

2016 Audit Quality Report
Driving innovation, advancing
quality, and shaping the profession

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

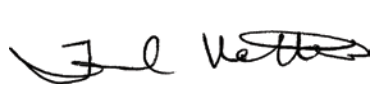
To our clients

At Deloitte, we embrace audit quality. It is at the core of our business. It defines who we are.

We aim to be at the forefront of advancing audit quality. This aspiration drives how we run our business, how we perform individual audits, and how we think about the future.

We have prepared this report to share our aspirations, our actions, and our view on the audit of the future.

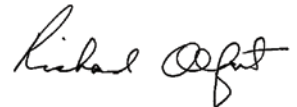
Sincerely,



Frank Vettese
Managing Partner
& Chief Executive



Nathalie Tessier
Managing Partner, Audit



Richard Olfert
Managing Partner,
Regulatory
Quality & Risk

Audit of the future

Trust and confidence in the audit profession are key components in the proper functioning of capital markets.

The pursuit of enhanced audit quality is an important part of reinforcing that trust and confidence. Yet, with real-time expectations and the use of vast amounts of available information beyond the audited financial statements to assess public companies, the relevance of audits is being challenged in some quarters. Therefore, in addition to advancing audit quality, we're envisioning the audit of the future.

As we shape this future, audit quality excellence will continue to be our top priority. We'll use technology and innovation to spend less time on rote compliance and more on providing the kind of meaningful insights that help our clients better understand and manage the reporting and control risks they face. Today's business leaders are eager for these kinds of insights, which make the audit more relevant.

At Deloitte, establishing audit quality as a priority means continuously raising the bar. For us, this means committing to continuous advancement in audit innovation. It means backing our words with significant investment and action. We've already begun implementing innovative new tools and processes. And we're proud to launch the Deloitte Institute for Audit Innovation and Quality, which will accelerate the audit of the future and stimulate fresh thinking with our clients on emerging audit quality topics.

Our commitment stems from our aspiration to be the market leader in audit quality. In this report, we share both our overall vision and our plan to do just that. We highlight the steps we're taking to enhance audit quality, and demonstrate how we're positioned to shape and lead the audit profession into the future.





Committed to advancing audit quality

There's a lot of talk about audit quality. We work every day to enhance it. Our regulators assess and comment on it. Public companies ask their auditors what they're doing about it. Yet for all the talk, no one seems to be able to describe exactly what audit quality means or what it looks like.

We believe there are at least three dimensions to understanding audit quality:

- ① At a technical level, it can be defined as completing an audit in accordance with applicable auditing standards. In Canada, these are set by the Auditing and Assurance Standards Board. For Canadian companies that are also listed in the US, the auditing standards set by the Public Company Accounting Oversight Board also apply.*
- ② From the practical perspective of an audit committee, we believe that audit quality will provide the committee with a deeper understanding of the organization it oversees. Thoughtful communication of the findings from the auditor's work generates conversations that are robust, insightful, and sharply focused on the company's key risks and issues.
- ③ A quality audit capitalizes on leading-edge technologies, analytics, and audit methods to perform an effective audit. As such, the auditor keeps pace with the client's own systems improvements and process advances.

We aspire to be the market leader in all dimensions of audit quality. In the past year, we invested more than 10 percent of our public company audit revenues into enhancing our training, technology and tools to support the completion of our 2015 year-end audits. Having established a solid foundation, we're now focusing on nurturing a culture of continuous enhancement—one in which we anticipate needs rather than react to them.

Leading the market

This significant investment reflects how seriously we take our ambition to become the market leader in advancing audit quality. We have moved beyond the notion that the pinnacle of quality is simply achieved by doing the right audit work and having the right quality-control procedures. We're turning our minds to the future and engaging with clients in new ways.

Being an undisputed market leader means being recognized by clients and directors as trailblazers in exploring enhanced audit quality. It means a market-leading quality track record and constructive engagement with audit regulators that benefits the profession. It means clients understand their own organization better after each audit engagement.

