

# Transparency Report 2020

EY US





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Message from our  
EY US Chair and  
Managing Partner  
and our EY US  
Assurance Leader



Welcome to the 2020 Transparency Report issued by Ernst & Young LLP (EY US). We believe our approach to advancing sustainable audit quality, managing risk and maintaining our independence as auditors should be transparent to our stakeholders. Executing high-quality audits and providing professional audit services objectively and ethically to every company we audit continue to be our top priorities and are at the heart of our commitment to serve the public interest.

We value regular dialogue, and this annual report is one of the ways we update stakeholders. In our 2020 Transparency Report, you will learn more about our internal system of quality control; how we instill professional values; how we perform our audit; our review and consultation processes; our approach to audit quality reviews; our independence practices; and the impact of COVID-19 on our operations.

#### Demonstrating resiliency in the midst of disruption

During the COVID-19 pandemic, we continued to promote trust and transparency in the capital markets by executing high-quality audits. The EY global organization's investments in technology – including our EY Canvas online audit platform – allowed us to transition seamlessly to a virtual work environment, since the project management approach was embedded in our technology. In addition, the EY Canvas Client Portal allowed companies to transfer files directly to EY Canvas, which is housed on a virtual private network, bringing security and stability to the audit.

Responding to an uncertain and rapidly changing environment, our Professional Practice group and our Quality Network provided new guidance, training and coaching to help our teams address financial reporting challenges, including heightened estimation uncertainty, and practical challenges, such as how to audit

inventory remotely. Many of our clients have a reach beyond the US, and we have maintained our rigor around coordination and review of component audits throughout the pandemic.

#### Expanding the use of data analytics and our data-first approach

Over the past year, we continued to expand our use of data analytics in every phase of the audit. By combining the strength of our technology and the skills of our people, our data-first approach has enabled audit teams to deepen our understanding of the companies we audit and their financial reporting, enhance our risk assessments and obtain audit evidence based on full populations of data. In our latest audit cycle (mostly audits of 2019 financial statements), 99% of our teams on US public company audits used the EY Helix general ledger analyzer, and the number of teams that use data-driven audit procedures to obtain substantive evidence tripled from the previous year.

#### Building high-performing teams, grounded in our values

We understand that our people are fundamental to our ability to deliver high-quality audits, and we continue to focus on diversity and inclusiveness, building a culture of belonging and developing transformative leaders. We are proud to have been named to Fortune magazine's 100 Best Companies to Work For® for the 22nd consecutive year and recognized by DiversityInc for our commitment to creating a culture that values diversity and inclusiveness.

As leaders, it is our responsibility to emphasize the foundational elements of our culture: acting with integrity, maintaining our independence, meeting the highest ethical standards and respecting each other. This past year, we recognized the need to take bold and intentional action against societal issues of racism. We facilitated dialogue in our teams and pledged to promote equality and drive positive change internally, in our communities and through public policy. EY US also made a financial commitment to support historically black colleges and universities and organizations committed to addressing these societal issues.

#### Strengthening our system of quality control

Our system of quality control is aligned with the six pillars of the EY global organization's Sustainable Audit Quality program, including tone at the top, people capabilities, simplification and innovation, audit technology and digital, enablement and quality support, and accountability. This past year, we continued to update our documentation and processes to comply with the quality control standard the International Auditing and Assurance Standards Board recently approved.

In the current environment where highly visible corporate fraud is being covered extensively in the news, EY US has reaffirmed our commitment to audit quality. Whenever corporate frauds or other wrongdoing are identified, irrespective of which firm is the auditor, EY US always examines our policies and practices and takes the opportunity to learn and enhance our processes where necessary, including enhancing continuously our focus on fraud risks in the audits.

#### Engaging with stakeholders across the financial reporting ecosystem

We meet regularly with the Public Company Accounting Oversight Board and the

US Securities and Exchange Commission to discuss opportunities to strengthen the profession. Kelly Grier serves as Chair of the Governing board of the Center for Audit Quality (CAQ), an organization committed to fostering the public's trust in financial reporting and audit quality, and we are fully engaged in its activities. We also participate in the Anti-Fraud Collaboration, a combined effort with the CAQ, Financial Executives International (FEI), National Association of Corporate Directors (NACD) and Institute for Internal Auditors (IIA).

Finally, we benefit from the feedback and advice of our Independent Audit Quality Committee (IAQC) on all aspects of our business, operations, culture, talent strategy governance and risk management that affect audit quality. The IAQC is comprised of external leaders with extensive experience as investors, directors, regulators and company executives.

This report is designed to comply with a European Union directive that requires US statutory auditors of public interest entities to publish an annual transparency report that includes certain information. Our US audit quality report, *Our commitment to audit quality*, provides more information about our audits of US public companies.

We encourage all our stakeholders – including our clients and their investors, audit committee members and regulators – to continue to engage with us on our strategy as well as any of the matters covered in this report.



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Kelly J. Grier  
US Chair and Managing Partner  
Ernst & Young LLP

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John L. King  
US Vice Chair – Assurance  
Ernst & Young LLP

### EY's purpose: building a better working world

EY is committed to doing its part in building a better working world. The insights and quality services delivered by EY people help build trust and confidence in business and the capital markets. EY auditors serve the public interest by delivering high-quality audits with independence, integrity, objectivity and professional skepticism. In so doing, the EY organization plays a critical role in building a better working world for EY people, clients and communities.



## About us

### Legal structure, ownership and governance

In the US, Ernst & Young LLP (together with its affiliate, Ernst & Young U.S. LLP) is a limited liability partnership organized in Delaware and is a member firm of Ernst & Young Global Limited, a UK company limited by guarantee (EYG). In this report, we refer to ourselves as “EY US,” “we,” “us” or “our.” EY refers collectively to the global organization of the member firms of EYG.

EYG member firms are grouped into three geographic Areas: Americas; Asia-Pacific; and Europe, Middle East, India and Africa (EMEIA). The Areas comprise multiple Regions, which themselves consist of member firms.

EY US is part of the Americas Area, which comprises member firms in 31 countries. Within the Americas Area, there are eight Regions; EY US consists of four of those Regions.

It is a member of Ernst & Young Americas LLC (EY Americas), the coordinating entity for the Americas Area.

Partners and principals (referred to collectively as “partners”) of the EY member firms in the Americas are also members of EY Americas. EY Americas has no financial operations and does not provide services to clients.

The coordinating body for EY Americas is the Americas Operating Executive (AOE). It oversees the execution of global EY strategy in the Americas and comprises: the Americas Area Managing Partner; the Americas Deputy Managing Partner; the Area Leaders for Accounts, Talent and Risk Management; the Area Leaders for Assurance, Consulting (previously Advisory), Strategy and Transactions (previously Transaction Advisory Services) and Tax; and the Managing Partners of each of the Regions in the Americas.

The partners in each Region elect a Regional Partner Forum (RPF), whose representatives advise and act as a sounding board for Regional leadership. The partner elected as Presiding Partner of the RPF also serves as the Region’s representative on the Global Governance Council (see page 7). Some Regions of EY US have

more than one representative on the Global Governance Council.

#### Americas Ethics Oversight Board

With membership drawn from the EY Americas leadership, the service lines and the member firms that make up the Americas Area, the Americas Ethics Oversight Board (AEOB) strives to promote consistency and best practices with regard to compliance with the EY Global Code of Conduct and other ethical standards within EY Americas. The AEOB also reviews investigations, and disciplinary actions taken by EY Americas member firms, involving alleged violations of the Code of Conduct or other ethical standard applicable to the member firms of EY Americas and their partners, principals and employees for fair and consistent enforcement and imposition of consequence for violations.

#### EY US Governance

The EY US Executive Committee, which is responsible for managing EY US, comprises (at September 30, 2020) the Chair and Managing Partner, the Deputy Managing Partner, the US Regional Vice Chairs, the Service Line Vice Chairs for Consulting, Assurance, Tax, and Strategy and Transactions, the Vice Chairs of Accounts, Operations, Risk, Office of Strategic Execution, Talent, and EY’s Diversity & Inclusiveness Officer. Among other basic matters, the EY US Executive Committee is responsible for certain partner matters (for example, partner admissions, separations, disciplinary matters and earnings allocations). In addition, no fewer than 24 EY US partners, none of whom serve on the Executive Committee, are elected by the EY US partners to serve as the Partner/Principal Council (PPC). The PPC’s approval is required for the nomination of the EY US Managing Partner and the appointment of the Deputy Chair, among other things, and the PPC serves in an advisory role to the Executive Committee.

