, and we continue to look for ways to make it more robust.

**Tone at the top**

Our senior leaders are responsible for setting the right tone at the top and demonstrating our commitment to delivering quality audits. They consistently deliver the message that performing quality audits is our top priority. Our audit practice is the primary driver of the EY brand, and our reputation depends on this performance.

That message is also delivered by our partners and other leaders to all of our professionals. Our people know that everyone at the firm is accountable for the quality of his or her work. Quality is a key element of how we evaluate and compensate all of our professionals, including our leaders. This promotes accountability. Our new performance development and management approach further emphasizes our accountability for quality audits by creating more touchpoints during the year for our professionals to receive feedback.

We continue to focus on reinforcing key behaviors that we believe contribute to audit quality and support our quality-focused culture. Acting with integrity, remembering our commitment to the public interest, maintaining independence, and exhibiting professional skepticism are just some of the keys to executing quality audits that we continue to stress in our professionals.
“Quality audits are, and always will be, our priority to serve the public interest and promote trust and confidence in financial reporting. Innovation, continuous improvement and consistency of execution are key themes that drive quality in our Assurance practice.”

Massimo Marinelli
Canadian Assurance Managing Partner

Globally consistent audit quality
Through the EY global organization’s Sustainable Audit Quality (SAQ) program, we and other EY member firms around the world share a commitment to delivering the highest quality audits in the profession. The SAQ program is the top focus for our Assurance practice in our global Vision 2020+ strategy.

The overarching elements of the SAQ program are tone at the top and accountability. The four other components are strengthen our people capabilities, audit technology and digital, enablement and quality support, and simplification, i.e., simplifying our tools and audit methodology so our people can better identify and respond to risk.

The EY global organization drives consistency by requiring auditors at EY member firms to use the same audit methodology and the same tools and to evaluate their professionals against the same quality standards, regardless of their location. We also have a Global Code of Conduct, with which all EY people are required to confirm compliance each year. The Code also requires our auditors to protect confidential information relating to the companies we audit.

Preparing for change
We are proactive about preparing our professionals for an unprecedented period of accounting change and rapid advances in technology that affect the ways in which business is conducted.

Calendar year-end public companies will be adopting the new revenue recognition standard on 1 January 2018. We are focusing our teams on identifying financial reporting and audit risks through training, enablement and coaching.

We have established a network of professionals with special training on the new revenue standard to help teams design and execute appropriate audit procedures. We are engaging in robust discussions with company management and the audit committee about the company’s readiness for adoption. We are also monitoring our own readiness to audit the financial statements and where applicable a company’s internal control over financial reporting under the new standard.

As auditors, we have an important role to play during this period of accounting change, and we are taking the necessary actions to promote trust and confidence in financial reporting. We continue to meet with our stakeholders to share our insights on implementation challenges related to major new standards on revenue recognition, leases, financial instruments and insurance contracts that they will be adopting over the next several years.

We are harnessing new technologies to expand our use of data analytical tools to help us audit more effectively. Our professionals can now analyze larger populations of data, giving them better information about the big picture and helping them identify items for follow-up. Our network of data analytics coaches support our
transformation to the audit of the future. We are also engaging with stakeholders to discuss how data analytics affect the audit and how these tools can be used to further audit quality.

**Thought leadership and outreach**

We see ourselves as thought leaders in our profession and focus on topics that are top of mind for our stakeholders. We engage with standard setters, regulators and other policymakers on a wide range of financial reporting and corporate governance topics. Our global connectivity on technical and regulatory matters allows us to develop world class expertise in Canada.

We promote high-quality financial reporting in our publications, discussions with audit committees and outreach with investors. We have published thought leadership and hosted webcasts to help audit committees and management to better prepare for the challenges their companies will face in adopting major new accounting standards on revenue recognition, leases and financial instruments. We also continue to contribute to the discussion on how companies use non-GAAP financial measures and the audit committee’s responsibility to oversee the use of these measures.

