



2019 Audit Quality Report

Evolving today with a vision for tomorrow

Deloitte Institute *for*
**Audit Innovation
and Quality**

Contents



①

The evolving audit
quality landscape

④

Our quality-
advancement activities

②

Shaping the future
of the profession

⑤

Advancing our quality
management system

③

Evolving our view
of audit quality

⑥

Reflecting on
our journey and
looking ahead

To our clients and stakeholders

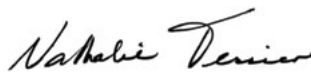
At Deloitte, achieving quality consistently across all audits is a core conviction.

Through our culture of innovation, continuous advancement, and agility, we aim to steadily continue cultivating the conditions required to support those of our people, who audit public companies. Our commitment to audit quality that reinforces confidence in the capital markets extends beyond today's audit: we're actively thinking about what it looks like tomorrow.

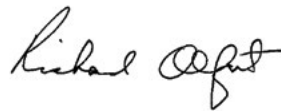
In this report, we share our evolving view on what constitutes audit quality as well as on the future of our profession. We share highlights of our key audit quality results, and outline our current actions to achieve our audit quality objectives and enhancements to our processes.



Anthony Viel
Managing Partner
& Chief Executive Officer



Nathalie Tessier
Managing Partner
Audit & Assurance



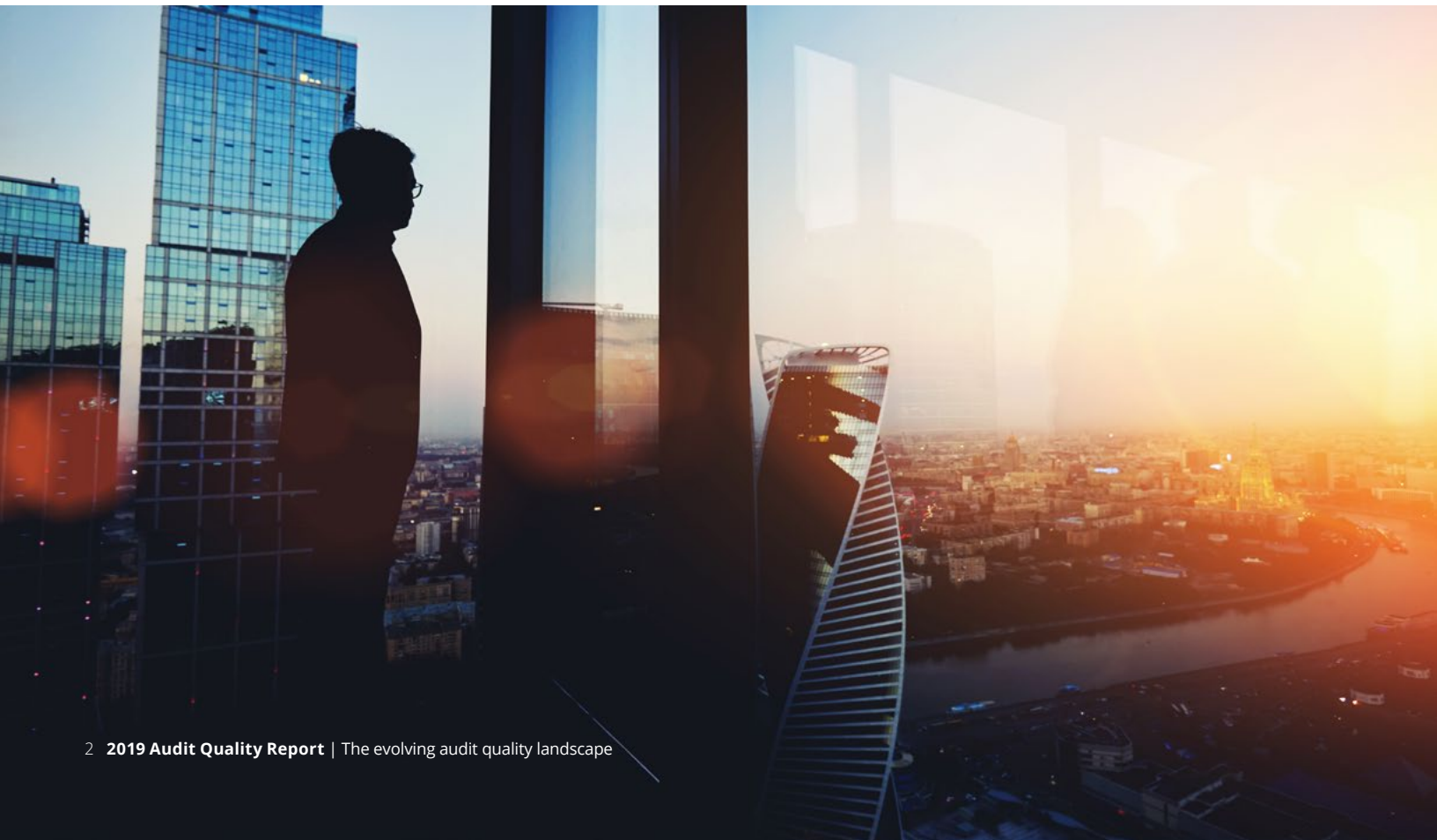
Richard Olfert
Managing Partner
Regulatory, Quality,
Risk & Reputation

The evolving audit quality landscape

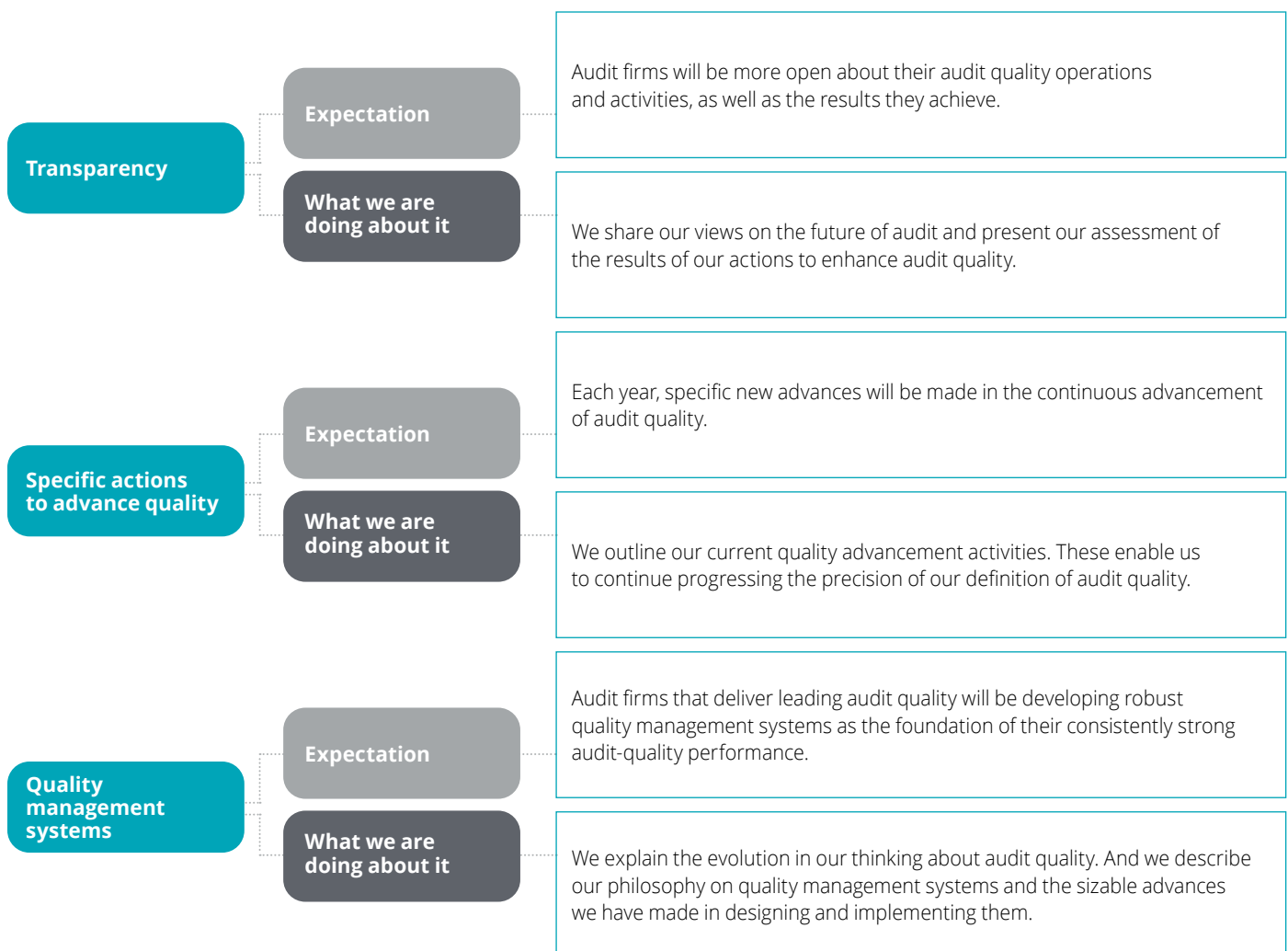
In many different forums around the world, both public and private, conversations about audit quality are plentiful. In each country, this discourse is flavoured by the local business climate and experience. In some countries, like the United Kingdom, momentous regulatory reforms are being publicly considered—not just for auditors, but also for audit committees, issuers, and regulators.