The US Ethics Oversight Committee is established at the direction of the US Executive Committee to promote consistency and best practices within EY US with regard to investigations and disciplinary actions under the EY Global Code of Conduct and other ethical standards applicable to EY US.

# Network arrangements

EY is a global leader in assurance, tax, strategy, transaction and consulting services. Worldwide, over 298,000 people in member firms in more than 150 countries share a commitment to building a better working world, united by shared values and an unwavering commitment to quality, integrity and professional skepticism. In today's global market, the integrated EY approach is particularly important in the delivery of high-quality multinational audits, which can span nearly every country in the world.

This integrated approach enables EY member firms to develop and draw upon the range and depth of experience required to perform such diverse and complex audits.

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

clients and others in each country, and be more responsive to local needs.

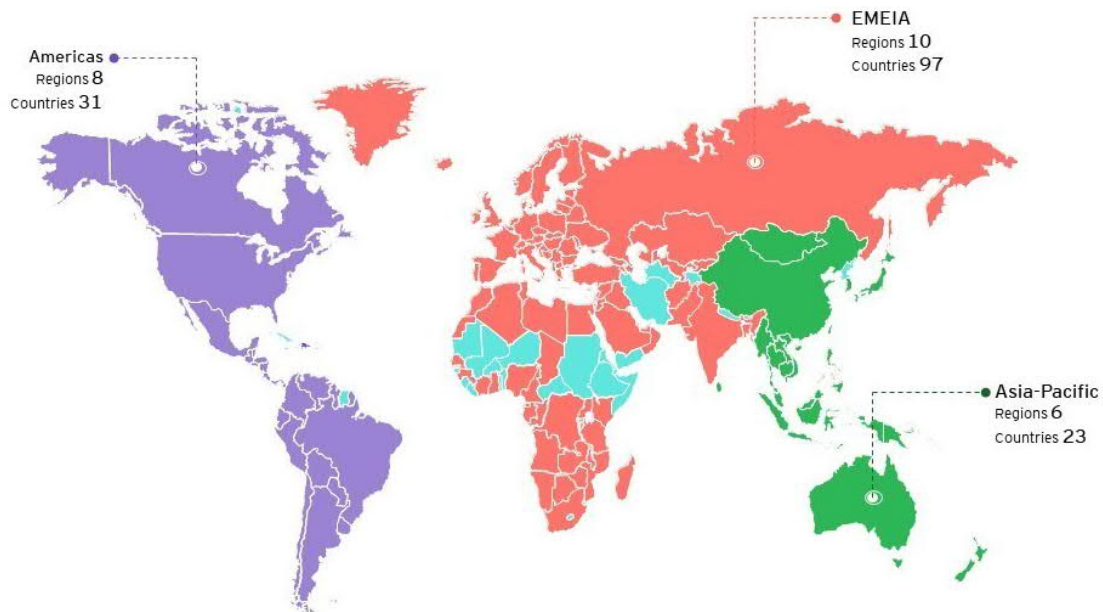
## Global Governance Council

The Global Governance Council (GGC) is the main oversight body of EYG. It comprises one or more representatives from each Region, other member firm partners as at-large representatives and up to six independent non-executives (INEs). The Regional representatives, who do not hold senior management roles, are elected by their RPFs for a three-year term, with provision for one successive reappointment. The GGC advises EYG on policies, strategies, and the public interest aspects of its decision-making. The GGC approves or ratifies, upon the recommendation of the GE, certain matters that could affect EY.

## Independent Non-Executives

Up to six Independent Non-Executives (INEs) are appointed from outside EY. The INEs are senior leaders from both the public and private sectors and reflect diverse geographic and professional backgrounds. They bring to the global organization, and the GGC, the significant benefit of their varied perspectives and

■ Figures are as of 1 July 2020



The structure and principal bodies of the global organization, described below, reflect the principle that EY, as a global organization, has a common shared strategy.

At the same time, the network operates on a Regional level within the Areas. This operating model allows for greater stakeholder focus in the Regions, permitting member firms to build stronger relationships with

depth of knowledge. The INEs also form a majority of the Public Interest Sub-Committee (PIC) of the GGC. The role of the PIC includes public interest aspects of decision-making, issues raised under whistle-blowing policies and procedures, and stakeholder dialogue and engagement in quality and risk management discussions. The INEs are nominated by a committee of the Chair, the CEO, the Presiding Partner of the GGC and such other persons appointed by the committee.

## Global Executive

The Global Executive (GE) brings together EY's leadership functions, services and geographies. As of 1 July 2020, it is chaired by the Chairman and CEO of EYG, and includes its Global Managing Partners of Client Service and Business Enablement; the Area Managing Partners; the global functional leadership for Talent; the leaders of the global service lines – Assurance, Consulting (previously Advisory), Strategy and Transactions (previously Transaction Advisory Services) and Tax; and one EYG member firm partner on rotation.

The GE also includes the Global Vice Chair of Markets, the Global Vice Chair of Transformation, the Chief Client Technology Officer, the Chair of the Global Accounts Committee, the Chair of the Emerging Markets Committee, as well as a representative from the Emerging Markets practices.

The GE and the GGC approve nominations for the Chairman and CEO of EYG and ratify appointments of the Global Managing Partners. The GE also approves appointments of Global Vice Chairs. The GGC ratifies the appointments of any Global Vice Chair who serves as a member of the GE.

The GE's responsibilities include the promotion of global objectives and the development, approval and, where relevant, implementation of:

- Global strategies and plans
- Common standards, methodologies and policies to be promoted within member firms
- People initiatives, including criteria and processes for admission, evaluation, development, reward and retirement of partners
- Quality improvement and protection programs
- Proposals regarding regulatory matters and public policy
- Policies and guidance relating to member firms' service of international clients, business development, markets and branding
- EY's development funds and investment priorities
- EYG's annual financial reports and budgets
- GGC recommendations

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

## GE committees

Established by the GE and bringing together representatives from across the organization, the GE committees are responsible for making recommendations to the GE. In addition to the Global Audit Committee, examples of other committees include Assurance, Consulting, Tax, Strategy and Transactions, Global Markets and Investments, Global Accounts, Emerging Markets, Talent and Risk Management.

## Global Practice Group

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

## EYG member firms

Under the regulations of EYG, member firms commit themselves to pursue EY's objectives, such as the provision of high-quality service worldwide. To that end, the member firms undertake the implementation of global strategies and plans, and work to maintain the prescribed scope of service capability. They are required to comply with common standards, methodologies and policies, including those regarding audit methodology, quality and risk management, independence, knowledge sharing, human resources (HR) and technology.

Above all, EYG member firms commit to conducting their professional practices in accordance with applicable professional and ethical standards, and all applicable requirements of law. This commitment to integrity and doing the right thing is underpinned by the EY Global Code of Conduct and EY values (see page 12).

Besides adopting the regulations of EYG, member firms enter into several other agreements covering aspects of their membership in the EY organization, such as the right and obligation to use the EY name, and knowledge sharing.

Member firms are subject to reviews to evaluate adherence to EYG requirements and policies governing issues, such as independence, quality and risk management, audit methodology and HR. Member firms unable to meet quality commitments and other EYG membership requirements may be subject to termination from the EY organization.





## Commitment to Sustainable Audit Quality

### Infrastructure supporting quality

#### Quality in our service lines

NextWave is EY's global strategy and ambition to deliver long-term value to clients, people and society. NextWave also reconfirms that EY's purpose of building a better working world continues to inspire EY people to not only serve clients, but also to use our knowledge, skills and experiences to support the communities in which we live and work. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies around the world.