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 and thought leadership.

We actively engage with several networks of Canadian audit committee members across Canada to share experiences and exchange ideas for leading practices in the audit environment, including the implementation of new accounting and audit standards, cyber risks and oversight of the audit. 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.

We are also preparing for significant changes to the auditor’s report under new Canadian and PCAOB standards. We are discussing the changes with audit committees and have developed guidance and supporting materials to assist our audit teams.
We proactively innovate and leverage technology to deliver high-quality audits. We have significantly expanded our use of data analytics to help our auditors gather evidence and identify and investigate unusual patterns of transactions and other information in an audit. In our journey to building a better working world, we are continuing to innovate and integrate new technologies such as robotic process automation into our audits.

To drive improvements in audit quality, we’re also taking fresh approaches to how we execute audits by enhancing the process our teams use to perform their risk assessment and simplifying our audit approach.

Our suite of data analytics
We are embedding our EY Helix suite of data analytical tools in our audit process to analyze larger volumes of data and deepen our understanding of the companies we audit. By analyzing a complete population of transactions, our professionals can better identify and evaluate items in the audit that may not have been assessed using the traditional approach of selecting a sample of transactions.

Our professionals also use our Helix tools to analyze trends, further our understanding of a company’s processes and better identify financial reporting risks.

Our data analytic tools are built for use in our audits, regardless of size. They can handle the large amounts of data generated by the more complex companies we audit. We are continuing to expand the number of engagements in which we are using our account-based analytic audit programs, and we expect to accelerate our use of these programs in the coming year.

This graphic below lists many of the analytic tools in our current portfolio. We are also developing other sector-specific tools, such as a trade spending analyzer for use in audits of consumer products companies, a claims analyzer for use in
audits of insurance entities and a financial securities analyzer to independently verify valuations for instruments including stocks, bonds and derivatives.

Over the past year, our teams have focused on developing detailed plans to expand our use of these tools on their audits. To support their efforts, we have a network of technology specialists to capture company data and transform it for use with our tools. We also have dedicated data analytics coaches who help our teams use our tools most effectively on their engagements. We also have revamped our guidance and our training to incorporate the use of these tools.

Our global audit digital platform

All Canadian audit teams on public company audits use EY Canvas to apply our audit methodology, better identity and respond to risk, manage their day-to-day audit work and customize their audit approach. EY Canvas enables our auditors to monitor the progress of their audits in real time. Because it is a global tool, EY Canvas allows Canadian teams on multinational audits to better coordinate and supervise the work of auditors overseas. We are continuing to invest in EY Canvas to enable our teams to execute high-quality audits.

EY Canvas also allows us to communicate with the companies we audit and more easily track our requests for more information and the responses we receive. Our auditors are now able to access EY Canvas on their mobile devices, enabling them to check the status of work or update our files at anytime from anywhere.

Our global accounting research platform

EY Atlas is our state-of-the-art global accounting and financial reporting research platform. Enabled for use on smartphones and tablets, this tool provides our auditors with an integrated, consistent, easy-to-use way to find information while they are on the move. It helps us to deliver high-quality audits, because our teams will have faster, better and more relevant research results.

Integrated with EY Canvas, EY Atlas provides our teams with the most relevant up-to-date accounting, auditing and industry information for a client’s audit. We have also developed an EY Atlas Client Edition, which gives clients direct access to EY technical insights relating to accounting, financial reporting and regulatory filings, as well as thought leadership matters.

EY Atlas is a cloud-based solution that provides us with a platform that may incorporate artificial intelligence and speech recognition capability, bringing a leading research experience to our people and clients.

Other audit technology

We are incorporating the latest digital technologies into our audit tools and enhancing audit quality. We are also investing in emerging technologies such as robotic process automation, drones, artificial intelligence and blockchain.

We are testing the use of robotic process automation to perform repetitive tasks such as sending out and tracking confirmations of accounts receivable, investment accounts and other balances.