It also means appreciating the challenges to the longstanding status quo of the audit profession and candidly addressing them. To that end, we founded the Deloitte Institute for Audit Innovation and Quality. It's an integral addition to Deloitte University North, opening in early 2017 in our state-of-the-art workplace in downtown Toronto. (See sidebar for more.)

The Institute will be dedicated to leading the way in the Canadian market, shaping the future of auditing and the profession as well as bringing a clear, credible voice to discussions with clients, regulators, and the governance community.

Deloitte University North

More than a building or a classroom, the Deloitte University learning experience is rooted in the principles of connectedness, leadership, and a highly inclusive learning environment. Serving not only our own talent but also our clients and key market constituents, our custom learning can yield immediate real-world applications and further enhance our prominent position as a talent and leadership development organization in Canada.

Based on a model designed by the US firm, Deloitte University North delivers leading-edge curriculum, integrated facilities, and a distinct end-to-end experience that attracts and engages the best talent and leaders.



*We describe our technical processes in our **annual transparency report**, <https://www2.deloitte.com/ca/en/pages/audit/articles/transparency-report.html>

Global support

This drive towards enhanced quality is supported by DTTL, our network of member firms around the world. In 2015, it launched the global **Center of Excellence for Audit Quality**, whose mandate is to drive both consistent audit quality throughout the network of Deloitte member firms and stronger accountability for doing so. In other words, the Canadian firm and its clients enjoy the full strength, experience, and participation of the global Deloitte network.

We aspire to be the market leader in all dimensions of audit quality.

Our network has created eight Audit Imperatives to guide our practice and serve as a core component of our culture and quality efforts:

Professional auditor mindset



Referred audit work

Internal controls



Auditing skills and development

Optimize audit execution



Risk assessment

Working with specialists



Own quality

Leading the way in Canada

We believe that the best way to stay ahead of change is to lead change. Where the profession once believed that audit quality started and ended with the work performed by our individual engagement teams, we now hold the philosophy that our entire firm must create and cultivate the conditions in which audit professionals can succeed. In other words, we must not only encourage an innovative culture that supports audit excellence, but implement the appropriate training, management systems, tools, and monitoring mechanisms to achieve our goals.



To that end, we are fostering a culture of continuous enhancement. It starts with our leaders setting the tone, holding themselves accountable, and clearly communicating our commitment to audit quality. They have made bold moves such as reorganizing Deloitte's audit practice, by dedicating our people to serving either public or private companies. We were the first firm in Canada to structure our practice to create a specialty in the auditing of public companies.

With this culture at our core, we are evolving our interactions with clients and developing enhanced ways of auditing.

Engaging more meaningfully with clients

Management and audit committees are responsible for a company's financial reporting process. How they execute on these responsibilities significantly affects how an audit can be done and how audit quality can be enhanced on individual audits.

We're therefore working with our clients to facilitate engagements that give both the auditors and the audit committee time to do their jobs in a measured, thoughtful way. This means starting audits earlier, formally agreeing on audit execution deadlines (what we call Milestones*), clearly defining what documents need to be provided at which stage, moving through the timetable at the prescribed pace and responding to the audit findings that emerge—and, at each step, bringing a healthy skepticism to the process. We ask not only "Is this supportable?" but also "What else do we need to think about?"

Protecting clients by reinforcing our independence

Independence is the bedrock of the integrity and impartiality we must possess in conducting our audits. Standards for independence are shaped by legislation, regulations, professional guidance, and public expectations. Maintaining our independence is a matter of both compliance and appearance. Both corporations and their auditors must carefully consider the implications if independence violations occur.

We've focused on enhancing personal financial independence:

- We developed and implemented a **broker data import program** (BDIP). The first of its kind in Canada, the BDIP automates the daily transfer of the details of our professionals' personal financial holdings into our monitoring systems, based on a direct feed from investment advisors. This automation gives us current and accurate information to continually assess our independence.

- We introduced additional support functions, expanded monitoring processes, and added new policies to reinforce adherence to independence standards and policies.

We're now bringing advances to professional independence, which includes ongoing monitoring of adherence to restrictions on scope of services and business relationships with audit clients.