Delivering high-quality audits and continuously improving what we do are fundamental to building a better working world. To do so, we recruit, develop and retain the right people; embrace innovation; encourage simplification; and monitor what we do closely. Serving the public interest through the delivery of high-quality audits consistently around the world is a top priority. Significant investments continue to be made to deliver state-of-the-art tools and develop EY people. EY audit teams embrace a digital-first approach and are supported by a more than US\$600m investment in new and emerging technologies.

EYG member firms and their service lines are accountable for delivering quality engagements. EY member firms' service lines manage the overall process for quality reviews of completed engagements and input for the quality of in-process engagements, which helps achieve compliance with professional standards and EY policies.

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

#### Professional Practice

The Global Vice Chair of Professional Practice, referred to as the Global Professional Practice Director (PPD), works to establish global audit quality control policies and procedures. The Global PPD and the related Area Assurance Leader coordinate the activities of the Area PPDs.

This helps provide greater assurance as to the objectivity of audit quality and consultation processes.

The Global PPD also leads and oversees the Global Professional Practice group. This is a global network of technical subject-matter specialists in accounting and auditing standards who consult on accounting, auditing and financial reporting matters; and perform various practice monitoring and risk management activities.

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

Additional resources often augment the Global Professional Practice group, including networks of professionals focused on:

- Internal-control reporting and related aspects of the EY audit methodology
- Accounting, auditing and risk issues for specific industries and sectors
- Event-specific issues involving areas of civil and political unrest; or sovereign debt and related accounting, auditing, reporting and disclosure implications
- General engagement matters and how to work effectively with audit committees

The EY US Professional Practice group provides audit teams and the companies we audit with guidance and thought leadership on a wide range of financial reporting topics, including issues relating to the pandemic and those we may identify using our automated technology for reviewing disclosures in SEC filings. The group also develops materials to help our teams deliver high-quality audits, performs risk management activities, evaluates our quality control system and operates our monitoring and internal inspections programs.

## Risk Management

Responsibility for high-quality service and ownership of the risks associated with quality is placed with the member firms and their service lines. Among other things, the Global Risk Management Leader coordinates activities relating to the the management of these risks by the member firms, as well as other risks across the organization as part of the broader Enterprise Risk Management framework.

Member firm partners are appointed to lead risk management initiatives (supported by other staff and professionals within member firms), including coordinating with the service lines on such matters.

There were additional complexities in 2020 as the world deals with the COVID-19 pandemic. This required a coordinated response across EY via activation of the Global Crisis Management Program (GCMP). Every aspect and geography of the business was affected. The GCMP, led by the Global RM Leader, involved EY's leadership on a frequent and consistent basis. The GCMP is an extensive program that is reviewed regularly. It includes plans that cascade from the Global and Area levels.

## Global Confidentiality Policy

Protecting confidential information is ingrained in the everyday activities of EYG member firms. Respect for intellectual capital and all other sensitive and restricted information is required by the EY Global Code of Conduct, which provides a clear set of principles to guide the behaviors expected of all those who work with EY. The Global Confidentiality Policy further details this approach to protect information and reflect the ever-changing restrictions on the use of data. This policy provides added clarity for those who work with EY and forms the fundamental broader guidance that includes key policies on conflicts of interest, personal data privacy and records retention. Other guidance includes:

- Social media guidance
- Information-handling requirements

In addition, the global policy on Reporting Fraud, Illegal Acts and Other Non-compliance with Laws, Regulations and EY's Global Code of Conduct requires EY professionals to speak up on observing behavior that is believed to be a violation of a law or regulation, applicable standard or EY's Global Code of Conduct. This includes the unauthorized or improper disclosure of confidential information.

Furthermore, the global policy on Personal Data Protection supports and builds upon provisions within the EY Global Code of Conduct regarding respecting and protecting personal information, in accordance with local law and professional standards, which has been updated consistent with the EU General Data Protection Regulation (GDPR), where applicable.

## Cybersecurity

Managing the risk of major and complex cyberattacks is a part of doing business for all organizations. While no systems are immune from the threat of cyberattacks, EY US is vigilant in the steps it takes to secure and protect client data. The EY approach to cybersecurity is proactive and includes the implementation of technologies and processes necessary to manage and minimize cybersecurity risks globally. EY information security and data privacy programs, consistent with industry practices and applicable legal requirements, are designed to protect against unauthorized access to systems and data. There is a dedicated team of cybersecurity specialists who constantly monitor and defend EY systems.

Beyond technical and process controls, all EY people are required to affirm in writing their understanding of the principles contained in the EY Global Code of Conduct and their commitment to abide by them. There are also required security awareness learning activities. Various policies outline the due care that must be taken with technology and data, including, but not limited to, the Global Information Security Policy, and a global policy on the Acceptable Use of Technology. EY cybersecurity policies and processes recognize the importance of timely communication. EY people receive regular and periodic communications reminding them of their responsibilities from these policies and of general security awareness practice.

## Components of our audit quality control program

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

- Instilled professional values
- Internal quality control system
- Client acceptance and continuance
- Performance of audits
- Review and consultation
- Rotation and long association framework
- Audit quality reviews
- External quality assurance reviews
- Compliance with legal requirements

# Instilled professional values

## Sustainable Audit Quality

Quality is the foundation of our work and central to EY's responsibility to provide confidence to the capital markets. This is reflected in the Sustainable Audit Quality (SAQ) program, which continues to be the highest priority for EY member firms' Assurance practices.

SAQ establishes a strong governance structure that enables each member firm to provide high-quality audits. It is implemented locally; and coordinated and overseen globally. The word "sustainable" in SAQ is used to demonstrate that this is not a one-off, short-term initiative, but an ongoing process of improvement.

There are six SAQ pillars: tone at the top; exceptional talent; simplification and innovation; audit technology and digital; enablement and quality support; and accountability. The pillars are supported by a foundation of serving the public interest.

Significant progress has been made through SAQ. EY member firms' internal and external inspection findings globally are improving, and there is greater consistency in execution. EY has deployed world-class technological tools that enhance the quality and value of EY audits, including the EY Canvas online audit platform, the EY Helix analytics and the EY Atlas research tool.

A key feature of EY Canvas is the EY Canvas Client Portal, which enables clients to communicate with audit teams and confirm what information auditors have requested and whether that information has been provided. EY Canvas also facilitates the use of the "Milestones" project management functionality, which helps audit teams stay on pace with their audit execution and drive executive involvement. Finally, project management enhancements within Canvas empower audit teams to be focused on audit execution.

When Milestones and the project management tools and enablement are used, engagement teams can more effectively execute audit tasks with appropriate skepticism and curiosity. As a result, audit quality is enhanced.

Other SAQ initiatives include: our Purpose-Led Outcome Thinking (PLOT), a framework that focuses on the behaviors that drive high-quality audits; and Key Findings Review, which helps coach EY teams.

There is also a network of Quality Enablement Leaders (QELs), an overall Global Audit Quality Committee and a Culture and Behaviors Taskforce. They help us in executing and reviewing root cause analysis and understanding the impact of our initiatives in driving quality outcomes, better behaviors and a continuous improvement mindset.

Audit quality is something that every team member must understand and be committed to implementing locally. SAQ is essential to all our goals and ambitions, and each Regional and Area leader has oversight of the efforts to achieve those goals.

The SAQ infrastructure demonstrates that audit quality is the single most important factor in our decision-making and the key measure on which our professional reputation stands.

## Tone at the top

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

The EY approach to business ethics and integrity is contained in the EY Global Code of Conduct and other policies and is embedded in the EY culture of consultation, training programs and internal communications. Senior management regularly reinforces the importance of performing quality work, complying with professional standards, adhering to our policies, and leading by example. In addition, EY assesses the quality of professional services provided as a key metric in evaluating and rewarding EY professionals.

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

The consistent stance of EY US has been that no client is more important than our professional reputation – the reputation of EY US and the reputation of each of our professionals.

## Independent advice on audit quality

Leaders of EY US meet regularly with our three-member Independent Audit Quality Committee (IAQC) and seek the IAQC's feedback and advice about aspects of our business, operations, culture, talent strategy, governance and risk management that affect audit quality. The IAQC was created in January 2019 and is comprised of external leaders with extensive experience from key roles in the financial reporting

ecosystem, as investors, directors, regulators and company executives.