Our analyzers accommodate a range of data types

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<th>Consolidated trial balance</th>
<th>Trial balance and general ledger</th>
<th>Subledger and other tools</th>
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Our commitment to audit quality |
For example, certain engagement teams are now using a program to send emails seeking confirmation of receivable balances and reminders at specified times. The program can also update the log of confirmations received each day. We can then perform checks to make sure the confirmations are authentic. This automation eliminates the administrative task of sending hundreds of emails manually and tracking the responses, allowing our teams to focus on aspects of the audit that require judgement.

We are also exploring the use of specially equipped drones to improve the accuracy and frequency of inventory counts so our auditors can focus on identifying and addressing risks rather than performing manual counts. The drones are equipped with sensors that can read labels on products, such as automobiles at a manufacturing plant or retail goods in a warehouse, and feed the information directly into our electronic audit files.

We continue to invest in expanding our use of technology. We are exploring the use of machine learning (i.e., enabling computers to act without being explicitly programmed) to help us identify certain key terms in contracts, such as leases. This allows us to start grouping contracts together based on their characteristics, which can then be analyzed more effectively.

We are assessing the effect on the audit of blockchain technology, the distributed ledger technology that can be used to process transactions and store them in secure, sequential blocks. As we prepare for the broad application of blockchain technology, we are developing capabilities to allow our professionals to audit blockchain systems.

“Through innovation and leveraging technology our people are asking and answering better questions to deliver insightful high-quality audits.”

Daniela Carcasole
Canadian Assurance Innovation Leader

Enhancing our audit approach

Through our root cause process, we continue to identify the factors that lead to best-in-class audits as well as those that contribute to audit deficiencies. We are leveraging that information to drive further improvements in audit quality across our practice.

For example, to monitor timely completion of activities during key phases of the audit, which is a key part of executing a quality audit, our milestones project management program helps us identify in-process audits with lower levels of executive involvement and determine whether any additional actions are required.

We’ve also developed a new approach to gain an understanding of and document the flow of data in key business processes and the related internal controls over financial reporting. By simplifying the process we use to perform these procedures, we’re promoting greater team collaboration and more effective risk assessments.

“At EY, we are using advances in technology as a catalyst to drive continuous improvements in audit quality. By combining technology and our auditors’ professional skepticism and judgment we are able to deliver higher quality audits.”

Eric Spiekman
Professional Practice Director, Canada
Technology convergence: moving to higher performance, real time, forward looking
Our people are the key to performing high-quality audits, and we are committed to building high performing teams. That is why we focus on attracting and inspiring great people and on promoting an inclusive culture that values each individual. We also focus on retaining and developing our professionals to prepare for the audit of the future. To support these efforts, we have launched a new performance development and management approach that gives our people more frequent feedback and more meaningful career conversations.

**Attracting exceptional talent**

Delivering quality audits begins with having the right people with the right skills in the right place at the right time. Our expectations about technological innovations and demographic changes over the next few years will affect the way we recruit and develop our people and how we structure our teams. We view these changes as an opportunity to recruit professionals with a wider range of skills for the audit of the future and to develop new ways to attract young professionals to our mission of serving the public interest by performing quality audits.

In addition to looking for people with strong intellectual competencies and demonstrated achievements, we look for people who have energy, enthusiasm and the courage to lead and who demonstrate integrity, respect and the ability to team effectively.
Our audit practice recruits primarily on university campuses, where we actively promote the EY brand and the value of an audit career both in person and through social media. Our reputation as a great place to work enhances our ability to attract top talent.

In addition to hiring professionals with core auditing skills, we are recruiting professionals who specialize in information technology (IT), data analytics and other areas to help us prepare for the audit of the future.

Our strong brand is a critical tool in helping us hire top talent. In 2017, EY Canada was ranked the #1 most attractive professional services employer and the number #2 most attractive organization overall on Universum’s Most Attractive Employers rankings in Canada. This is the fourth consecutive year EY has been ranked #1 for professional services and #2 overall.

