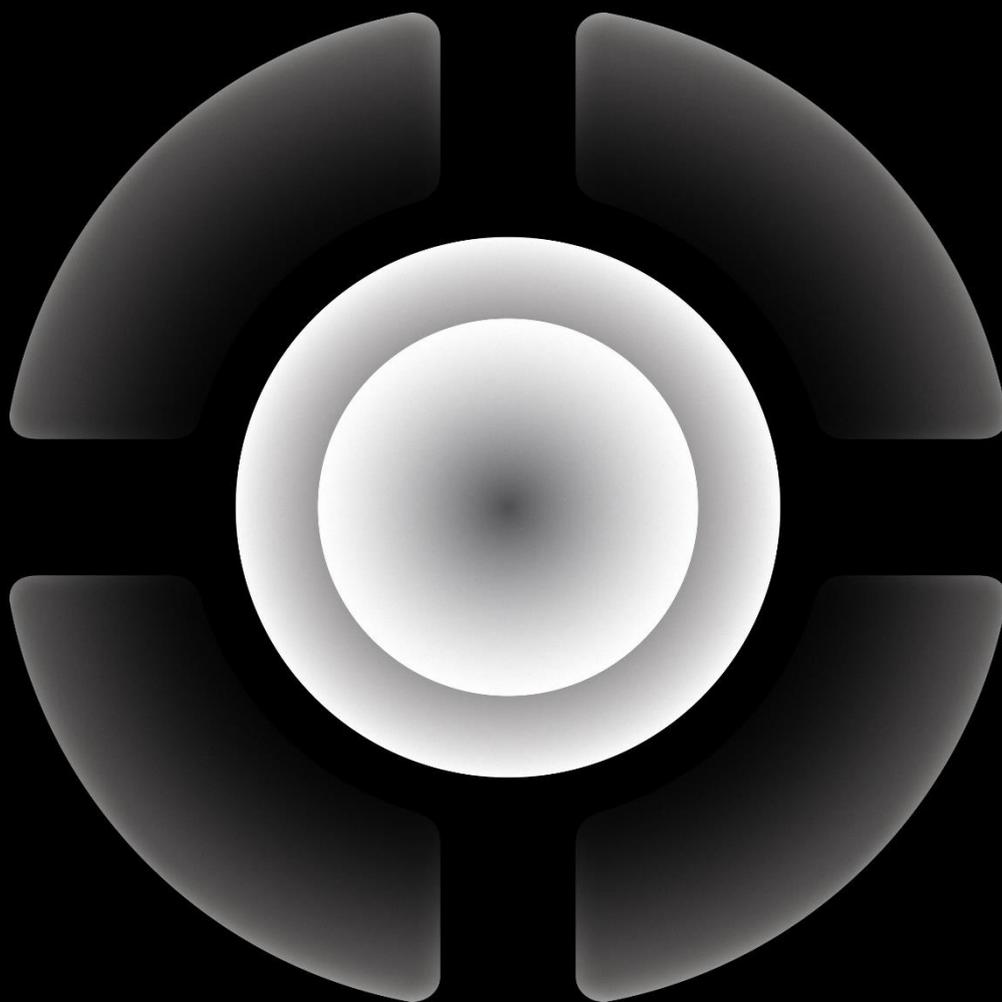


**Deloitte.**



**2019 Transparency Report**  
Deloitte US

September 2019

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As used in the document, “Deloitte” or the “Deloitte US Entities” means one or more of Deloitte & Touche LLP, Deloitte LLP (and its other subsidiaries) and Deloitte USA LLP. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of Deloitte’s legal structure. The “Deloitte Network” refers to the network of legally separate, independent firms that are members of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee. Deloitte LLP and Deloitte USA LLP are the US member firms of the Deloitte Network. Certain services may not be available to attest clients under the rules and regulations of public accounting.

The Deloitte US 2019 Transparency Report is published in accordance with the requirement set forth in the European Union’s Directive on Statutory Audit 2006/43/EC for our fiscal year ended June 1, 2019.



# A message from leadership

To our clients and stakeholders:

At Deloitte, quality is deeply rooted in our culture. Our unwavering commitment to the quality of our work defines not just what we do, but who we are. Every day, our professionals bring to life our shared mission of delivering high-quality audits, never losing sight of the important role the capital markets have entrusted us to uphold.