The independent insight of these experts has provided great value to the firm. This year, we held four regularly scheduled meetings with the IAQC, plus five additional meetings to address emerging issues related to, among other things, the COVID-19 pandemic.

Our meetings focused on various matters related to firm leadership, culture and firm governance, talent, audit performance and the results of internal and external audit quality monitoring efforts. These topics included our increasing use of data and technology in the audit, our process for implementing new accounting and auditing standards and how we are equipping our professionals with skills and tools to support a data-driven audit. The IAQC also addressed our efforts related to diversity and inclusiveness, performance management, assignments, training and workload management.

Firm leaders also sought IAQC input on significant risks to the profession, such as competitive, regulatory and environmental challenges, which included matters related to reputational risk from our global network and the conduct of audits of global companies.

The IAQC dedicated a significant amount of time in 2020 advising the firm with respect to its response to the COVID-19 pandemic. Leaders of the firm met with the IAQC beginning in the early stages of the pandemic to discuss its effect on the performance of audits, including how the Firm's system of quality control was enabling the performance of high-quality audits virtually and what we were doing to support our professionals. This also included understanding the firm's interaction with regulators, the companies we audit and other key stakeholders.

In performing its work this year, the IAQC met with a variety of EY US leaders and professionals, including the US Executive Committee, various regional and functional leaders of the Assurance practice and client-serving professionals of all levels.

### Code of Conduct

We promote a culture of integrity among our professionals. The EY Global Code of Conduct provides a clear set of principles that guide our actions and our business conduct and are to be followed by all EY personnel. The EY Global Code of Conduct is divided into five categories:

- Working with one another
- Working with clients and others
- Acting with professional integrity
- Maintaining our objectivity and independence
- Protecting data, information and intellectual capital

Through our procedures to monitor compliance with the EY Global Code of Conduct and through frequent

communications, we strive to create an environment that encourages all personnel to act responsibly, including reporting misconduct without fear of retaliation.

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

When a report comes into the EY Ethics Hotline, either by phone or internet, it receives prompt attention. Depending on the content of the report, appropriate individuals from Risk Management, Talent, Legal or other functions are involved in addressing the report. The same procedures are followed for matters that are reported outside of the EY Ethics Hotline.

### Our values: who we are

People who demonstrate integrity, respect, teaming and inclusiveness

People with energy, enthusiasm and the courage to lead

People who build relationships based on doing the right thing

## Internal quality control system

### Structure

EY US's reputation for providing high-quality professional audit services independently, objectively and ethically is fundamental to our success as independent auditors. We continue to invest in initiatives to promote enhanced objectivity, independence and professional skepticism. These are fundamental attributes of a high-quality audit.

At EY US, our role as auditors is to provide assurance on the fair presentation of the financial statements of the companies we audit. We bring together qualified teams to provide audit services, drawing on our broad experience across industry sectors and services. We continually strive to improve our quality and risk management processes so that the quality of our service is at a consistently high level.

We recognize that in today's environment – characterized by continuing globalization, the rapid

movement of capital and the impact of technology changes – the quality of our audit services has never been more important. As part of NextWave, we continue to invest heavily in developing and maintaining our audit methodology, tools and other resources needed to support quality service.

While the market and stakeholders continue to demand high-quality audits, they also demand an increasingly effective and efficient delivery of audit services. In addition to the investments mentioned, EY continues to seek ways to improve the effectiveness and efficiency of its audit methodology and processes, while improving audit quality.

We work to understand where our audit quality may not be up to our own expectations and those of stakeholders, including independent audit regulators. We seek to learn from external and internal inspection activities and to identify the root causes of adverse quality occurrences to enable us continually to improve audit quality. We believe that taking effective and appropriate actions to improve quality is important.

### Effectiveness of the quality control system

EY has designed and implemented a comprehensive set of global audit quality control policies and practices. These policies and practices meet the requirements of the International Standards on Quality Control issued by the International Auditing and Assurance Standards Board (IAASB). EY US has adopted these global policies and procedures and has supplemented them as necessary to comply with local laws and professional guidelines, and to address specific business needs.

In the US, we execute a testing program to evaluate whether our system of audit quality control (SQC) has operated effectively to provide reasonable assurance that EY US and our people comply with applicable professional standards, internal policies and regulatory requirements.

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

The US Chair has the ultimate responsibility for the implementation of quality improvement program that aligns with the Global Executive's overall quality improvement strategy. As such, leadership reviews the results of the internal AQR program and external audit firm regulatory reviews, as well as any key actions designed to address areas for improvement.

The results of such monitoring, together with feedback from independent audit regulators, give us confidence that our internal control systems are designed appropriately and are operating effectively.

### Update to the control framework – ISQM 1

In September 2020, the IAASB approved International Standard on Quality Management 1 (ISQM 1) that requires significant changes to the way professional accountancy firms manage quality. ISQM 1 will replace the current International Standard on Quality Control 1 (ISQC 1) and take a more proactive and risk-based approach.

ISQM 1 will require firms to design, implement, monitor and assess the overall system of quality management (SQM) that provides reasonable assurance a firm will meet its quality objectives.

The standard includes more robust requirements for the governance, leadership and culture of professional accountancy firms, and a risk assessment process that evaluates risks to achieving quality objectives and identification of controls that address those risks. It also requires more extensive monitoring of the SQM to evaluate the effectiveness and identify deficiencies that require corrective actions.

An effective SQM is the foundation for EY's quality initiatives and will enhance quality and operating effectiveness. The EY approach is to implement an SQM that is consistently applied across the entire network of member firms. This is especially important in a global economy where many audits involve the use of other EY member firms. A globally consistent SQM helps ensure engagement quality and consistent execution.

While the standard is effective as of December 2022, EY US has commenced work to implement the new standard alongside EY's System of Quality Management global transformation program. Our initial steps have included:

- Identifying the functions and services lines that fall within the scope of ISQM 1
- Establishing a program governance structure to manage the implementation of ISQM 1 with representatives from the various functions and service lines
- Identifying and assessing quality risks and documenting controls in accordance with the network developed approach
- Identifying network resources and requirements and how they are implemented or used by EY US in their SQM
- Identifying enhancements to the control framework and documentation to evidence the operation of existing controls

We believe that the requirements in ISQM 1 can facilitate our commitment to continuous improvement of quality at the firm and engagement level as an effective system of quality management is foundational to achieving consistent engagement quality.

The PCAOB and AICPA have undertaken similar standard-setting activities. In December 2019, the

PCAOB issued a concept release on a potential approach to revising the PCAOB's quality control standards. The concept release solicited public comment to inform the PCAOB on the approach and what changes it might propose in the future to strengthen the PCAOB's requirements for audit firms' quality control systems. The concept release outlines that the PCAOB is considering using ISQM 1 as a starting point for a future PCAOB quality control standard, with certain incremental or alternative requirements to ISQM 1 that may be appropriate for firms performing engagements under PCAOB standards. The PCAOB is analyzing comments received in response to the concept release and determining next steps.

The AICPA's Auditing Standards Board (ASB) has a project underway to converge its current quality control standards with ISQM 1. The ASB has been following the IAASB timing such that the ASB exposure draft can be issued shortly after the finalization of ISQM 1.

## Client acceptance and continuance

### EY policy

The EY global policy on Client and Engagement Acceptance sets out principles for member firms to determine whether to accept a new client or a new engagement or to continue with an existing client or engagement. These principles are fundamental to maintaining quality, managing risk, protecting EY people and meeting regulatory requirements. The objectives of the policy are to:

- Establish a rigorous process for evaluating risk and making decisions to accept or continue clients or engagements
- Meet applicable independence requirements
- Identify and deal appropriately with any conflicts of interest
- Identify and decline clients or engagements that pose excessive risk
- Require consultation with designated professionals to identify additional risk management procedures for specific high-risk factors
- Comply with legal, regulatory and professional requirements

In addition, the EY global policy on Conflicts of Interest defines global standards for addressing categories of potential conflicts of interest and a process for identifying them. It also includes provisions for managing potential conflicts of interest as quickly and efficiently as possible using appropriate safeguards. Such safeguards may include obtaining client consent to act for another party where a conflict of interest may exist, establishing separate engagement teams to act for two or more parties, implementing "ethical

walls" between engagement teams or declining an engagement to avoid an identified conflict.