Creating a diverse and inclusive culture

Diversity and inclusiveness (D&I) is imperative to us. To deliver quality audits, we believe we need high-performing teams that maximize the power of different opinions, perspectives and cultural references. That’s why our goal is to make sure all of our people feel valued and able to bring their differences to work. We want to empower them to collaborate and lead inclusively to bring out the best in each other.

Our focus on D&I is a central part of our culture. As indicated in our most recent survey, more Canadian audit professionals than ever before said EY prepares them to work effectively with companies we audit and colleagues from different countries and cultures.

Our commitment to hiring women and providing opportunities for them to advance into leadership positions is a key element of our D&I strategy. More than half of our campus hires are women. In fiscal year 2017, 50% of our new Assurance partners were women. We sponsor groups such as our Professional Women’s Network that host local networking events to help our younger women professionals connect and team with our more senior leaders. Other networks we have sponsored include Catalyst, the Canadian Board Diversity Council, Institute of Corporate Directors and the 30% Club.

We are also committed to increasing ethnic diversity. Today, over 30% of our audit professionals are minorities. EY is actively involved in Ascend for our Asian professionals and has been recognized as an outstanding sponsor of youth development in the black community through our ongoing involvement with the Black Business & Professional Association (BBPA) and support of its various initiatives.

One indication of our inclusive culture is the wide variety of professional networks we offer. They include our EY AccessAbilities, Unity (lesbian, gay, bisexual and transgender), Pan Asian Professional Network (Ascend), Professional Women’s Network, Black Professional Network, Veterans Network and Today’s Families Network. In our most recent Global People Survey 89% of respondents said EY has created an inclusive environment where people with diverse backgrounds and experiences can succeed.

We are proud of the recognition we have received for our efforts, including:

- Universum’s Most Attractive Employer 2017 (ranked #1 in professional services and #2 overall in Canada)
- Great Place to Work’s Best Large and Multinational Workplaces in Canada 2017
- Pride at Work Canada – LGBT Inclusion Index (we ranked among the top five companies for 2017)
Retaining and engaging our professionals

Retaining our top performers is crucial to our ability to perform high-quality audits. Their experience and skills provide the continuity we need to perform high-quality work.

We believe providing a flexible work environment helps us retain top talent and develop high-performing teams. In fact, based on our annual survey results, flexibility has the strongest correlation with retention. Most of our people are able to work flexibly when they need to, and we offer a wide array of more formal flexible work arrangements for those who need to flex more consistently. In our latest global people survey, more professionals in our Canadian audit practice than ever said they have the flexibility to achieve their personal and professional goals.

We also provide flexibility by helping our people achieve a better work-life balance.

We retain more people when they are engaged. We use online surveys to help our teams assess the level of engagement of team members in areas that include team culture, flexibility and communication. Teams then discuss survey findings to develop action plans to improve the team's experience and reinforce things that are working.

Our counseling families also help our people feel more engaged by creating a greater sense of community. Counseling families comprise small groups of professionals who meet periodically with an executive and mentor and encourage one another on performance, career management and other important issues.

Enabling our people to express their passion for volunteerism also engages them. Participants in our corporate responsibility programs tend to have longer tenure with the firm, are more engaged and perform at higher levels than their peers. To provide more opportunities for volunteering, we have EY Connect Day, an annual program that allows professionals to volunteer with local non-profit organizations.

Developing a world class workforce

To create a pipeline of future auditors with technological skills, we work with university faculty to further promote accounting students' training in subjects such as data analytics and information technology.

We believe auditors of the future will need to have all of the following skills and attributes:

- Ability to analyze large data sets
- Analytical mindset
- Innovative
- Confidence to use emerging technologies
- Curious to ask better questions
- Communication
- Emotional intelligence
- Business acumen

To encourage our professionals to develop these skills, we are launching a program to provide digital credentials we call EY Badges in subjects such as data visualization, artificial intelligence, data transformation and information strategy. Our professionals will receive this recognition for acquiring skills by taking courses or having certain experiences.