This 2019 Transparency Report provides details of Deloitte’s commitment to continually enhance audit quality. We publish this report annually to provide disclosure on certain categories of information identified in United States and European Union standards related to corporate governance and transparency. Among the information contained in this report are insights into our commitment to, and continued investments in, audit quality along with details related to our structure, governance, and approach to audit quality, which is grounded by a strong system of quality controls.

We strive to set the standard of excellence in the profession and are dedicated to continuous improvements and innovation throughout our organization. We are making significant investments in transforming how we deliver audits to enhance audit quality and shape the audit of the future through innovative technologies and the development of our professionals. Our cutting-edge audit tools leverage cognitive technology, artificial intelligence, and data analytics. We also continuously update our learning and development curricula to ensure current and future audit professionals develop the skills needed to deliver digitally driven, high-quality audits.

Reliable, accurate, and transparent financial reporting is the lifeblood of the capital markets. While financial reporting that meets these objectives requires significant participation by management, corporate boards, regulators, and other stakeholders, our purpose is to bring integrity and trust to the capital markets through the delivery of high-quality audits. Serving in this role is an honor and a privilege and I appreciate the opportunity to share in this report the actions we are taking that demonstrate our unwavering commitment to audit quality.

Sincerely,

A handwritten signature in black ink that reads "Lara".

Lara Abrash

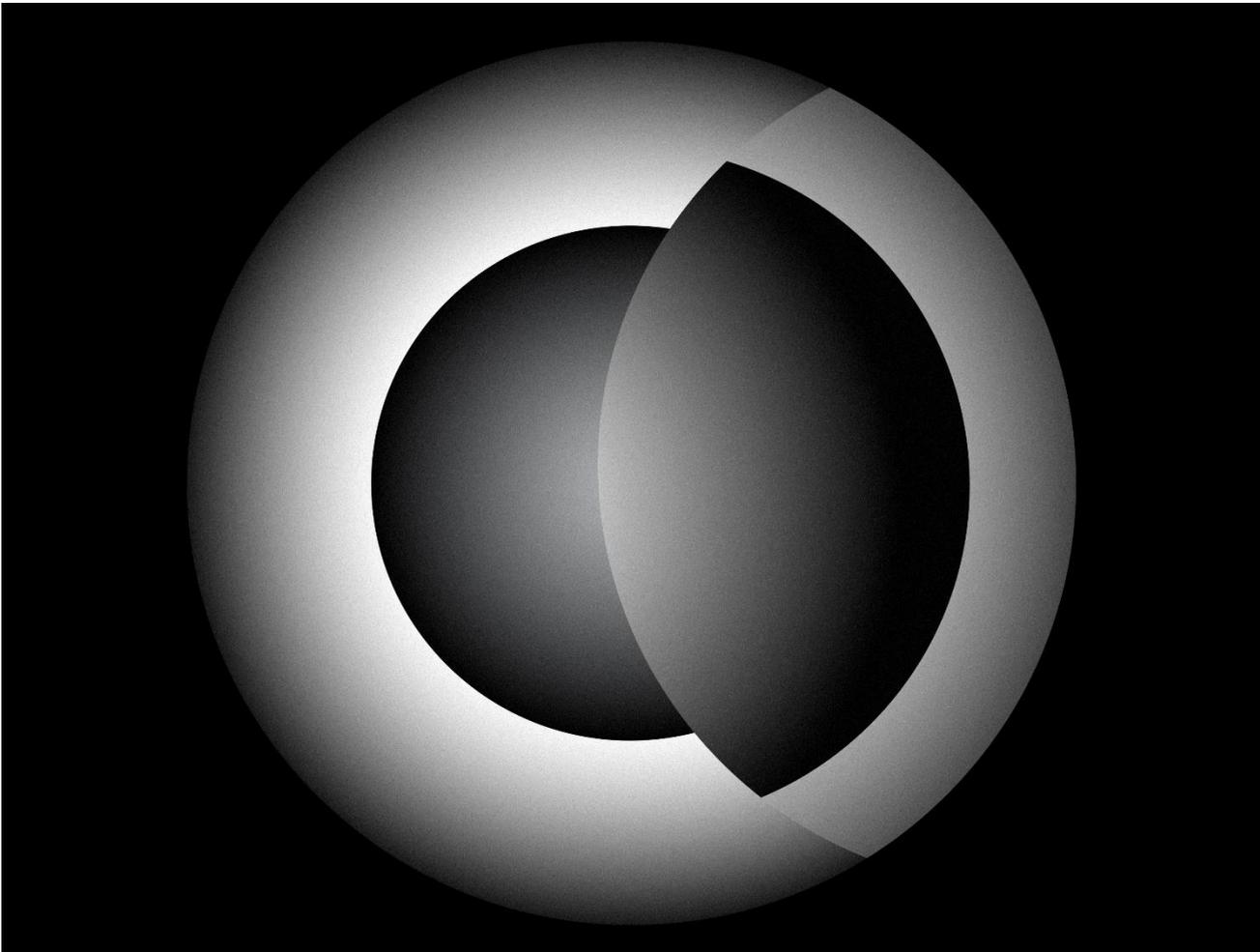
Chairman and Chief Executive Officer  
Deloitte & Touche LLP