Optimizing our use of technology

Canada's audit innovation and analytics team is leading the culture shift in how we think about and perform our audits, embedding innovation and analytics in each audit. Founded several years ago to develop breakthroughs for audit service delivery, its members now work closely with the global audit innovation team to investigate and deploy innovative solutions to Deloitte practitioners around the world.

These new tools and applications use everything from basic technologies like smartphone apps to advanced ones like artificial intelligence. They help in our focus on increasing the efficiency of our interactions with clients, automating manual tasks and workflow processes, and making advanced analytics tools easier to use.

Innovations currently in use



Global audit delivery database platform (Magnia)

An advanced platform that allows us to provide comprehensive, focused, and streamlined audits across the globe, including analytics on the status of engagements in progress.



Electronic documentation interrogation and analysis (Argus)

An artificial intelligence tool that quickly processes, highlights, and extracts key information from electronic documents. By significantly reducing the amount of time spent reviewing documents, Argus allows practitioners to focus on providing meaningful insights. Argus earned the International Accounting Bulletin's 2015 "Audit Innovation of the Year" for Deloitte US.



Advanced data analysis (Spotlight)

Accelerates and simplifies the gathering of client data into a format suitable for enhanced analytics and analysis. Flexible and scalable, Spotlight allows our practitioners to serve public corporations of varying size with equal ease. Journal entry testing is among the most common applications.



Data analytics and visualizations (Illumia)

An integrated suite of self-service analytics tools that provides auditors enhanced functionality without having to first learn complicated tools. This is accomplished with central data-formatting specialists who format and upload data. This enables practitioners to use a repository of tools and analytic-views, tailored by industry, to explore and interpret data that can be used to plan the audit or to communicate key insights.



Automated analysis of SEC and IFRS filing disclosures (Disclosure Analytics/ Disclosure Net)

Offers real-time, online access to SEC and IFRS filing disclosures and accounting policies and SEC comment letters, enabling instantaneous peer comparisons as well as updates on emerging disclosures and industry trends.



Customized productivity tools (Excel Analytics)

This proprietary Microsoft Excel add-in enables audit staff to automate traditionally manual tasks to achieve greater audit efficiency.

Innovations coming soon



Online collaboration, information sharing, and progress tracking (Deloitte Connect)

Facilitates two-way dialogue between clients and their audit teams, assisting in managing work flow and enabling clients to assess and monitor engagements as they proceed.



Mobile-enabled inventory counts (iCount)

Enables professionals to use their phones onsite to record their physical inventory count observations and transmit the results in real-time to the corporate audit team.

Supporting our people

We've also developed a more holistic view on preparing our public company audit team members for success. We've been focused on enhancing our training and support resources to create an environment in which our professionals thrive—not just our auditors but also supporting subject area specialists in systems, tax, and valuation.

We've expanded our learning program by customizing it for those of our people who serve public companies. The new curriculum brings a focus to the foundation of quality in public company audits: a deep understanding of a company's business, risks, processes and controls. It's based on what Deloitte member firms around the world have discovered to be the most effective way to quickly advance our practitioners' knowledge in these key areas.

Advances in training have been accompanied by a fresh approach to providing feedback to our audit staff that moves away from semi-annual meetings towards regular, meaningful conversations. While this new system applies to all firm members, adaptations made specifically for audit teams will foster the continuous consideration of audit quality in the execution of public company audits.