The EY global policy on Conflicts of Interest and associated guidance consider the increasing complexity of engagements and client relationships, and the need for speed and accuracy in responding to clients. They also align with the latest International Ethics Standards Board for Accountants (IESBA) standards.

### Putting policy into practice

We use the EY Process for Acceptance of Clients and Engagements (PACE), an intranet-based system, for efficiently coordinating client and engagement acceptance and continuance activities in line with global, service line and member firm policies. PACE takes users through the acceptance and continuance requirements, and identifies the policies and references to professional standards needed to assess both business opportunities and associated risks.

As part of this process, we carefully consider the risk characteristics of a prospective client or engagement and the results of several due diligence procedures. Before we take on a new engagement or client, we determine whether we can commit sufficient resources to deliver quality service, especially in highly technical areas, and if the services the client wants are appropriate for us to provide. The approval process is rigorous, and no new audit engagement may be accepted without the approval of Regional or local PPD.

In the EY annual client and engagement continuance process, we review our service and ability to continue to provide a quality service and confirm that clients we serve share EY US's commitment to quality and transparency in financial reporting. The partner in charge of each audit, together with our Assurance leadership, annually reviews our relationship with the audit client to determine whether continuance is appropriate.

As a result of this review, certain audit engagements are identified as requiring additional oversight procedures during the audit (close monitoring), and some audit clients are discontinued. As with the client acceptance process, our Region PPD is involved in the client continuance process and must agree with the continuance decisions.

Decisions about acceptance or continuance of clients and engagements consider the engagement team's assessment of whether the company's management may pressure us to accept inappropriate accounting, auditing and reporting conclusions to undermine quality. Considerations and conclusions on the integrity of management are also essential to acceptance and continuance decisions.

## Performance of audits

There has been significant investment by EY in improving audit methodologies and tools, with the goal of performing the highest-quality audits in the profession. This investment reflects EY's commitment to building trust and confidence in the capital markets and in economies the world over.

### Audit methodology

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

Using an online tool, EY Atlas, an EY auditor is presented with a version of EY GAM organized by topic and designed to focus the audit strategy on the financial statement risks, and the design and execution of the appropriate audit response to those risks. EY GAM consists of two key components: requirements and guidance; and supporting forms and examples. The requirements and guidance reflect both auditing standards and EY policies. The forms and examples include leading practice illustrations and assist in performing and documenting audit procedures.

EY GAM can be "profiled" or tailored to present the relevant requirements and guidance, depending on the nature of the entity being audited – e.g., there are profiles for listed entities and for those considered non-complex entities.

The EY data-first audit approach combines the vast amounts of financial and non-financial data available from an entity's systems with broad sources of knowledge to enable EY auditors to obtain sufficient and appropriate audit evidence. Through visualizing whole populations of data and applying professional skepticism, EY auditors can provide an additional challenge to management's assertions to drive high audit quality.

Our goal is full adoption of our digital audit methodology, which requires the use of data throughout the audit. To measure our progress, we use a digital scorecard that tracks quantitative and qualitative elements of our teams' digital adoption. This allows us to see how our teams are using data in

their audits and where teams may benefit from additional coaching and support. This approach also allows us to incorporate digital adoption into performance evaluations and strategically deploy our coaching and training resources.

Other enhancements have been made to address new standards; emerging auditing issues and matters; implementation experiences; and external and internal inspection results. Recently, EY GAM was updated for the requirements of ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* (effective for audits of periods beginning on or after 15 December 2019) and PCAOB Auditing Standard 2501, *Auditing Accounting Estimates, Including Fair Value Measurements* (effective for audits of fiscal years ending on or after 15 December 2020), and a suite of enablement to implement those requirements was issued.

In addition, current and emerging developments are monitored, and timely audit planning and execution communications are issued that emphasize areas noted during inspections as well as other key topics of interest to local audit regulators and the International Forum of Independent Audit Regulators (IFIAR). Specifically, with respect to the impact that COVID-19 is having on the global economy, guidance has been issued to address the accounting and financial reporting concerns that the entities EY member firms audit are facing, as well as audit considerations when performing audits in the current environment.

### Technology

Our audit engagement teams use technology to assist in executing and documenting the work performed in accordance with EY GAM.

EY Canvas, the global EY audit platform, lies at the heart of the audit and enables us to provide a high-quality audit. EY Canvas is built using state-of-the-art technology for web applications. This allows us to provide data security and to evolve our software to respond to changes in the accounting profession and regulatory environment.

Through the use of profile questions, audit engagements in EY Canvas are automatically configured with information relevant to an entity's listing requirements and industry. This helps to keep our audit plans customized and up-to-date, and provides direct linkage to our audit guidance, professional standards and documentation templates. EY Canvas is built with a user interface that allows the team to visualize risks and their relationship to the planned response and work performed in key areas. It also enables a linkage for group audit teams to communicate inter-office risks and instructions so that the primary audit team can direct execution and monitor performance of the group audit.

EY Canvas includes the EY Canvas Client Portal to assist teams in communicating with clients and streamlining their client requests. Mobile applications are integrated with EY Canvas to help our people in their audit work – e.g., in monitoring the status of the audit, capturing audit evidence securely and performing inventory observations.

Audit engagement teams use other applications, data analyzers and forms during various phases of an audit to assist in executing procedures, making and documenting audit conclusions and performing analysis. This includes EY Smart Automation, a collection of applications that are being developed and deployed globally through EY Canvas to digitally enable EY audit professionals in executing audit procedures and processes.

### Digital data analytics

At EY, we are making data analysis integral to our audits. Our use of data and analysis is not about additive procedures or visualizations. It is about taking large populations of company data and applying our globally consistent technology (EY Helix) and methodology (EY GAM) to audit that data.

EY Helix is a library of data analyzers for use in audits. These data analyzers are transforming the audit through the analysis of larger populations of audit-relevant data; identifying unseen patterns and trends in that data; and helping to direct our audit efforts. The use of data analytics also allows us to obtain better perspectives; richer insights; and a deeper understanding of transactions and areas of risk.

EY is deploying data analyzers to analyze the business operating cycles of the companies that we audit, supported by analytics-based audit programs to aid the application of these data analyzers.

Using the EY Helix library of data analyzers, EY audit engagement teams can enhance their audit risk assessment, enabling the identification and audit of higher-risk transactions, and assisting EY people in asking better questions about audit findings and evaluating the outcomes.

EY Atlas is a global technology platform that enables EY auditors to access the latest accounting and auditing content, including external standards, EY interpretations and thought leadership.

### Formation of audit engagement teams

EY US's policies require an annual review of partner assignments by our Assurance leadership and Region PPD. This is carried out, among other things, to make sure that the professionals leading audits of listed entities and other public-interest entities possess the appropriate competencies (e.g., the knowledge, skills and abilities) to fulfill their engagement responsibilities and are in compliance with applicable auditor rotation regulations.

The assignment of professionals to an audit engagement is also made under the direction of our Assurance leadership. Factors considered when assigning people to audit teams include engagement size and complexity; specialized industry knowledge and experience; timing of work; continuity; and opportunities for on-the-job training. For more complex engagements, consideration is given to whether specialized or additional expertise is needed to supplement or enhance the audit engagement team.

In many situations, internal specialists are assigned as part of the audit engagement team to assist in performing audit procedures and obtaining appropriate audit evidence. These professionals are used in situations requiring special skills or knowledge, such as tax, forensics, information systems, asset valuation and actuarial analysis.

## Review and consultation

### Reviews of audit work

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

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

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

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



## Consultation requirements

EY consultation policies are built upon a culture of collaboration, whereby audit professionals are encouraged to share perspectives on complex accounting, auditing and reporting issues. As the environment in which EY member firms work has become more complex and globally connected, the EY culture of consultation has become even more important to help EY member firms reach the appropriate conclusions for entities that they audit on a timely basis. Consultation requirements and related policies are designed to involve the right resources so that audit teams reach appropriate conclusions.