We plan to accelerate our hiring of professionals with degrees in science, technology, engineering and mathematics (STEM) to help us prepare for the audit of the future.

Career development framework

The EY career development framework, EYU, provides our people with opportunities for learning and coaching to help them deliver high-quality audits.

Our training is aimed at teaching our professionals to think critically and to focus on risk, understand the professional standards and evaluate whether they have sufficient appropriate audit evidence, all with professional skepticism and due care.

That’s why we are emphasizing interactive classroom training that simulates the audit experience and training delivered online and on demand so our professionals can access it when they need to know more about a particular topic.

Providing our professionals with ongoing on-the-job coaching and mentoring is also important to perform high-quality audits. Active and focused coaching transforms learning and experiences into practice.
Our career development programs include rotations into our Professional Practice group and Quality Network. We also offer short- or long-term assignments with non-Canadian member firms. We encourage mobility as a way to accelerate personal and career development. In addition, we host events to celebrate promotions to the professional staff ranks of senior through executive director, where we provide training on building relationships and managing teams.

Our professionals are able to recognize individuals who helped them with a difficult assignment, explained how their work fits into the bigger picture or provided guidance on managing one's career.

**Performance management**

To ensure that partners and non-partners receive on-going feedback as well as regular conversations on career development, we have introduced a new performance management approach referred to as LEAD. LEAD offers an exciting new approach to talent and career development by focusing on better conversations and more frequent feedback from multiple sources. This gives our people a better picture of how they are progressing towards our “gold” standard metrics. Dashboards show individuals how they are progressing towards the “gold” standard from their self-assessments, as well as how they compare with their peers based on feedback provided to them.

The importance of performing quality work is reflected in our Audit Career Framework. It clearly describes our expectations for individuals at each rank, what it takes to progress to the next rank and how an individual’s performance and goals support our strategic priorities. Performance and pay are linked, and they will continue to be linked in LEAD.

Quality is also a key criterion in our evaluation and compensation of audit partners. Audit partners do not earn compensation based on the sale or provision of non-audit services by EY to companies they audit.

Noncompliance with quality standards may result in compensation adjustments, required special training, additional supervision and/or reassignment. A serious noncompliance matter or pattern of noncompliance may result in actions that include separation.

“LEAD is a forward looking framework that supports development. While it reviews what can be learned from past performance, its main focus is on activities that will enable achievement of an individual’s career aspirations. It’s a far better motivating platform for career growth than the previous generations of performance management systems.”

**Charles Marful**
Assurance Talent Leader, Canada
Our system of quality control provides the foundation for our people to execute high-quality audits. We focus on understanding the risks involved in every audit and building teams that have the competencies and capacity to address those risks. We analyze our portfolio throughout the year to identify audits that may pose additional risks and provide support to individual teams.

Our audit teams use EY Canvas to execute audits, manage their work and track their progress on meeting milestones throughout the audit. We also use the information we collect in our inspections and other reviews of our performance to make changes to our training and guidance to further improve audit quality.

We carefully assess the risks of auditing companies and assign partners who have the right skills and the capacity to lead our audit teams in executing high-quality audits. We also integrate specialists into our teams to help us with certain complex matters.

We have a strong quality support system that provides coaching and consultation, and we supplement that support with proactive oversight.

**Choosing the companies we audit**

We believe it is important for the companies we audit to share our commitment to quality and transparency in financial reporting. We have a rigorous process to assess risk and identify companies we want to work with, considering factors such as the company’s financial condition, management’s integrity and approach to meeting its financial reporting responsibilities and the strength of the audit committee. Our Professional Practice group, which operates independently of our regional audit practices, approves the decisions about which companies we will audit.
During 2017, we launched an enhanced continuance and acceptance tool to help us better identify risks associated with companies we audit. We are continuing to enhance the statistically based risk assessment metrics we use to improve our ability to assess and respond to risk in the audit portfolio.