Advancing our practice

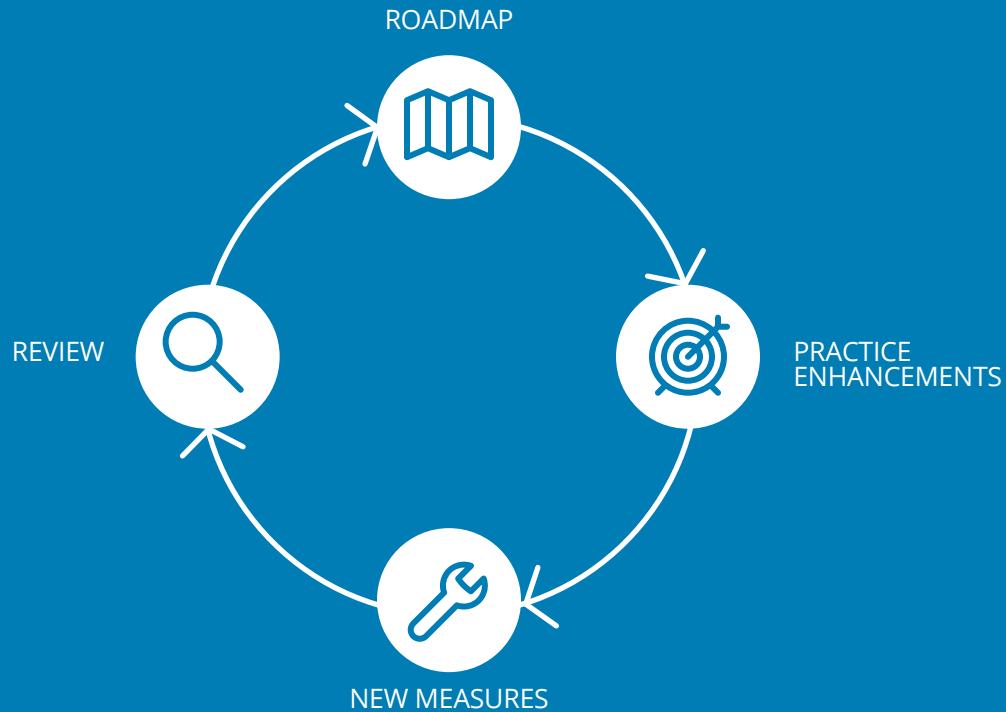
Moving the needle on audit quality requires seeing the practice as more than the sum of its individual auditors, audit teams, or engagements. Placing responsibility only on individual engagement teams to enhance audit quality is not enough.

No matter how well prepared individual teams are, achieving the highest levels of audit quality consistently and concurrently across every audit engagement means we need to change how we manage our practice—how we allocate resources, how we nurture the culture, how we support unique requirements, and how we assess engagements as they progress. It's a journey of deliberate, continuous enhancement.

To achieve our goals, we're doing new things to support our practitioners, to regularly assess our progress, to confirm whether we are on plan, and to gather the evidence needed to inform the crafting of our next annual audit quality plan. This embeds an ongoing cycle of advancement centred on our people, practice, and technology.

We aspire to be our own toughest critic in our effort to advance audit quality—technical quality for ourselves and insight-driven quality for our clients. We've shifted towards a mindset of continuous enhancement driven by our own metrics and feedback, not primarily by regulatory inspection results.

Our continuous cycle of advancement



ROADMAP

Audit quality plan

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

PRACTICE ENHANCEMENTS

Canadian Audit Quality Board

This group of senior firm leaders oversees the review and monitoring of our progress against our annual audit quality plan.

Audit Excellence Network

A network of professionals tasked with advancing quality, advising our professionals on matters of quality, serving as consultation resources, and providing support to individual engagements.

Enhanced audit approach

An emphasis on achieving increased precision in audit risk assessment.

NEW MEASURES

Audit quality indicators

These are designed to help us assess all engagements and to determine if active audits are on track.

Internal quality monitoring function

This allows us to analyze the design and implementation of individual audit quality programs, including our audit quality plan.

REVIEW

In-flight reviews

These give us a view on selected audits that are underway so we can make sure we're achieving our objectives as we go, rather than waiting for an assessment once the engagement is finished.

Annual inspection process

External and internal inspection results provide valuable feedback to check the completeness of the next year's audit quality plan.



Shaping the future

We hear the clear call for audits to become more relevant. We hear regulators asking for more consistent audit execution at a high-quality level. Audit committees tell us they want more robust conversations on audit quality, with less time spent on rote reporting and more on providing insight. Management, meanwhile, wants the audit process to be less complex, take less time, be able to better integrate with their own systems and processes, be more efficient, and spring fewer surprises.