We know that in Canada, audit committees, the Canadian Public Accountability Board (CPAB, the nation's audit regulator), the Chartered Professional Accountant (CPA) profession, and firms that audit public companies are regular participants in conversations about audit quality. Most of these conversations are held privately, however; out of the public eye.

Deloitte engages enthusiastically in these conversations. Doing so is part of our genetic makeup: we embrace the public-interest role that audits play in the capital markets. We aim for our audits to be highly relevant, insightful experiences for the companies we audit and their audit committees. And we are motivated to address questions about the future of the audit and its continuing relevance.



Over the last year, we have sensed three distinct, recurring themes in our conversations with stakeholders in the capital markets.



We're embracing these emerging themes in our ongoing activities to advance audit quality. The results of our earlier efforts continue to faithfully provide the foundation for our evolving views on audit quality. In this report, we blend both these new and developing themes with our abiding commitment to continue advancing audit quality in order to address today's expectations.

Shaping the future of the profession

Audit and accounting are the foundation of Deloitte's business, and today they remain at the core of who we are and what we do. We're deeply committed to our role in the financial reporting ecosystem, and we aspire to be bold and relentless in defining what that looks like for tomorrow.

Advancing audit quality requires us to think ahead, extending beyond today's audit. We're therefore participating in constructive dialogue with a wide range of stakeholders to help shape the future of the profession.

The CPA Canada Foresight initiative

We're actively engaged with CPA Canada and provincial CPA bodies in discussing the topics that are affecting the future of chartered professional accountants, the profession, and the Canadian business landscape through the organization's Foresight project. This initiative is calling the profession to rally around the urgency of maintaining our relevance in two broad areas: engaging in the digital business world and the fast-paced evolution of how organizational performance and

value is assessed. These themes are central to how we at Deloitte view and plan for the future.

Our partners and professionals participated in the first stage of the project, bringing their perspectives on the challenges and potential opportunities. They are also being called upon for the second stage to help frame the issues and questions our profession is facing. In addition, a Deloitte partner is a member of the project's oversight committee.

Our view: What we see in the future?

On the business of auditing:

- The pace of change in business models, the digitization of the economy, and advances in technology must be matched by the advancement of audit firms' capabilities, investments, and agility. The economics of the auditing profession are being indelibly altered by the sheer magnitude of the financial investment required to do so.
- The demanding business environment requires audit firms to recruit the very best people and train individuals for new skills aligned to the new demands. To retain this degree of talent, we must create attractive, professionally challenging career paths that allow auditors to thrive.

On the broader financial reporting environment:

- Some countries are contemplating substantive reforms related to audit markets, the structure of audit firms, requirements on reporting issuers—both management and audit committees—as well as expectations of securities and audit regulators.

- As a profession, we must work together to bring forward our views on the impact these reforms would have on capital markets, should they be considered for adoption in Canada.
- Our views should be grounded on the foundation that sound financial reporting depends on the execution of the respective responsibilities of auditors, company management, and audit committees. Globally, all of these stakeholders are being challenged by regulators (and, in some cases, new regulations) to up their game. In Canada, there has been great focus on what auditors must do to improve audit quality, and less focus on advancing the financial reporting performance of reporting issuers.

On the future of the audit profession:

- In our 2018 report *Rising to the challenge: Adapting to the future of financial foresight*, we shared our perspective on how the auditing profession can stay relevant and described how Deloitte is active in shaping the future of auditing and accounting. We explored how investors and businesses are using companies' financial information differently than they used to, and the challenges that creates for the profession. And we offered our suggestions on how the profession must evolve to adapt to its new reality.

“Around the world, investors, directors, policymakers, and in some cases, even the public are sharing their expectations of the audit profession. The profession’s relevance to the capital markets will be ultimately determined by how meaningfully we engage on these evolving expectations.”

Richard Olfert

Managing Partner, Regulatory, Quality, Risk & Reputation

Shaping the future through stakeholder engagement

Deloitte partners share and enhance their perspectives through their participation in various professional and regulatory bodies, including:

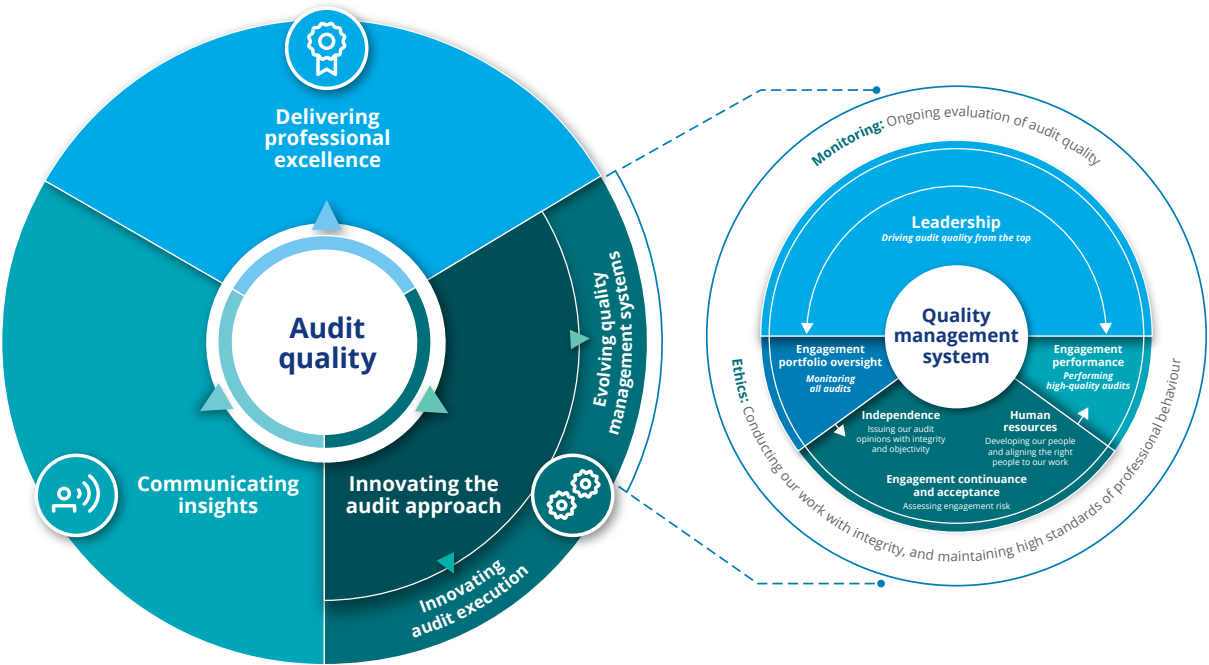
- The boards of CPA Canada and several provincial CPA bodies
- CPA Ontario Practice Inspection Committee
- Canadian Auditing and Assurance Standards Board (AASB)
- Audit Evidence Advisory Group, affiliated with the AASB
- Identifying and Assessing Risks Advisory Group, affiliated with the AASB
- Quality Control Advisory Group, affiliated with the AASB
- Reporting Implications of Assurance Standards Task Force, affiliated with the AASB
- Securities Regulations Advisory Group, affiliated with the AASB
- International Auditing and Assurance Standards Board (IAASB)
- Quality Management at Firm Level—ISQM 1 Taskforce, affiliated with the IAASB
- Advisory Group on Audit Guidance, affiliated with CPA Canada
- Ontario Securities Commission Continuous Disclosure Advisory Committee
- Canadian Securities Administrators' Financial Reporting Advisory Committee

Evolving our view of audit quality

Audit quality, in our view, extends beyond delivering the audit report. It also includes delivering meaningful insights to the companies we audit, and innovating how we execute our audits and manage our practice.