**Building high-performing teams**

Executing high-quality audits requires a commitment to having the right people with time to conduct the audit.

**Assignment of audit partners**

We believe a partner’s leadership of the audit team is vital to audit quality. The partner in charge of the audit has overall responsibility for the direction, supervision and performance of the audit and sets the tone for the team.

For public companies, the assignment of a partner in charge is approved annually by Assurance leadership and Professional Practice. To assign partners in charge of audits, we consider their competency and availability to perform quality work and the audit partner rotation requirements. Our leaders review the workloads of audit partners to make sure they have enough time to execute quality audits. As part of these reviews, audit partners first evaluate their responsibilities and ability to lead the audit. Our leaders then discuss workloads with partners, emphasizing the need to focus on audit quality and the executives’ responsibilities to raise concerns.

**Assignment of the engagement quality reviewer**

Engagement quality reviews are an important element in our system of quality control. We assign a partner as an engagement quality reviewer (EQR) for each public company audit. Professional Practice approves the selections of partners for this role. The EQRs evaluate the significant judgments made by an audit team, including those made by the partner in charge of the audit. EQRs participate in key meetings in all phases of the audit, beginning with planning, and they evaluate both the team’s risk assessment and responses to the risks the team identifies.

We require EQRs to undergo focused training. We also provide our EQRs with guidance on practice issues and areas on which they should focus. During 2017, for example, a key area of focus for EQRs was what our teams were doing to audit companies’ implementation of the new revenue recognition standard.

**Staffing engagements**

For our public company audits, we annually review the staffing of audit professionals at the senior manager through senior levels. As part of that review, we evaluate whether those professionals have the appropriate competencies and availability for their assignments. We update that review based on a number of factors that could affect audit quality, including changes in workload for key members of the audit team or a change in the scope of the audit.

**Integrating specialists into the team**

More EY specialists are being integrated into our teams to help us address the increasingly complex IT environment, technical tax matters and valuation issues. The ability to bring professionals in various fields together in an integrated team enhances audit quality.

**Managing the audit**

Timely and direct executive participation is critical to the execution of a quality audit. Our experience indicates that teams that complete audit work, including reviews by executives, at the appropriate time execute higher-quality audits. Our milestones program helps us promote strong project management by focusing on meeting completion dates for each phase of the audit. Our milestones program also helps our audit teams accelerate the pace of their work. Taking work out of the busiest time of year leads to higher audit quality and enhances our people’s career experience.

EY Canvas facilitates communication with team members in other locations around the world and makes it easier to share files and check the status of work. EY Canvas also facilitates communication with the companies we audit, making it easier for both our teams and the companies to keep track of audit requests.
Teams track their progress on milestones through EY Canvas, which also allows partners and other engagement executives to monitor the audit team's progress, supervise and coach the team and respond more quickly as needed.

Supporting our teams
We continue to develop metrics to improve our ability to assess and respond to risk at the company and audit portfolio levels. For example, we use each team's annual risk assessment in the continuance process to differentiate engagements and identify those that might benefit from more coaching or oversight.

Quality Network
Members of our Quality Network coach our audit teams on complex matters so they can improve the quality of our audits. These coaching sessions include:

- How our teams understand and document a company's key business processes and identify potential risks of material misstatement
- The audit team's risk assessment and audit plan
- How teams are applying the accounting and auditing guidance and training we have provided

The network also supports audit quality through a number of activities, including learning and risk management. Each of our offices has a Quality Implementation Leader (QIL) who works with the local Assurance Managing Partner to improve our execution and support our quality initiatives. Our QILs are conducting more oversight of audits with higher risks and providing input on (1) the team's planned response to certain risks, (2) the involvement of specialists in the audit and (3) the team's progress on executing the audit plan, including meeting milestones, and resourcing.