We're therefore constructively engaging in dialogue around significant audit reforms, quality standards, market transparency, and topics critical to molding the future. Here are some of the things we're thinking about:

Enhanced auditor reporting

The expanded auditor's report that will soon become required in Canada will oblige auditors to describe critical audit matters in their published audit opinion. This creates opportunity for expanded conversations with audit committees on the critical aspects of the audit that will be addressed in the auditor's report. We're eagerly anticipating these more extensive discussions and welcome the challenge.

Continuous innovation of audits and practice

We continuously hear from companies that they want higher quality at lower cost. When this sentiment is combined with the increasing complexity of accounting standards and the addition of new audit standards, audit firms are left with a substantial challenge. The way forward must include innovations that better align the valuable efforts of our most experienced auditors with the thorniest areas of an audit, and shift other work to lower-cost resources, whether automated or manual.

Revamping the audit business model

The traditional audit firm was founded on the assumption of a high intake of prospective CPAs, a relatively high attrition rate, and large portions of work done by junior staff supervised on-site by more experienced personnel, including partners. We believe the model will have to head in a different direction, in which there will be a smaller intake, lower attrition rates, and the development of a larger number of experienced professionals. Auditors will require broader experience in data analysis and data extraction. In addition, common, repeatable processes may be done in delivery centres—pools of highly skilled professionals with deep experience and knowledge in a particular audit area, process, or tool.

At the stakeholders' table

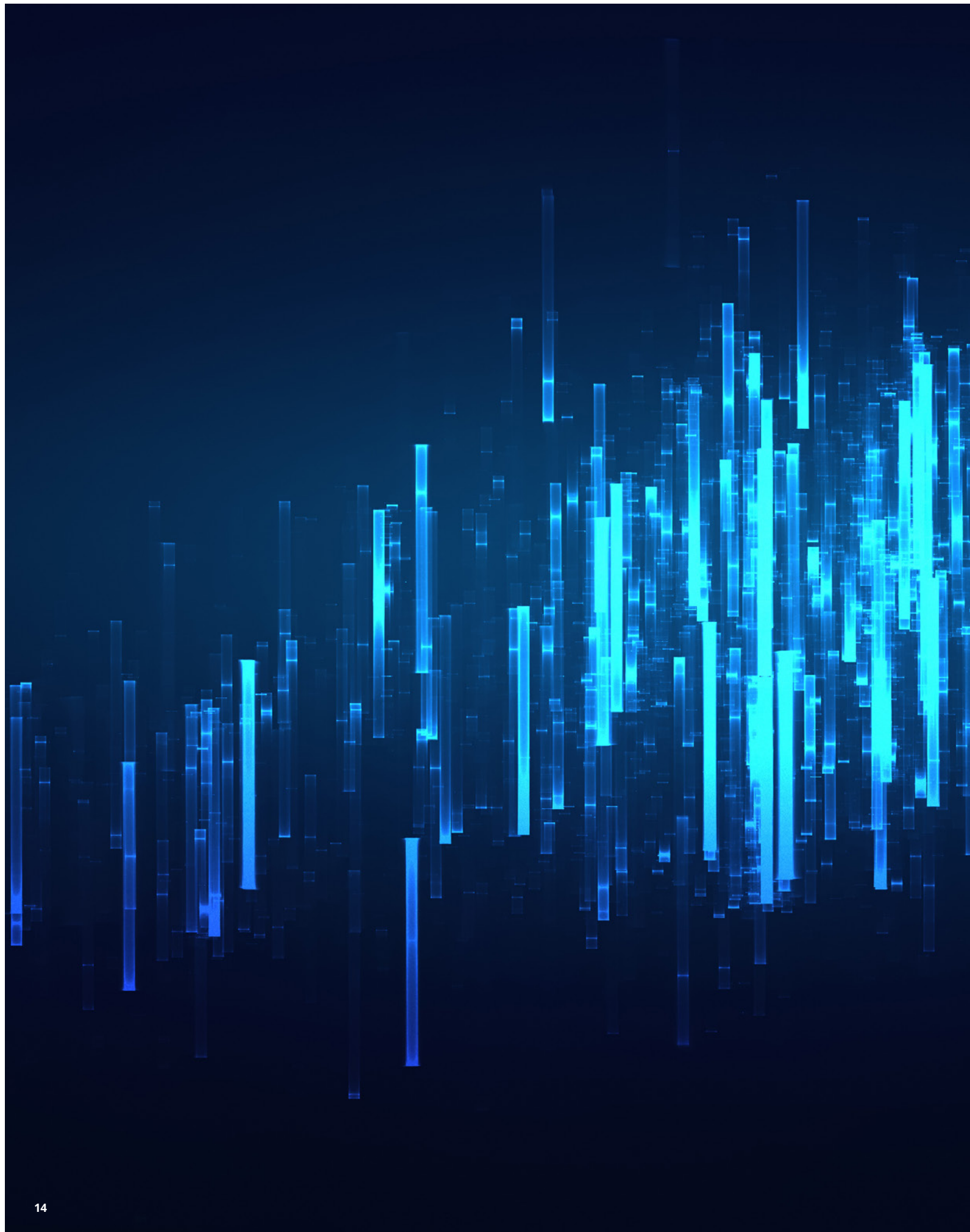
The evolution of professional standards, securities regulations, and audit regulatory requirements will shape the audit of the future. Committed to helping make these developments positive, we are actively participating in several future-oriented forums. For example, we're actively engaged through our representative on the Auditing and Assurance Standards Board, and we're participating in CPA Canada's continuing work on enhancing audit quality and CPAB's pilot study on the use of audit quality indicators.