We’ve elevated our definition of audit quality, explicitly highlighting our quality management systems as a critical element in achieving consistent high quality across all engagements.



We believe audit quality includes the following dimensions:

Delivering professional excellence

At a technical level, quality can be defined as completing an audit in accordance with applicable auditing standards. In Canada, these are set by the Canadian Auditing and Assurance Standards Board. For Canadian companies that are also listed in the United States, auditing standards set by the Public Company Accounting Oversight Board also apply. We anticipate that professional excellence, based on current proposals, will also come to encompass adherence to new requirements on quality management systems.*

Innovating audit execution

A quality audit capitalizes on leading-edge technologies, analytics, and audit methods to perform an effective audit, and must at least keep pace with the advances in the systems and processes of the companies we audit.

Evolving quality management systems

The objective is increased consistency in quality across the portfolio of audits we undertake. This means comprehensive analyses of what risks could materialize into audit quality challenges and establishing controls, programs, and processes to prevent these situations.

We then need to turn our attention to addressing “warning signals” sent by these systems and comprehensive monitoring of the effectiveness of the systems themselves.

Communicating insights

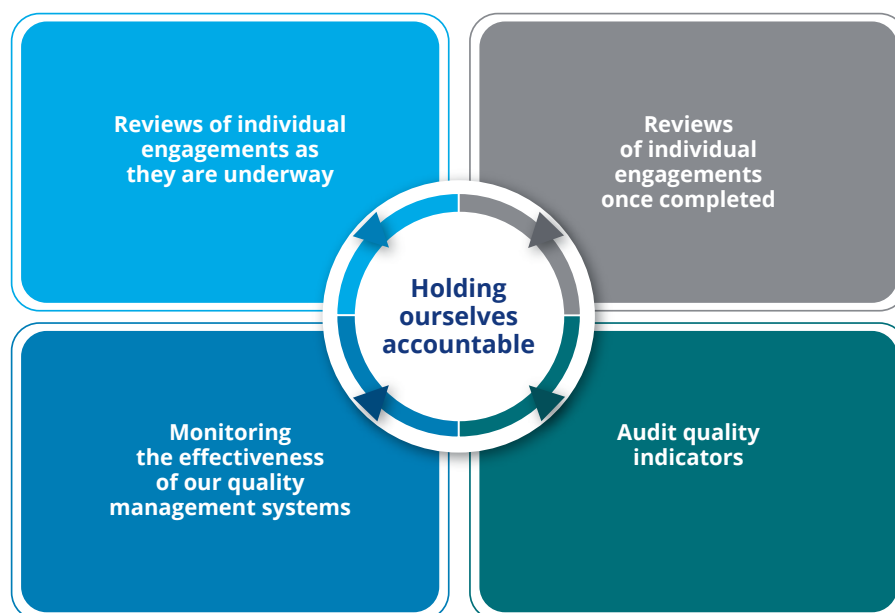
From the practical perspective of an audit committee, we believe that audit quality provides the committee with a deeper understanding of the organization it oversees. Thoughtful communication of findings from the auditor’s work generates conversations that are robust, insightful, and focused on the company’s key risks and issues.

*We describe our technical processes in our [annual transparency report](#).

Our composite assessment of audit quality

Our commitment to delivering high-quality audits requires us to hold ourselves accountable. This means continually monitoring and measuring our progress against our quality aspirations. Our internal audit-quality measuring and monitoring practices evaluate our compliance with professional standards and the effectiveness of our quality management system design in helping our professionals execute high-quality audits consistently across all engagements.

Internal quality performance measures



Our Audit Excellence Coaching program, delivered by our most technically advanced professionals, target specific areas to assist engagement teams as the audit is underway. We analyze the results of our coaching program to gain insight into the progress of our audit quality aspirations before the completion of the audit.

We conduct annual reviews of engagements, performed by independent, technically advanced teams, to measure compliance with professional standards. Selections are risk-based and consider factors such as client complexity, recent events, financial condition, and inspection history, and ensure each of our partners is reviewed on a recurring basis. Periodic inspections are also conducted by our Deloitte Global Center of Excellence, which is part of our AQMM (Audit Quality Measurement and Monitoring) Global Review Support Program, as well the International Reviewer Program.

Our independent audit-quality monitoring and measurement (AQMM) team evaluates the design and operating effectiveness of our quality management system using a risk-based approach. Similar to an internal audit function of the companies we audit, our team reports the results of their assessments and findings to the Canadian Audit Quality Board (CAQB), audit leadership, and our quality program and process owners.

We also use audit quality indicators (AQIs), in conjunction with other metrics, to provide insight into our audit quality progress.

External inspections

We're subject to external inspection by our regulators, conducted each year by the Canadian Public Accountability Board (CPAB) and periodically by the Public Company Accounting Oversight Board (PCAOB) in the United States. We use the results of these inspections, which are designed to exacting standards, as one measure of audit quality.

CPAB's inspection methodology has evolved to include an assessment of the effectiveness of the firm's quality management system. We've ensured that our quality systems are aligned with the objectives and expectations articulated by CPAB, and describe the actions we've taken to enhance our systems elsewhere in this report. We agree with the direction CPAB has given to all firms to continue to advance audit quality.

CPAB's agreements with audit firms preclude either it or any of the firms from commenting publicly on their inspection or the results. In our most recently published PCAOB inspection results (for an inspection conducted in 2017), the regulator reported that of the five audit engagements reviewed, only one had inspection findings.

Tracking the quality of our most recent audits

We make an annual composite assessment of audit quality based on the qualitative internal measures and quantitative inspection reports described above. This assessment showed continuous improvement in quality through the 2017 inspection cycle. In 2018, our quality performance remained consistent, and our most recent assessment is that 2019 was a year of improvement.

"Deloitte has earned the trust of clients, regulators, and the public throughout its history. Upholding that trust is our single most important responsibility. Our commitment to delivering high-quality audits through innovation, technical excellence, and high-value client insights is always our priority."

Anthony Viel
Managing Partner &
Chief Executive Officer



Our quality-advancement activities

Audit quality is a shared responsibility between engagement teams and audit leadership, who establish the programs, processes, and tools to support our audit professionals in executing high-quality audits. Our experience tells us that achieving sustainable and consistent high quality across all audits requires a well-balanced set of actions aimed at enhancing our quality management systems and targeted actions designed to support our people and individual engagement teams.

The following section outlines the actions we've taken to advance quality in each dimension of audit quality.

Delivering professional excellence

Our people must possess the specialty skills required to audit public companies, including expertise in accounting and auditing standards, industry knowledge, internal controls, data analytics, and business acumen. We are taking several actions to support our people as well as individual engagement teams to deliver high-quality audits through technical excellence:

Deepening our public company audit skills across the country

Part of the strong foundation we've built to advance audit quality, our National Audit Excellence Group (NAEG) continues to thrive. Comprising our most technically advanced professionals, the NAEG provides support to audit teams in the form of consultation advice, internal controls assistance, and leadership of technical learning and coaching programs across the country. We continue to rotate audit professionals through the NAEG. After their term, and having strengthened their technical skills, they return to the practice as members of client audit teams to share their knowledge.

Coaching our teams as engagements are underway

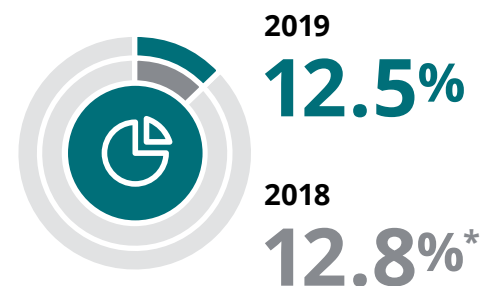
Each year we assign our most technically advanced professionals to deliver engagement-based coaching to help teams whose work is shown by external and internal inspection processes to have enhancement areas. Teams may also be coached in areas of significant complexity due to the circumstances of the company being audited. Topics can vary from risk assessment to auditing estimates to complex revenue transactions.