The EY culture of consultation enables engagement teams to deliver seamless, consistent and high-quality services that meet the needs of audited entities, their governance bodies and all stakeholders.

For complex and sensitive matters, there is a formal process requiring consultation outside of the audit engagement team with other personnel who have more experience or specialized knowledge, primarily Professional Practice and Independence personnel. In the interests of objectivity and professional skepticism, EY policies require members of Professional Practice, Independence and certain others to withdraw from a consultation if they currently serve, or have recently served, the client to which the consultation relates. In this circumstance, other appropriately qualified individuals would be assigned.

EY policies also require that all consultations are documented, including written concurrence from the person or persons consulted, to demonstrate their understanding of the matter and its resolution.

## Engagement quality reviews

Engagement quality reviews are performed by audit partners in compliance with professional standards for audits of all listed companies, certain public-interest entities and those considered to need close monitoring. Engagement quality reviewers are experienced professionals with significant subject matter knowledge. They are independent of the engagement team and provide an objective evaluation of the significant judgments the engagement team made, and the conclusions reached in formulating the auditor's report. The performance of an engagement quality review, however, does not reduce the responsibilities of the partner in charge of the engagement for the engagement and its performance. In no circumstances may the responsibility of the engagement quality reviewer be delegated to another individual.

The engagement quality review spans the entire engagement cycle, including planning, risk assessment, audit strategy and execution. Policies and procedures for the performance and documentation of engagement quality reviews provide specific guidelines on the nature; timing and extent of the procedures to be performed; and the required documentation evidencing their completion. In all circumstances, the engagement quality review is completed before the date of the auditor's report.

The Regional AMP (or Regional Audit Leader) and Region PPD approve all engagement quality review assignments.

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

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

These policies are made clear to people as they join EY, and we continue to promote a culture that reinforces a person's responsibility and authority to make their own views heard and seek out the views of others.

Differences of professional opinion that arise during an audit are generally resolved at the audit engagement team level. However, if any person involved in the discussion of an issue is not satisfied with the decision, they refer it to the next level of authority until an agreement is reached or a final decision is made.

Furthermore, if the engagement quality reviewer makes recommendations that the engagement partner does not accept or the matter is not resolved to the reviewer's satisfaction, the auditor's report is not issued until the matter is resolved. Differences of professional opinion that are resolved through consultation with Professional Practice are appropriately documented.

## Rotation and long association framework

EY US supports mandatory audit partner rotation to help reinforce auditor independence. EY US complies with the audit partner rotation requirements of the IESBA Code, as well as the U.S. Securities and Exchange Commission (SEC), where required. EY US supports audit partner rotation because it provides a fresh perspective and promotes independence from company management, while retaining expertise and knowledge of the business. Audit partner rotation, combined with independence requirements, enhanced

systems of internal quality controls and independent audit oversight, helps strengthen independence and objectivity, and are important safeguards of audit quality.

For PIEs, the EY Global Independence Policy requires the lead engagement partner, the engagement quality reviewer and other audit partners who make key decisions or judgments on matters significant to the audit (together, the “key audit partners”) to be rotated after seven years. For a new PIE (including a newly listed company), key audit partners may remain in place for an additional two years before rotating off the team if they have served the company for six or more years prior to the listing.

Upon completing the maximum service period for rotation, a key audit partner may not lead or coordinate professional services to the PIE audit client until after completing a cooling-off period. This period is five years for a lead audit engagement partner, three years for an engagement quality reviewer and two years for other partners subject to rotation.

Where the required cooling-off period for the lead audit engagement partner established by the local legislative body or regulator is less than five years, the higher of that cooling-off period or three years may be substituted for the otherwise required five-year cooling off period. This jurisdictional exception for the lead audit engagement partner may only be applied for audit periods beginning prior to 15 December 2023.

For US SEC issuer audit clients, including Foreign Private Issuers, the EY Global Independence Policy requires the lead audit engagement partner and the engagement quality reviewer to rotate after five years with a cooling-off period of five years. Other audit engagement team partners for a US SEC Issuer audit client are required to rotate off after seven years with a cooling-off period of two years.

In addition to the audit partner rotation requirements applicable to PIE audit clients, EY has established a long association safeguards framework that, consistent with the requirements of the IESBA Code includes consideration of the threats to independence created by the involvement of professionals over a long period of time on an audit and a safeguards framework to address such threats.

We employ tools to effectively monitor compliance with internal rotation and requirements for audit partners and other professionals who have had a long association with the audit client. There is also a process for rotation planning and decision-making that involves consultation with, and approvals by, our Professional Practice and Independence professionals.

## External rotation

For public interest entities, we comply with the external rotation requirements of Art. 17 (1) of the EU Audit Regulation.

## Audit quality reviews

The EY Global AQR program is the cornerstone of the EY process to monitor audit quality. EY US executes the Global AQR program, reports results and develops responsive action plans. The primary goal of the program is to determine whether systems of quality controls, including those of EY US, are appropriately designed and followed in the execution of audit engagements to provide reasonable assurance of compliance with policies and procedures; professional standards; and regulatory requirements. The Global AQR program complies with requirements and guidelines in the International Standard on Quality Control (ISQC) 1, as amended, and is supplemented where necessary to comply with US professional standards and regulatory requirements. It also aids EY US's continual efforts to identify areas where we can improve our performance or enhance our policies and procedures.

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

The engagements reviewed each year are selected on a risk-based approach, emphasizing audit engagements that are large, complex or of significant public interest, including elements of unpredictability. The AQR program includes detailed risk-focused file reviews covering a large sample of listed and non-listed audit engagements, and public interest entities and non-public interest entities, to measure compliance with internal policies and procedures; EY GAM requirements; and relevant local professional standards and regulatory requirements. It also includes reviews of a sample of non-audit assurance engagements performed by audit engagement teams. These measure compliance with the relevant professional standards, and internal policies and procedures that should be applied in executing non-audit assurance services. In addition, practice-level reviews are performed to assess compliance with quality control policies and procedures in the functional areas set out in ISQC 1.

The AQR program complements external practice monitoring and inspection activities, such as inspection programs executed by audit regulators and external peer reviews. It also informs us of our compliance with regulatory requirements, professional standards, and policies and procedures.

AQR reviewers and team leaders are selected for their skills and professional competence in accounting and auditing, as well as their industry specialization; they

have often participated in the AQR program for a number of years and are highly skilled in the execution of the program. Team leaders and reviewers are independent of the engagements and teams they are reviewing and are normally assigned to inspections outside of their home location.

The COVID-19 pandemic presented a particular challenge to the AQR program in 2020 as a result of restrictions on travel and face-to-face interaction. Utilizing EY Canvas and other collaboration tools, the program was effectively completed in EY US.

While we usually perform many of these inspections in the first half of the calendar year to obtain information that we can use to continue to enhance the quality of upcoming audits, we delayed the start of our program this year until early May to give our teams more time to adjust to working remotely during the pandemic.

We were still able to inspect a full program of about 200 public and private company audits (generally of financial statements for the year ended 31 December 2019), using our technology to conduct the reviews remotely. We learn from both public and private company internal inspection results.

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

## External quality assurance reviews

The PCAOB issued Part I of its report on the 2018 inspection of the firm, dated 28 April 2020, on 1 June 2020. Members of the PCAOB's inspection staff conducted primary procedures for the 2018 inspection from April 2018 to March 2019.

The PCAOB issued Part I of its report on the 2017 inspection of the firm, dated 12 September 2019, on 2 October 2019. Members of the PCAOB's inspection staff conducted primary procedures for the 2017 inspection from November 2016 to May 2018. The PCAOB is conducting primary procedures for the 2019 and 2020 inspections of the firm which remain in process.

We respect and benefit from the PCAOB's inspection process. We thoroughly evaluate the points raised during the inspection in order to identify areas where we can improve audit quality. Together with the AQR

process, external inspections aid us in making our audits and related control processes of the highest quality in the interests of our clients' investors and other stakeholders.

Information on the PCAOB along with publicly available inspection reports can be found at [www.pcaobus.org](http://www.pcaobus.org).