Future direction of auditing

A key challenge for the profession is increasing the value of audit services for tomorrow. Two issues in particular are rising to the fore:

- **Expanding assurance:** Evidence shows companies are being evaluated against measures and data that capital markets consider valuable but on which no assurance is currently provided, such as adjusted EBITDA, free cash flow or industry-specific measures like order-backlog. Should some—or all—of these value-driving measures be audited? Which ones? How do we define them in a consistent way? And how can they be audited in an era that expects real-time access to the most up-to-date information?
- **Staying relevant:** Emerging technologies, the Internet of Things, and increasing mobility are changing how companies operate. They're becoming part of business ecosystems, with their suppliers, customers, and service providers adding to their unique value. How broadly should business risks and controls be assessed? How will audits be done in a blockchain world where transaction data is accumulated and summarized very differently? How can the value of audit services be enhanced when business is done completely differently than it was even five years ago?

Audit committees tell us they want more robust conversations on audit quality, with less time spent on rote reporting and more on providing insight.



A clear, credible voice

Our audit quality actions, our engagement on audit quality issues, and our market-leading activities provide the platform for a clear, credible voice in shaping the future of the profession.

We'll be exploring matters critical to advancing audit quality in papers to be published under the banner of the Deloitte Institute for Audit Innovation and Quality. Watch for our upcoming points of view on the following:

- Provocative perspectives on auditing in Canada.
- The use of audit quality indicators—by companies for discussions with their auditors and by audit firms to more proactively manage their business.
- The importance of internal control systems for corporate health, commercial success, and auditing effectiveness.
- The roles of the audit committee and management in achieving audit quality.

Our perspectives are shaped by the experience we have gained in the pursuit of our quality aspirations.

We've been
taking deliberate
steps to support
our dedication
to continuous
audit quality
enhancement.

Boldly moving forward

We're innovating with new technologies, systems, and tools to enhance audit delivery. We designed and established our own systems and monitoring tools to provide us with feedback for continual enhancement in our audit practice.

We reorganized parts of our business to better support those of our professionals who perform audits of public companies and engaged in stakeholder forums that are exploring the future of audits. And we established the Deloitte Institute for Audit Innovation and Quality, which will advance thought leadership on issues central to innovation and quality through programming and stimulating fresh thinking.

Our audit quality actions, level of engagement on audit quality issues, and market-leading activities demonstrate that our significant effort is beginning to bear fruit. We're moving forward confidently and courageously in our aspiration to shape our profession and lead the Canadian market—and to make an impact that matters. ●



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