Beyond our annual coaching program, we delivered internal control coaching sessions across the country this year to help teams better understand processes, identify relevant controls, and design their audit strategy. We also conducted deep-dive planning workshops with individual engagement teams, delivered by coaches independent of the engagement team, to help them more adeptly handle the common challenges and critical judgments that are frequently made at the planning stage of the audit.

Embedding specialized skills in audit execution

Specialists play an important role in executing the audit. To assist our audit teams in delivering high-quality work, we consistently draw on skilled professionals from other areas of our business, including information technology, valuation, and tax matters.

Specialist hours as a percentage of total engagement hours in public company engagements



**prior-year figures revised due to refinement in calculation*

Our global Audit & Assurance core principles and imperatives

The Deloitte network has created eight audit imperatives to guide our practice and serve as a core component of our culture and quality efforts. They are:

- Internal controls
- Risk assessment
- Accounting estimates
- Consultations
- Transformation of audit delivery
- New accounting standards
- Optimization of audit execution
- Supervision

The core principles of the Deloitte network are foundational to executing a high-quality audit, and their consistent application on every audit is essential. They are:

- Act with integrity, ethics, and professionalism
- Recognize the important role of auditors
- Always learn
- Continually improve
- Live audit quality

Delivering tailored learning for audits of public companies

Those of our people who audit reporting issuers are required to complete our public company audit curriculum to be eligible to perform this work. Developed by Deloitte's Global Audit & Assurance Learning and the Global Center of Excellence for Audit Quality, this curriculum ensures uniform learning for all Deloitte professionals worldwide and is delivered using a mix of instructor-led courses, e-learning, and engagement team-based learning.

Technical learning

Annually, we set technical accounting and auditing learning hours that we require our professionals to complete. Requirements vary from year to year depending on the nature of that period's technical developments. Annual technical learning hours are expressed as a range because they will vary depending on the audit professional's role on the engagement and specific engagement circumstances, including specialized industry requirements, laws and regulations, and applicable accounting and auditing standards. Learning completion is monitored to ensure mandatory learning is completed by published deadlines.

Examples of topics covered in the mandatory accounting and auditing technical curriculum include independence and ethics, risk assessment, internal controls testing, auditing and accounting estimates, the implementation of key audit matters (KAMs) and critical audit matters (CAMs) in audit reports, International Financial Reporting Standards (IFRS), and using innovative tools. In the past year, engagement teams across Canada also participated in sessions about industry fraud risk. The training addressed common fraud schemes in manufacturing, consumer business, real estate, financial services, telecommunications and technology, and mining and resources.

Professional skills development

Complementing our mandatory technical accounting and auditing learning curriculum, our soft-skills programs aim to develop the leadership, critical thinking, communication, and project management skills of our audit professionals. This serves to deepen their understanding of the businesses they are auditing, deliver meaningful insights to audit committees about the companies they oversee, and execute well-run audits.

Annual mandatory technical learning hour requirements

	2019	2018
Partner	50 – 70 hours	65 – 90 hours
Senior manager and manager	60 – 85 hours	60 – 100 hours
Senior	80 – 120 hours	70 – 120 hours
Staff accountant	50 – 100 hours	50 – 100 hours

Investing in the talent of tomorrow

Our talent experience is anchored in our purpose and shared values

Throughout the latter half of 2019, Deloitte consulted with over 700 of its practitioners to help refine our purpose in order to resonate with our people in a unique way. It serves as a north star, guiding our decisions and investments.



Our purpose is to:
make an impact that matters.



We exist to:
inspire and help our people, organizations, communities, and countries to thrive.



Where we are headed:
building a better future by accelerating and expanding access to knowledge.

In order to live this purpose, our shared values set the expectation we have for one another and define how we, as representatives of Deloitte, are expected to behave. Our values provide common ground to unite us in our purpose and they help us to continue to earn the trust and respect of our key stakeholders.



We strive every day to give our people a talent experience that offers excellent opportunities, prioritizes wellness, and is unique in the market. We're also making significant investments in our talent strategies to provide career paths that allow auditors to thrive today and to evolve the skill sets our audit teams will need in the future.

Exceptional opportunities

We are committed to providing our people with ongoing leadership development experiences and a variety of work opportunities, helping them to learn and grow into exceptional audit professionals from day one. Some of the ways in which we are doing this:

- **Supported goal-setting:** Our approach to performance management includes frequent, meaningful conversations with engagement team members, their leaders, and coaches. Our innovative Personal Plan tool is designed to help guide our professionals' thinking to identify areas for focused development and to set clear career goals to achieve success.
- **Variety of work:** We provide our people opportunities to work in a number of different industries and with a wide variety of clients.
- **Lead early and continuously:** Our people are encouraged to lead at every level, and have the opportunity to participate in stretch leadership roles both in their client work and in the community by working on pro bono projects through our Corporate Responsibility program, called Community Advisory Projects (CAP).
- **Access to Deloitte University North:** Our people have access to DU North—an exclusive and distinctive leadership development centre—where they can build leadership capabilities and create extraordinary connections, across the country and around the globe, to help them grow in their career.

Creating an “I could have only done it at Deloitte” experience

Our recruiting results make it clear that Deloitte is one of Canada's most sought-after organizations for which to work. Our objective is to hire the best and smartest people the market has to offer, and then create for them a talent experience that is fun, inspirational, and unmatched. Some of the ways in which we are doing this:

- **Your work, your way:** Once an engagement team has struck its audit plan and clearly allocated individual execution responsibilities, our people can work where they want, when they want, and how they want—it's how we enable them to maintain a work-life balance that truly works for them. Our myFlex programming and flexible working culture helps our people build the career and life they want with options for flexible working hours, remote work (within Canada), and personal flexibility arrangements (such as a reduced work week).
- **One Deloitte community:** Platforms such as Yammer (internal social media site), social gatherings, all-hands/town hall meetings, and myDeloitte (intranet site) enable our people to connect with colleagues at all levels on a regular basis—even including regular open forums for all of our people with our Chief Executive Officer.

• Audit Analytics Fellowship program:

We support our audit seniors who want to hone their data analytics and technology skills to become specialized in this field. Our Audit Analytics Fellowship program consists of intensive learning that advances participants' data analytics skills, which they can then apply more extensively on their engagements and also serve as local office experts.

Young Professionals Forum

Young professionals are the future of auditing in Deloitte. This global network of young Deloitte professionals amplifies their voice and connects them with audit leadership tabling key priorities focused on the future of audit. The forum representatives across our member firm network are developing new ideas and sharing insights with audit leadership, which the Canadian participants are bringing back. The forum's key focus areas include:

- **Audit quality:** defining audit quality behaviours and promoting them through coaching, soft-skills development, reward and recognition, and 360-degree feedback.
- **Time-management excellence:** aligning expectations with regard to time management and defining what flexibility and work/life balance looks like for an audit professional.



Young Professionals Forum (continued)

- **Building audit quality platforms:** fostering a quality mindset by developing platforms to share technical knowledge, resources, and tools; hosting question-and-answer forums; and developing interactive learning videos in which professionals can ask questions, challenge one another, and feel they are contributing to audit quality.
- **Quality touchpoints for engagement teams:** encouraging touchpoint meetings to discuss quality-related topics with all members of the engagement team throughout all phases of the audit.

Cultivating opportunities for our professionals to grow

We're transforming our talent strategies to prepare for the talent needs of the future. The new model will embrace the different types of professionals that will be needed to deliver audits, beyond the traditional auditor role. We'll offer our people opportunities to specialize in diverse areas, including new assurance services, data analytics and enabling areas such as talent and learning. We're also refreshing our talent standards to clearly articulate a consistent set of practitioner capabilities for each level, in order to set well-defined performance expectations and guide our audit professionals' development throughout their career.

Prioritizing wellness

We are committed to fostering an environment where wellness is a priority. We offer a variety of programs to ensure our people stay balanced, in the following areas:

- **Mental health:** We have resources and programs available for when our people need them, from increased mental-health support coverage to additional paid wellness days.
- **Physical health:** We offer a wellness toolkit that focuses on wellness, burnout avoidance, stress and resiliency, in-person and virtual guided meditation sessions, and Recharge. Located in our Toronto and Montreal offices, Recharge is a multipurpose space used for activities such as group fitness classes, meditation, and reflection.