Members of the Professional Practice group:

- Consult with audit teams on financial reporting, auditing and regulatory matters
- Provide audit teams and the companies we audit with guidance and thought leadership
- Provide tools that enable our teams to deliver high-quality audits
- Perform risk management activities
- Evaluate our quality control system on an ongoing basis
- Develop and operate our internal inspections program

We have Professional Practice partners in each of our major offices to afford greater accessibility and interaction with our audit partners, teams and clients. This proximity allows them to know the partners and their capabilities better, be more attuned to the effects of the regional economy and better understand the businesses we audit and the related risks.

Professional Practice also performs technical accounting reviews designed to assess how well our teams are responding to important accounting issues prior to issuance to provide timely feedback to our teams so they can make adjustments, if necessary, before we issue an auditor's report.

Audit control and methodology network
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 our global audit methodology and help audit teams implement our methodology effectively and efficiently.

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

Pre-issuance review program
We do not wait for the audit to be complete before assessing the team's performance. We conduct rigorous reviews of specific areas of selected public company audits before we issue an auditor's report to help us assess how our teams are using the guidance and tools we've deployed.

These reviews inform our thinking about what additional actions may be necessary to drive further improvements in audit quality. We use this approach to evaluate our performance in areas such as auditing internal control over financial reporting and auditing management estimates.
**Culture of consultation**

We have long promoted a culture of consultation to help drive audit quality. We believe consultation is an important way to address the challenges of more complex accounting standards that in recent years have required more significant audit judgments. We believe our consultation culture is a sign of strength.

We require consultation in certain cases but also strongly encourage our people to exercise professional skepticism and challenge whether we have arrived at the appropriate conclusion. We encourage all personnel – regardless of their level – to ask questions. In our view, better questions drive better answers and highlight how fundamental our professional skepticism is to the audit.

**Technical Accounting Support Network**

We provide additional technical accounting resources for all of our audit teams across Canada through the technical accounting support network (TASN). Audit teams are required to consult with TASN in specific situations including complex business acquisitions, impairment assessments and debt/equity transactions.

**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, and results of root cause analysis to determine whether steps need to be taken to improve audit quality.

“Our Quality network is proactively engaged in coaching audit teams and in front-end risk assessment. Our milestones program facilitates strong project management and provides leadership with visibility of how teams are delivering against their milestones across the audit practice.”

*Kam Grewal*

Quality Implementation Leader, Canada
Monitoring our performance and the effectiveness of actions we take to improve our performance are key elements in our system of quality control. Our monitoring programs help us assess the quality of our work. They also help us take action more quickly and effectively when needed. In addition, we monitor trends in restatement activity and our compliance with independence requirements.

The results of our monitoring provides us with a basis to conclude that our quality control system and practices meet professional standards and regulatory requirements.

**Evaluating our system of quality control**

Maintaining an effective system of quality control is critical to our ability to perform quality audits. To make sure our system of quality control is effective, we test the design and operating effectiveness of key elements, such as our processes for engagement acceptance and continuance, partner assignments and evaluating the workloads of our partners. We continuously look for ways to improve our system of quality control.
Internal inspections
In our Audit Quality Review program, we conduct inspections of selected engagements after we issue our auditor’s report. We base our selection on risk and focus on audits that are large, complex or of significant public interest. Another factor is how long it has been since a partner’s last inspection.

In these reviews, we measure compliance with professional standards, relevant regulatory requirements and our policies and procedures. We also focus on specific audit areas to evaluate audit quality. We continue to accelerate the timing of these reviews to help us identify information that we can use to quickly adjust our audit approach and drive improvements in audit quality.

Independence monitoring
Independence of the external auditor is one of the cornerstones for providing trust and confidence to the capital markets. Our system of quality control includes policies and procedures to provide us with reasonable assurance that we are complying with all of the applicable rules governing our independence.