The Sarbanes-Oxley Act of 2002 provides that the section of the PCAOB inspections reports providing observations on a registered public accounting firm's quality controls will only have limited distribution to certain regulators. An inspected firm has one year in which to address any quality control deficiencies identified in this section of the inspection report. Only those deficiencies that are not remediated to the PCAOB's satisfaction within this one-year time frame are released publicly.

We take steps to address all of the matters described in the inspection reports, both in the public and non-public portions of the reports. The firm also participates in the peer review program of the American Institute of Certified Public Accountants (AICPA) that requires a triennial review of our system of quality control for the firm's accounting and auditing practice for non-SEC filers. The AICPA peer review program serves as a bridge between the PCAOB's inspection program and the firm's state licensing and other federal regulatory practice monitoring requirements.

The most recent peer review of EY's non-SEC accounting and auditing practice was completed by Grant Thornton LLP (GT) for the triennial period ended 30 June 2019. In a peer review, firms can receive a rating of pass, pass with deficiency(ies) or fail. GT issued a report with a pass rating, dated 12 December 2019, in connection with the firm's 2019 peer review. GT's report is available on the AICPA's website ([www.AICPA.org](http://www.AICPA.org)).

## Compliance with legal requirements

The EY Global Code of Conduct provides clear guidance about EY actions and business conduct. EY US complies with applicable laws and regulations, and EY's values underpin our commitment to doing the right thing. This important commitment is supported by a number of policies and procedures, explained in the paragraphs below.

### Anti-bribery

The EY Global Anti-bribery Policy provides EY people with direction on certain unethical and illegal activities. It emphasizes the obligation to comply with anti-bribery laws and provides a definition of what constitutes bribery. It also identifies reporting

responsibilities when bribery is discovered. In recognition of the growing global impact of bribery and corruption, efforts have been increased to embed anti-bribery measures across EY.

### **Insider trading**

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

### **Trade sanctions**

It is important that we are aware of the ever-changing situation with respect to international trade sanctions. EY monitors sanctions issued in multiple geographies and provides guidance to EY people on impacted activities.

### **Data privacy**

The EY Global Personal Data Privacy Policy, revised and reissued in 2018, sets out the principles to be applied to the collection, use and protection of personal data, including relating to current, past and prospective personnel, clients, suppliers and business associates. While the EU General Data Protection Regulation (GDPR) is not generally directly applicable to EY US, the global policy is consistent with the requirements of the GDPR and other applicable laws and regulations concerning data protection and privacy. EY also has Binding Corporate Rules on a global basis that are approved by EU regulators in place to facilitate the movement of personal data within the EY network. Furthermore, EY US has policies to address specific applicable US data privacy requirements and business needs.

### **Document retention**

EY US's record retention policy applies to all engagements and personnel. This policy addresses document preservation whenever any person becomes aware of any actual or reasonably anticipated claim, litigation, investigation, subpoena or other government proceeding involving us or one of our clients that may relate to our work. It also addresses US legal requirements applicable to the creation and maintenance of working papers relevant to the work performed.



## Independence practices

The EY Global Independence Policy requires EY US and our people to comply with the independence standards applicable to specific engagements, e.g., the IESBA Code of Ethics and AICPA Code of Professional Conduct along with SEC, PCAOB, and other US Federal and State regulators.

We consider and evaluate independence with regard to various aspects, including our financial relationships and those of our people; employment relationships; business relationships; the permissibility of services we provide to audit clients; applicable firm and partner rotation requirements; fee arrangements; audit committee pre-approval, where applicable; and partner remuneration and compensation.

Failure to comply with applicable independence requirements will factor into decisions relating to a person's promotion and compensation, and may lead to other disciplinary measures, including separation from EY US.

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

### EY Global Independence Policy

The EY Global Independence Policy contains the independence requirements for member firms, professionals and other personnel. It is a robust policy predicated on the IESBA Code and supplemented by more stringent requirements in jurisdictions where prescribed by the local legislative body, regulator or standard-setting body. The policy also contains guidance designed to facilitate an understanding and the application of the independence rules. The EY Global Independence Policy is readily accessible and easily searchable on the EY intranet.

### Global Independence System (GIS)

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

that indicate the independence rules that apply to each entity, helping our people determine the type of services that can be provided or other interests or relationships that can be entered into.

### Global Monitoring System (GMS)

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

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

### Independence compliance

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

#### Independence confirmations

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

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

#### Independence compliance reviews

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

### Personal independence compliance testing

Each year, the EY Global Independence team establishes a program for testing compliance with personal independence confirmation requirements and with reporting of information into GMS. For the 2020 testing cycle, EY US tested more than 2,150 partners and other personnel.

### Non-audit services

We monitor compliance with professional standards, laws and regulations governing the provision of non-audit services to audit clients through a variety of mechanisms. These include the use of tools, such as PACE (see page 14) and Service Offering Reference Tool (SORT) (see below), and training and required procedures completed during the performance of audits and internal inspection processes. We also have a process in place for the review and approval of certain non-audit services in advance of accepting the engagement.

### Global independence learning

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

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

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

In addition to the annual learning program, independence awareness is promoted through events and materials, including new-hire programs, milestone programs and core service line curricula.

### Service Offering Reference Tool (SORT)

We assess and monitor our portfolio of services on an ongoing basis to confirm that they are permitted by professional standards, laws and regulations, and to make sure that we have the right methodologies, procedures and processes in place as new service offerings are developed. We restrict services from being provided that could present undue independence or other risks. SORT provides EY people with information about EY service offerings. It includes guidance on which services can be delivered to audit

and non-audit clients, as well as independence and other risk management issues and considerations.

### Business Relationship Evaluation Tool (BRET)

EY people are required to use BRET in many circumstances to identify, evaluate and obtain advance approval of a potential business relationship with an audit client, thereby supporting our compliance with independence requirements.

### Audit committees and oversight of independence

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



## Continuing education of audit professionals

### Professional development

The continuous development of our people's skills and knowledge is critical to achieving our purpose of enhancing confidence in the capital markets.

Providing opportunities for the right experiences, learning and coaching helps them grow and achieve their potential at a variable pace of progression that suits them.

The day-to-day experiences gained are assigned locally in a systematic way, while the EY audit learning core curriculum is globally consistent. This is supported throughout by on-the-job coaching from more experienced professionals that helps to transform knowledge and experience into practice.

Learning is delivered through the award-winning Audit Academy, which combines "on-demand" e-learning modules with interactive physical and virtual classroom-based simulations and case studies, plus relevant reinforcement and application support. This is supplemented by learning programs that are developed in response to changes in accounting and reporting standards; independence and professional standards; new technology; and emerging practice issues.

Where an EYG member firm audits and reviews International Financial Reporting Standards (IFRS) financial statements, relevant team members undertake learning to become IFRS-accredited.

EY US requires our audit professionals to obtain at least 40 Continuing Professional Education (CPE) credits each year and at least 120 CPE credits over a three-year period. Of these CPE credits, 16 each year and 48 over a three-year period must cover technical subjects related to accounting and auditing.

### Knowledge and internal communications

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

information to help people collaborate and share best practices. Some EY resources and tools include:

- EY Atlas, which includes local and international accounting and auditing standards, as well as interpretive guidance
- Publications such as International GAAP, IFRS developments and illustrative financial statements
- *US Accounting and Auditing News* – weekly update covering assurance and independence policies, developments from standard setters and regulators, as well as internal commentary thereon
- Practice alerts and webcasts covering a range of global and country-specific matters designed for continuous improvement in member firms' Assurance practices

### Performance management

LEAD is EY's framework that connects people's career, development and performance. LEAD is a key driver in creating a step-change in the experience of EY people. Through ongoing feedback, development, counselor excellence and career conversations, LEAD aligns individuals with the NextWave strategy and enables people to focus on the future.

It is designed to support the growth and development of EY people at all stages of their career at EY. An individual's personal dashboard provides an easy to interpret snapshot of their performance against the Leadership at EY dimensions, including quality, risk management and technical excellence, and assess performance against peers. Feedback received during an annual cycle is aggregated and used as an input to compensation and reward programs.

Regular connect with a counselor on topics such as diverse career journeys, applying emerging technology, experiencing new teams and learning helps identify opportunities for further development and to build future-focused skills.