Innovating audit execution

Our enduring commitment to innovation is at the heart of advancing audit quality. We're making significant investments in transforming how we audit financial statements, exploring ways to examine more audit evidence, shifting the efforts of our highly trained auditors from routine tasks toward those requiring professional judgment, and using technology to develop deeper insights into the businesses of the companies we are auditing.

Driving consistent audit quality across the Deloitte network

Deloitte's Global network works with member firms, including Canada, to promote, enable, and continuously enhance the quality and consistency of audits across the Deloitte network. It provides centralized support to member firms to help them strengthen their capabilities in audit execution, innovation, technology, and quality-control and monitoring activities. Deloitte Canada is providing resources to support the global initiative and actively implementing them at home.

Some of our most significant initiatives include:

The Deloitte Audit & Assurance Transformation

Across the Deloitte network, we're transforming how we execute audits. Our risk-based approach enables audit teams to focus on audit areas of most importance. This approach will now be complemented by the Deloitte Way, a significant step forward in our transformation journey. The Deloitte Way establishes a common approach to audit execution, enhancing audit quality through the standardization of procedures, the implementation of leading-edge technologies and data analytics, and driving work to audit regional delivery centres.

Deloitte Canada is working with Deloitte Global, deploying Canadian resources to assist in developing Deloitte Way content and piloting innovative new processes and technologies as they become available. Our audit teams are actively implementing the global standardized Deloitte Way across the country, dedicated to executing the Deloitte Way Workflow and adopting of the corresponding technology enablers.

Project management and Agile Auditing™

Our engagement teams are applying agile project management principles to better structure and manage the audit process, which increases transparency into audit progress for team members and stakeholders.

The Deloitte Way



Benefits

- Drives consistency in audit execution across the Deloitte network
- Guided risk assessments stimulate critical thinking and design of audit procedures
- Data-driven, fact-based risk classification and alignment of scope of work
- Standardized templates enable more effective reviews of audit work
- Audit professionals stay focused on what matters most in executing the audit

The Deloitte suite of innovative tools and processes

Our diverse suite of innovative tools and processes is changing how our engagement teams are delivering the audit, including seamlessly extracting client data, applying agile project management principles, and automating manual tasks and workflow processes. These allow our highly skilled auditors to shift their attention to areas that require professional judgment and to delivering deeper insights to our clients about their business.

Engagement teams applied Spotlight to 99% of engagements for which it was designated to be used.



Argus: Artificial intelligence tool quickly processes, highlights, and extracts key information from electronic documents.



Cortex*: Seamlessly acquires and prepares data for analysis, transforming data into insights. Provides an improved audit experience by digitizing data acquisition and enabling professionals to perform advanced analytics to deliver a smarter audit.



Disclosure Analytics: Automated side-by-side peer comparisons help identify emerging disclosures and industry trends.



Deloitte Connect: Online collaboration and information-sharing tool facilitates two-way dialogue between clients and their audit teams, helping manage workflow and enabling clients to assess and monitor engagements as they proceed.



Excel Analytics: Deloitte's proprietary tool focuses testing on high-risk transactions and streamlines common audit test procedures.



IConfirm: Coordinates the confirmation process on an online platform. Automates and streamlines this process—including preparing, sending, receiving, and monitoring activities—for our clients and professionals.



Icount: Enables professionals to use their phones on-site to record their physical inventory count observations and transmit the results in real time to the audit team.



Tie-out*: A tool that streamlines the financial statement tie-out for a quick turnaround, thus increasing the overall efficiency of the audit, while providing client feedback on the statements in a timely manner.



Omnia*: A next-generation global audit platform that operates in real time, connects seamlessly, uses big data, and supports cognitive, digital, and automation technologies.



Reveal: Provides the ability to model the relationships between data sets to produce powerful visualizations based on those relationships. Easily identifies outliers for inquiry, and makes regression analysis simpler to use than ever.



Scribe*: A web-based application that expedites the drafting, comparison, and review of standard audit deliverables.



Signal: Enables enhanced risk assessment and supports effective preliminary engagement activities for entities registered with the SEC by examining a wide range of publicly available financial data to identify potential risks using trend and regression analysis.



Spotlight: Accelerates and simplifies the gathering of client data into a format suitable for enhanced analytics and analysis. Flexible and scalable to handle corporations of varying size with equal ease. Journal-entry testing is among the most common applications.

*Coming soon

Communicating insights

We continue to develop insights and provide clarity about changes that affect accounting standards, corporate reporting, and the Canadian business landscape.

Implementing key audit matters and critical audit matters in reports

We created a network of audit professionals dedicated to assisting engagement teams with the new audit reporting requirements relating to KAMs effective for periods ending on or after December 15, 2020, and CAMs effective for periods ending or after June 30, 2019. Dry runs in the prior year for CAMs and dry runs in 2019 for KAMs are helping our audit teams and clients to position for a successful implementation of the standards. Our national panel reviews, run by our dedicated experts, are collectively reviewing the live implementation of the KAMs and CAMs.

On the board's agenda:

What to expect from auditor reporting of critical audit matters explores the identification and reporting of CAMs and what boards might expect.

Delivering insights about the complexity and maturity of financial reporting processes

We asked our engagement leaders for their perspectives regarding the complexity and maturity of the financial reporting and controls of the companies we audit. We used the information they shared to develop analytics to further enrich the quality of our discussions with clients and bring them meaningful insights about their business.

Financial reporting:

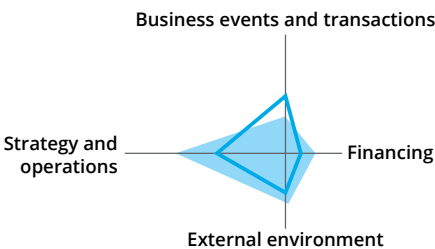
Striking all the right notes

We explore 10 questions—and a catalogue of corresponding leading practices—to assist in efficiently achieving reliable, transparent, and quality financial reporting.

Our benchmark

Illustrative example: Depiction of an entity's complexity and maturity across multiple dimensions and benchmarking the entity's score profile against the average group and/or industry

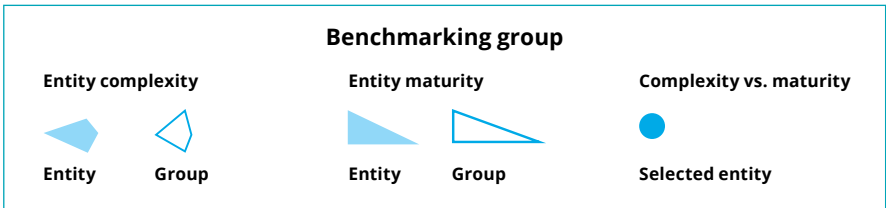
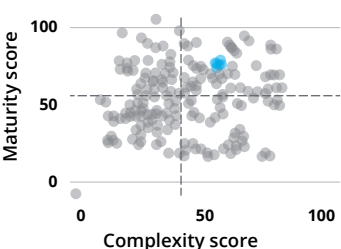
Entity complexity