We have a global independence group that maintains policies, processes and tools to help our professionals around the world meet applicable independence standards and regulatory requirements and enable us to monitor compliance.

All EY Canada client-serving professionals at the rank of manager through partner are required to confirm compliance with independence policies and procedures quarterly. All other EY client-serving professionals and certain others, based on their role or function, are required to confirm compliance annually.

Managers through partners are also required to record securities they hold, along with securities held by members of their immediate families, in our Global Monitoring System (GMS). Anyone who purchases a proscribed security or holds a security that becomes proscribed receives a notice and is required to sell the security.

We test compliance on an ongoing basis with our personal independence confirmation requirements and with our requirement to report information into GMS. We audit each partner’s compliance with our independence policies approximately every five years, and EY Canada leadership is audited every three years.

We also monitor compliance with independence requirements related to the permissibility and preapproval of non-audit services such as tax and advisory services as part of the firm’s internal inspection programs.

We reinforce our policies, processes and systems through independence training and messaging that compliance with our independence policies is essential. Noncompliance has consequences that could include a decrease in compensation or separation from the Firm.
We want to drive further improvements in audit quality and are fully committed to doing so. We value the Canadian Public Accountability Board (CPAB) and Public Company Accounting Oversight Board (PCAOB) inspection process because it helps us identify areas where we can continue to improve our performance.

**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.

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 and other training. 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 directs auditors to discuss the contents of CPAB’s annual public report with audit committees. 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. File selection is risk-based usually considering between two and four focus areas as the basis for assessing the quality of audit work in a selected file. The focus areas are generally material high-risk financial statement items requiring more complex estimates and judgment. CPAB communicates, in confidence, the inspection findings on individual audit files to the audit firm. The Protocol directs the auditor to share significant inspection findings, if any, with the audit committee of the entity.

We provide the audit committees of the entities we audit with a copy of CPAB’s most recent annual public report on its inspections of the Big Four accounting firms and speak to the matters raised in the report that reflect issues of importance to us and our audit clients. We 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 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 a mutually agreeable protocol and expectations, and ensure confidentiality is maintained when the inspection findings are available for discussion.

At the conclusion of the firm inspection, CPAB issues a private report to the firm that includes a summary of findings as well as recommendations to improve audit quality.

**CPAB’s evolving inspection strategy**

CPAB is evolving its inspection approach in 2018 to better identify and understand impediments to improving firm quality systems and consistency in how audits are performed. The 2018 inspection approach will evolve to incorporate additional operational reviews of the effectiveness of firm structure, accountabilities, quality processes and culture. We welcome this development and believe we are well positioned for the change through implementation of our global Sustainable Audit Quality Program and our relentless focus on consistency of audit execution. While we believe we have strong quality controls aligned with the current audit quality control standards, we have commenced a comprehensive review of our quality control systems and processes to ensure we are well-positioned for CPAB’s shifting inspection focus and consistent with our philosophy of continuous improvement.

**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 inspection process is designed and performed in a manner that gives the PCAOB a basis for assessing the degree of the audit firm’s compliance with applicable requirements and standards related to auditing SEC issuers. Because its inspections are designed to identify deficiencies in audit work, the PCAOB cautions that its inspection reports are not intended to serve as balanced report cards or an overall rating of the quality of the audits performed by a firm. 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.

**Summary of principal observations from the inspection report**

Part I is the publicly available portion of our PCAOB inspection report and is 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 inspection report is included in Part IV of the inspection report.

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.

**International regulators**

The International Forum of Independent Audit Regulators (IFIAR) has established a target for the six largest global network audit firms to reduce the number of audits with at least one significant finding as reported by the nine members of IFIAR’s Global Audit Quality Working Group by at least 25% over four years. The four year period ends with the 2017 inspection cycle, which is in progress now. While those results will not be available until later in 2018, the EY Global network is on track to achieve this commitment.

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