## Revenue and remuneration

### Financial information

Financial information for the period ended on 3 July 2020 expressed in US dollars.

Service	Revenue (in billions)	Percent
Audits and directly related services for audit clients listed in EU	\$0.1	0.6%
Other audits and directly related services (excl clients listed in EU)	\$4.6	29.1%
Non-audit services provided to audit clients listed in EU	\$0.01	0.1%
Non-audit services provided to other entities	\$11.1	70.2%
<b>Total revenue</b>	<b>\$15.8</b>	<b>100%</b>

Total revenue for EY US (which includes expenses billed to the clients and revenue for work we performed for other EY member firms) for our fiscal year ended 3 July 2020 was \$15.8 billion.

Revenue from Assurance services, including audit and other assurance services, was 33% of EY US revenue, if revenue related to work performed on audits by professionals in our Consulting, Tax and Strategy and Transactions service lines were included. EY US reports service line revenue based on the service line of the professionals who generate it. On that basis, our Assurance service line generated 28% of EY US revenue. Our other service lines, Consulting, Tax and Strategy and Transactions, generated 33%, 29% and 10%, respectively, of our revenue.

In our previous fiscal year, total revenue for EY US was \$15.2 billion. Revenue from Assurance services, including audit and other assurance services, was 34% of EY US revenue, if revenue related to work performed on audits by professionals in our Consulting, Tax and Strategy and Transactions service lines were included. On that basis, our Assurance service line generated 29% of EY US revenue. Our other service lines, Consulting (previously called Advisory), Tax and Strategy and Transactions (previously called Transaction Advisory Services) generated 32%, 28% and 11%, respectively, of our revenue.



## Partner remuneration

Quality is at the center of the EY strategy and is a key component of EY performance management systems. EY US partners are evaluated and compensated based on criteria that include specific quality and risk management indicators, covering both actions and results.

LEAD for partners, principals, managing directors and directors (PPMDDs) applies to all partners in EYG member firms around the world. LEAD for PPMDDs reinforces the global business agenda by continuing to link performance to wider goals and values. The process includes goal setting, ongoing feedback, personal development planning and performance review, and is tied to partners' recognition and reward. Documenting partners' goals and performance is the cornerstone of the evaluation process. A partner's goals are required to reflect various global priorities, one of which is quality.

EY policies prohibit evaluating and compensating lead audit engagement partners and other key audit partners on an engagement based on the sale of non-Assurance services to companies they audit. This reinforces to EY partners their professional obligation to maintain independence and objectivity.

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

- Providing technical excellence
- Living the EY values as demonstrated by behaviors and attitude
- Demonstrating knowledge of, and leadership in, quality and risk management
- Complying with policies and procedures
- Complying with laws, regulations and professional duties
- Contributing to protecting and enhancing the EY brand

The EY partner compensation philosophy calls for meaningfully differentiated rewards based on a partner's level of performance, as measured within the context of LEAD. Partners are assessed by their firms annually on their performance in delivering quality, exceptional client service and people engagement alongside financial and market metrics.

We operate under a system that requires quality to be a significant consideration in a partner's overall year-end rating.

To recognize different market values for different skills and roles, and to attract and retain high-performing individuals, the following factors are also considered when we determine our partners' total reward:

- Experience

- Role and responsibility
- Long-term potential

Instances of non-compliance with quality standards result in remedial actions, which may include performance evaluation, compensation adjustment, additional training, additional supervision or reassignment. A pattern of non-compliance or particularly serious non-compliance may result in actions that include separation from EY US.



## Appendix 1: List of PIE audit clients

### EY US PIE audit clients

In the most recent EY US annual report filed with the PCAOB at the end of June 2020, we listed all audit reports issued during the annual period ended 31 March 2020 with respect to the financial statements of US SEC issuers. The information on such audit reports and public interest entities was provided in Item 4.1 of PCAOB Form 2 – Annual Report Form. The PCAOB website can be found at [www.pcaobus.org](http://www.pcaobus.org) where such information is available electronically.

The list below includes the firm's relevant audit clients whose transferable securities are admitted to trading on a regulated market within the EU as of 30 June 2020.

AT&T Inc.  
IKB Funding Trust I  
Kosmos Energy Ltd.  
McDonald's Corporation  
Nestlé Holdings Inc.  
Walmart Inc.



## Appendix 2:

### List of approved EYG member firms in an EU or EEA member state

As of 3 July 2020, the following EYG member firms are approved to carry out statutory audits in an EU or EEA member State:

Member State	Statutory auditor or audit firm
Austria	Ernst & Young Wirtschaftsprüfungsgesellschaft mbH
Belgium	EY Assurance Services
	EY Bedrijfsrevisoren
	EY Europe SCRL
Bulgaria	Ernst & Young Audit OOD
Croatia	Ernst & Young d.o.o.
	Ernst & Young Croatia d.o.o.
Cyprus	Ernst & Young Cyprus Limited
	Ernst & Young
	Ernst & Young CEA (South) Services Ltd
	Ernst & Young CEA (South) Holdings Plc
Czech Republic	Ernst & Young Audit, s.r.o.
Denmark	EY Godkendt Revisionspartnerselskab
	EY Grønland Statsautoriseret Revisionspartnerselskab
	EY Net Source A/S
Estonia	Ernst & Young Baltic AS
	Baltic Network OU
Finland	Ernst & Young Oy
	Julkispalvelut EY Oy
France	Artois
	Auditex
	Ernst & Young Atlantique
	Ernst & Young Audit
	Ernst & Young et Autres
	EY & Associés
Picarle et Associes	
Germany	Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft
	Ernst & Young Heilbronner Treuhand GmbH Wirtschaftsprüfungsgesellschaft
	EY Revision und Treuhand GmbH Wirtschaftsprüfungsgesellschaft
	Schitag Schwäbische Treuhand GmbH Wirtschaftsprüfungsgesellschaft

Member State	Statutory auditor or audit firm
Gibraltar	EY Limited
Greece	Ernst & Young (Hellas) Certified Auditors Accountants SA
Hungary	Ernst & Young Könyvvizsgáló Korlátolt Felelősségű Társaság
Iceland	Ernst & Young ehf
Ireland	Ernst & Young Chartered Accountants
Italy	EY S.p.A.
Latvia	SIA Ernst & Young Baltic SIA
Liechtenstein	Ernst & Young AG, Basel
	Ernst & Young AG, Vaduz
Lithuania	Ernst & Young Baltic UAB
Luxembourg	Compagnie de Revision S.A.
	Ernst & Young Luxembourg S.A.
	Ernst & Young S.A.
Malta	Ernst & Young Malta Limited
Netherlands	Ernst & Young Accountants LLP
Norway	Ernst & Young AS
Poland	Ernst & Young Audył Polska sp. z o.o.
	Ernst & Young Audył Polska Spółka z ograniczoną odpowiedzialnością Finance spółka komandytowa
	Ernst & Young Audył Polska spółka z ograniczoną odpowiedzialnością Doradztwo Podatkowe spółka komandytowa
	Ernst & Young Audył Polska spółka z ograniczoną odpowiedzialnością sp. k.
	Ernst & Young Usługi Finansowe Audył sp. z o.o.
Portugal	Ernst & Young Audit & Associados - SROC, S.A.
Romania	Ernst & Young Assurance Services S.r.l.
	Ernst & Young Support Services SRL
Slovakia	Ernst & Young Slovakia, spol. s r.o.
Slovenia	Ernst & Young d.o.o.
Spain	ATD Auditores Sector Público, S.L.U
	Ernst & Young, S.L.
Sweden	Ernst & Young AB
United Kingdom	Ernst & Young LLP
	Ernst & Young Europe LLP

Total turnover for the year ended on 3 July 2020 for these EYG member firms resulting from statutory audits of annual and consolidated financial statements was approximately €2.8 billion.

EY | Assurance | Tax | Strategy and Transactions |  
Consulting

**About EY**

EY is a global leader in assurance, tax, strategy, transaction and consulting 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 our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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BMC Agency

GA 1016683

US SCORE no. 10795-201US

ED None

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