Entity maturity



Complexity vs. maturity



Providing transparency into the audit process using AQIs

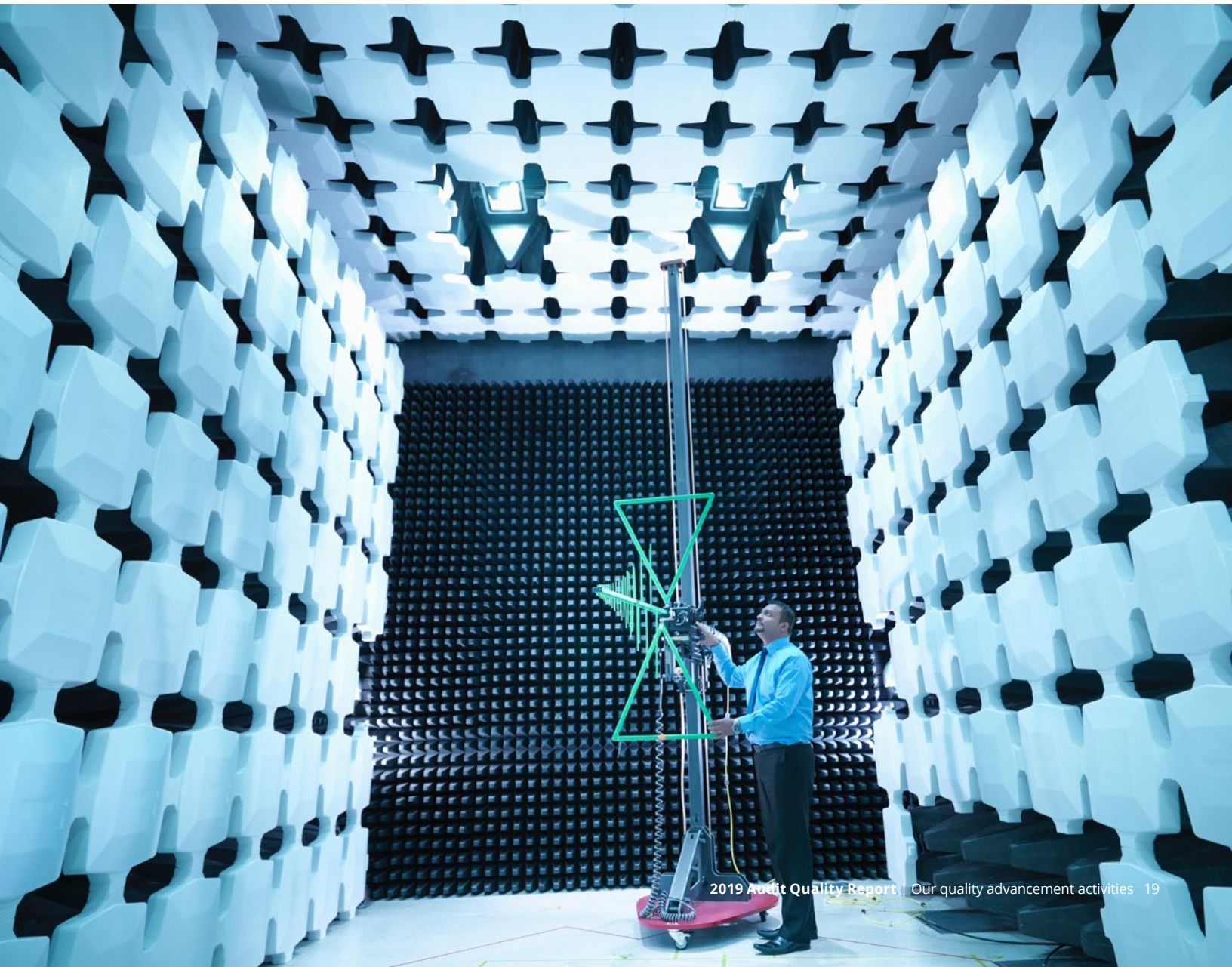
We're keen to discuss audit quality indicators with audit committees and implement them where we agree on the mutual value. AQIs are triggering new and constructive conversations with audit committees about the execution matters that are most important to them, and enabling them to more actively evaluate audit quality.

Navigating annual reporting

We suggest questions directors should ask management regarding their annual financial filings.

Centre for Financial Reporting

The Centre for Financial Reporting features an extensive collection of news and resources about accounting and financial reporting developments relevant to the Canadian marketplace.



Advancing our quality management system

We firmly believe our practice-wide programs, controls, and quality management system are integral to achieving sustainable and consistent strong quality across engagements. Progressing our quality management system is a continuous and iterative process, requiring us to implement new processes while enhancing our existing ones to stay responsive to constant change.

The following are some of the most recent steps we've taken to effectively operate and enhance our quality management system.

Leading quality from the top

Achieving the highest levels of audit quality requires commitment, accountability, and discipline at all levels of our organization, starting at and led from the top. It's a process of continuous enhancement, requiring regular checkpoints to assess progress and, when necessary, adjust course. The annual development and execution of our audit quality plan (AQP) is the responsibility of the managing partner for Audit & Assurance with oversight from the firm's CAQB, chaired by the managing partner of Regulatory, Quality, Risk & Reputation.

The AQP is a comprehensive set of activities designed to advance audit quality. It is intended to create the right conditions for the audit practice's success by setting out the specific measures we'll take in that year, including preparing our people, providing them with the necessary tools, and monitoring the effectiveness of the plan.

Increasing oversight over audit quality

The CAQB meets regularly. We refreshed our charter in 2019 to clearly outline and communicate the board's purpose, composition, oversight responsibilities, and the duties of its members. Its responsibilities include formal oversight over the execution of the AQP, external



inspections, regulator relationships, the firm's internal practice review program, continuous improvement, and any remediation activities. An annual self-evaluation process was implemented in 2019, which asks all members to provide constructive feedback to further enhance the effectiveness of the CAQB.

The board continues to shift its focus to the audit quality outcomes achieved, not just the extent of efforts being made to advance quality. It's also spending more time assessing the response of audit leaders to situations escalated for attention by our quality management system.

"When we innovate audit execution, we advance how we do our work on individual audits. When we innovate and establish a robust quality management system, we advance the ability of our leadership to assess, in real-time, whether every audit we perform is unfolding according to plan. Where there are gaps to our intentions, measures can be taken to bring an audit back on-plan while it is underway."

Nathalie Tessier

Managing Partner, Audit & Assurance



Reinforcing accountability for audit quality

Deloitte Canada's recently completed firm strategy articulates the enduring commitment of our firm leaders and all partners to delivering all services with quality. Continuous advancement of audit quality, specifically, is a key area of focus, as we emphasize the central importance of audits to the effective functioning of the capital markets.

Our national and regional audit quality leadership teams, engagement partners, and engagement quality-control reviewers are critical to embedding a quality culture across the country. To drive accountability for audit quality, we increased the precision of our expectations of their roles and responsibilities and communicated this information to our leaders to ensure they understand how vital it is that they support our engagement teams in executing high-quality audits. And through channels such as live discussions, videos, email communications, and webcasts, our managing partner for Audit & Assurance is continuously reinforcing the fact that audit quality is our top priority.

Leading with integrity

We deployed a mandatory ethics course on leading with integrity to help our partners further strengthen and embed ethical leadership behaviours in their engagement teams. Our resources also support our partners in fostering an environment of integrity and modelling ethical leadership and decision-making with their engagement teams.

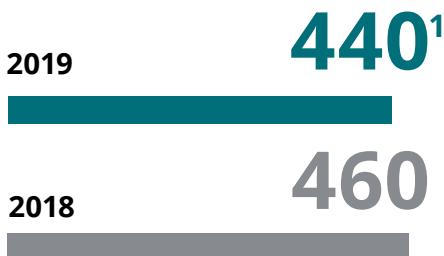
97%

of our people across the firm believe Deloitte is an ethical place to work.

Maintaining our independence

Safeguarding our independence is foundational to the trust placed in the external audit. We continually reinforce the importance of adhering to independence commitments across the firm and throughout the global Deloitte network. We've made significant investments in people, processes, and tools to ensure our system of controls operates effectively, allowing us to make an ongoing real-time assessment of our independence with respect to our audit and assurance clients. As part of our monitoring processes, we also conduct independence audits on a sample of our partners and managers, to monitor their compliance with our independence requirements.

Number of firm partners and managers who underwent an independence audit



¹this included approximately 26% of our partners

Taking the pulse of our culture

A quality culture is integral to achieving high-quality audits consistently across all engagements. In 2019, we conducted a culture assessment to better understand our audit professionals' mindset, their appreciation for the role we play in the capital markets, and the importance of our audit work.

Rewarding our people for quality behaviours

Promoting a culture that recognizes the right behaviours is also essential for consistent high quality. Our partners set audit quality goals, amongst others, as part of their annual plan. This year we made a better linkage between quality performance and rewards and recognition. Additionally, we enhanced our performance management recognition program, encouraging engagement leaders to recognize nationally the contributions of individuals and teams who demonstrate quality behaviours.

Getting ready for the proposed ISQM1 standard

We've appointed a team dedicated to enhancing our quality management system and develop further action plans to address the proposed International Standards on Quality Management (ISQM1). We're also actively engaged with the Deloitte Global ISQM1 Taskforce, which is setting an approach for all member firms to adopt. It includes risk management tools, process documentation, leading quality-management practices, and monitoring practices.

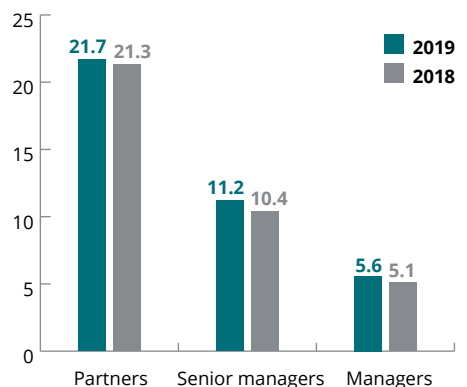
Enhancing the oversight and management of our audit portfolio

We keep an eye on our aggregate portfolio of public company audits to ensure our engagement leaders and their teams are set up for success. We've strengthened our processes to ensure we assign partners and teams with the right skills at the right time, balancing workloads to ensure they have the capacity to focus on executing quality audits. We also enhanced our processes for assessing each audit engagement for risks that may affect the approach planned, and for supporting our engagement teams as the audit progresses.

Using our knowledge and experience

The tenure of our professionals and their experience gained in auditing public companies is central to supervising and leading engagement teams to achieve high-quality audits, with our senior members developing our junior professionals as well as delivering insights to clients.

Tenure of our people (in years)



Mobilizing support as audits are underway

Our processes to identify situations where audit teams require support to accommodate changes in engagement circumstances enable audit leadership to respond to team needs and mobilize resources while the audit is underway.

This year we enhanced these processes to include a comprehensive set of quality indicators to identify engagements potentially at risk of not achieving the original audit plan and implemented more robust monitoring of action plans to respond to engagement team needs.

Ongoing workload review

Our detailed review of our engagement leaders’ workload allows us to adjust their assignments and other firm responsibilities to ensure they have the capacity to fulfill all of their responsibilities. This enables them to focus on achieving high-quality audit work. We enhanced our processes to actively monitor the workload of both our engagement leaders and audit professionals beyond the initial portfolio review to proactively identify, escalate, and quickly respond to capacity challenges that may arise as the audit progresses.

Average partner and manager hours in public company engagements



2019
23.0%

2018
22.9%*

**prior-year figures revised due to refinement in calculation*

Revisiting our client portfolio

Every year, we conduct a review of our audit client portfolio across a number of risk factors to identify engagements for which the audit fees were not commensurate with risk of the required scope of the audit. In cases that reveal there was excessive risk to audit quality, we may choose to resign as auditors.

Performing high-quality audits

Consistently performing quality audits in accordance with professional standards includes supporting our audit professionals in their application of our audit approach, exercising professional judgment, and overseeing the execution of the audit in all its phases. We implemented several enhancements to our key quality programs and processes to reinforce the support we give our audit professionals on the ground at the engagement level.

Technical experts

Our national office provides technical expertise in accounting, auditing, and regulatory support to our engagements, applying our audit methodology and professional judgment.

Ratio of partners with designated technical support roles to total number of public audit partners



Enhancing engagement quality-control reviews

The engagement quality-control reviewer (EQCR), although not directly involved in the execution of the audit engagement, is involved at all phases of the audit and plays a critical role in substantively challenging the audit team in both accounting- and auditing-related matters.

We provide our partners and audit professionals who perform quality-control reviews coaching on technical matters and on how to effectively execute the reviews. Audit leadership conducts detailed reviews of EQCR workloads, rebalancing their workloads as required and continuously reviewing their assignments as engagements are in process to swiftly identify issues and provide assistance as necessary. We're reinforcing the importance of the EQCR role, the contribution to audit quality of the people performing the role and their responsibility to escalate matters or events to enable audit leadership to respond quickly to support our engagement teams.

Advancing consultation processes

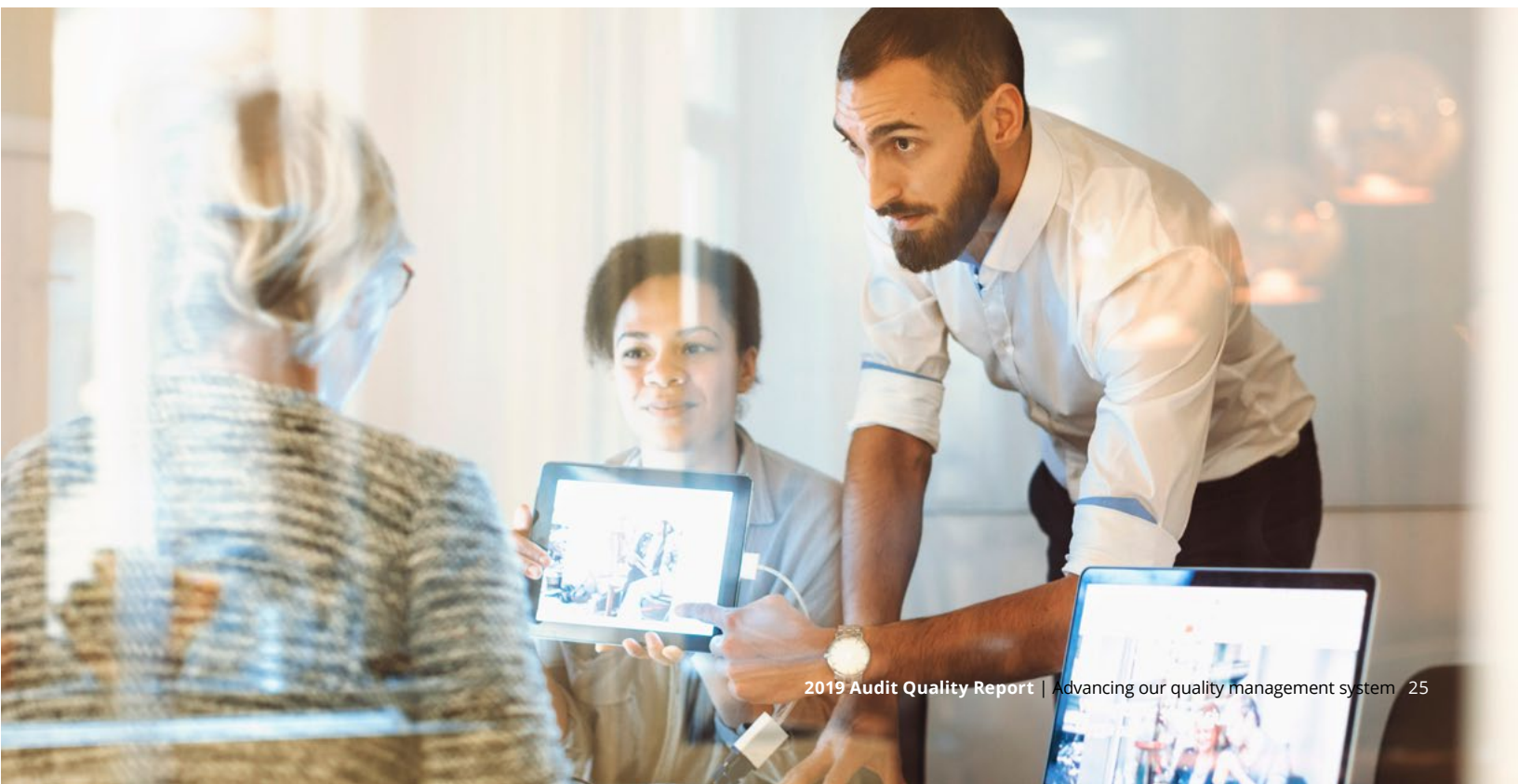
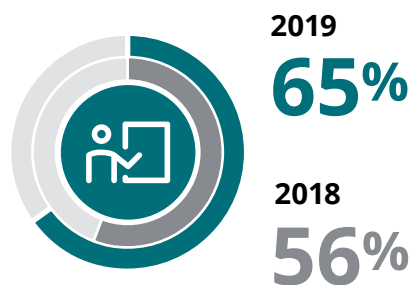
Partners and audit teams have access to a wide array of technical experts, both in Canada and across the Deloitte network, when complex accounting and audit matters arise. Our enhancements to our consultation workflows are driving the submission and completion of consultations earlier in the audit cycle. We're also expanding our network of technical experts, building up our subject matter proficiency in complex areas of audit focus.

Meeting milestones

Audit quality is enhanced when our work is undertaken in a well-planned, measured way, well in advance of the audit report date. Consequently, we establish target timelines for the stages of audit completion that we expect all teams to abide by. Our Milestones program facilitates shifting audit work forward to reduce work during peak periods by meeting target deadlines.

We've also enhanced our central monitoring of the progress of engagement teams against the targeted deadlines, which enables us to identify potential challenges that may cause delays and promptly respond to engagement needs. Our performance evaluation processes for partners and audit professionals include metrics for meeting Milestone program timelines.

Percentage of public company engagements with a formal consultation



Advancing our quality measuring and monitoring processes

Our monitoring processes include annual internal inspections of engagement files and the evaluation of our quality management system. We firmly believe that to advance audit quality, we must ascertain the effectiveness of the actions we take to do so. It requires that we understand the contributing factors to opportunities identified for enhancement and put actions in place to address them. Refer to Figure 1 for the cycle of continuous enhancement to which we adhere.

Internal inspections

We conduct annual reviews of engagements, performed by independent, technically advanced teams, to measure our compliance with professional standards. Each year we share the findings from our internal reviews with our practice to ensure our professionals apply the knowledge to their upcoming audits.

For more information on these inspection processes, refer to our *2019 transparency report*.

■ 2019 ■ 2018

Total number of public company engagements subject to internal inspection review



Percentage of partners who sign public company reports selected for internal inspection



The Deloitte network has invited our people in Deloitte Canada to conduct inspections of individual engagements for other member firms, demonstrating that our people are valued as quality leaders in the network.

14 Canadian partners and managers assisted with internal inspections across the Deloitte member firm network in 2019.

In addition, **5** partners and managers dedicated approximately 30 percent of their time to our global inspection program.

Pinpointing factors related to audit deficiencies

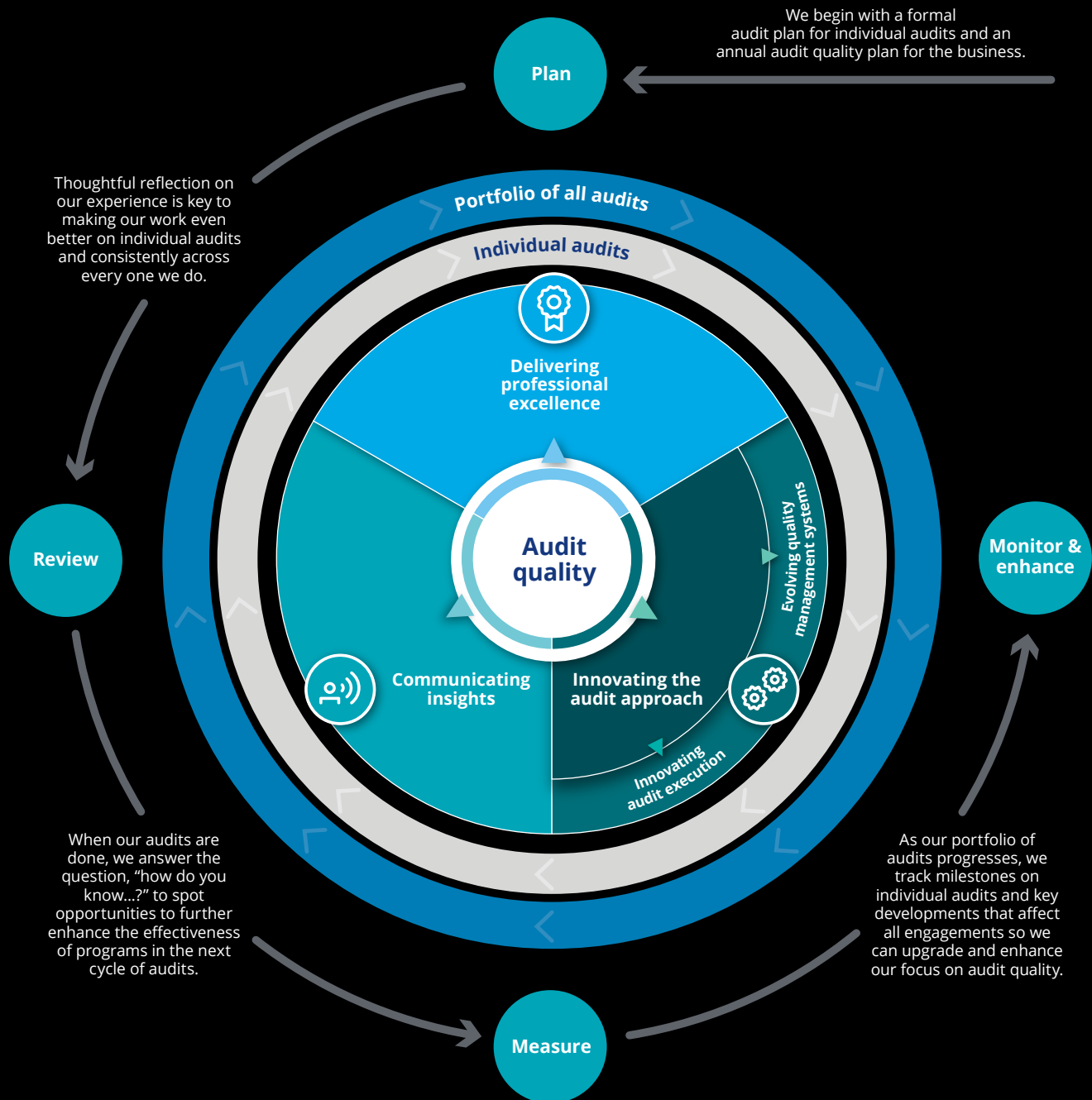
Continuous enhancement in audit quality includes understanding deficiencies and designing effective remediation. We appointed a senior partner to conduct continuous causal-factor reviews and strengthened our review processes, including expanding the review of select engagement working papers where necessary and analyzing various engagement-specific audit quality indicators. We also expanded the review to understand if operational, structural, and governance issues are at the root of audit quality deficiencies.

Sharpening design and effectiveness-testing of quality processes and programs

Our efforts in the independent AQMM function target the areas of highest risk to audit quality, as determined by a systematic, risk-based assessment. Deloitte's CAQB oversees the work of AQMM and the timely remediation of identified enhancement recommendations.

We're building on the actions we've made to strengthen our quality management system, focusing our attention and efforts on enhancing how we evaluate the effectiveness of our quality control processes. We put more rigour into documenting and monitoring our quality processes, holding ourselves to the same standard of risk and control documentation to which we hold our clients. We are better pinpointing quality risks and the controls that mitigate them, incorporating design and operating effectiveness factors into our testing procedures, and obtaining sufficient evidence to demonstrate the effectiveness of controls. We continue to expand the key metrics and indicators that monitor and measure quality outcomes throughout the year.

Figure 1: Deloitte's continuous cycle of advancement



Reflecting on our journey and looking ahead

Shaped by experience, our actions to advance audit quality are deliberate. Starting in 2016, we have outlined our ongoing efforts in an annual audit quality report. We will continue to challenge ourselves to raise the bar even higher in pursuit of our quality aspirations.



* For more detailed information on the investments and actions we've been taking, read our 2018, 2017, and 2016 annual quality reports.

We believe audits provide significant value, particularly when combined with the efforts of company management, audit committees, professional bodies and regulators, to support the integrity of the entire financial reporting ecosystem.

Our abiding commitment to audit quality means we stand firm on the strong foundation we've built and that we also keep developing new things to advance.

This commitment to progress, growth, and responsiveness to capital markets is our hallmark for the future—whether it's in executing audits today or debating how audit will be most relevant in an increasingly digital and real-time business world.

www.deloitte.ca

Deloitte provides audit & assurance, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights and service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 264,000 professionals—14,000 of whom are part of the Canadian firm—make an impact that matters, please connect with us on LinkedIn, Twitter or Facebook.

Deloitte LLP, an Ontario limited liability partnership, is the Canadian member firm of Deloitte Touche Tohmatsu Limited. Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

© Deloitte LLP and affiliated entities.

Designed and produced by the Deloitte Design Studio, Canada. 19-6496T