# Our purpose and commitment: enhancing trust and confidence

At Deloitte, our purpose is to make an impact that matters. For our audit and assurance business (“Audit & Assurance”), this means a focus on delivering independent high-quality audits and enhancing confidence and trust in the capital markets. This requires us to continuously build capabilities to support the delivery of high-quality audits and make leading contributions to shape the future of the audit profession.





# What Deloitte Audit & Assurance brings to capital markets

## A focus on audit quality

Our commitment to audit quality permeates everything we do—from our culture and business priorities to the resources and processes through which we define and carry out our audits.

The independent audit is a central element of the financial reporting system in place to protect investors and promote the effective functioning of the capital markets. Making sure audit quality keeps pace with emerging economic, business, financial, and regulatory conditions, as well as advancements in technology, is crucial to continuously enhancing the overall strength and integrity of the financial reporting system. We are keenly aware of our obligation to deliver audit services that meet the challenges and complexities of the current environment and that comply with professional and regulatory standards. For the financial reporting system to function as intended, it is vital that the auditor's role be executed effectively.

We are committed to doing more than simply meeting requirements and conforming to expectations. Our desire is to set the standard of excellence for the profession. In keeping with that objective, our commitment to audit quality is unequivocal.

## A culture of professional excellence

We believe a key element of professional excellence is setting the right tone at the top. This tone at the top begins with senior leadership and continues through to leadership in our local offices and on our engagement teams. Our focus on audit quality is evident through the direct involvement of leaders at all levels in audit quality activities and consistent dissemination of quality-emphasizing messages through various communication channels. Our philosophy calls for embedding professional excellence into our definition of what it takes to be an auditor and what it means to conduct an audit. Acting honorably and with integrity is a shared responsibility for which all our professionals are held accountable.

## Independence, objectivity, and professional skepticism

Performing high-quality audits requires independence, objectivity, and professional skepticism. In essence, this means defining the investing public as the ultimate stakeholder; creating a culture in which doing the right thing is valued, invested in, and recognized; and managing our Audit & Assurance business such that financial and operational considerations do not override fidelity to professional standards or serving the public interest.

Internal messaging to our professionals emphasizes that we, as auditors, are evaluators who must maintain a mindset of professional skepticism throughout the conduct of our work. This approach to the audit is reflected in many aspects of our policies, methods, procedures, and training and is reinforced through high-quality control and accountability measures.

## Professionals and processes providing the capability for high-quality audits

Aligning the appropriate competencies and resources in the conduct of our audits is one way in which we achieve our aim of high audit quality.

Our primary resources are qualified and trained professionals. Developing our professionals includes a focus on recruitment, training, and deployment. Our objective is to have a full complement of professionals who understand and apply the standards, policies, and procedures that constitute the audit, including professionals with deep technical, subject matter, and industry knowledge.

Other resources include the proprietary tools, guidance materials, and practice aids that are used in conducting audits, which are available to all our professionals in the Deloitte Technical Library, an extensive online library. Access to the latest information is critical to the effectiveness of our audit teams; we regularly issue accounting and auditing guidance to audit professionals and communicate developments that may affect audit quality.



Various other required processes also assist in achieving high-quality audits. Among these are activities for making client acceptance and continuance decisions, agreeing on the scope and terms of the engagement, maintaining independence, staffing the engagement team, planning and performing the audit, managing engagements, conducting consultations on complex issues, evaluating performance, implementing improvements, and communicating with the audit committee.

### Audit engagement acceptance and continuance

To evaluate whether to accept or continue an audit engagement, we assess the risks associated with performing the audit and the risk that we will be exposed to adverse consequences as a result of association with the entity; the results of our assessment are one of many inputs that inform decisions about the planning and performance of the audit.

Our procedures for assessing whether to accept a new audit client or to continue to serve an existing client are rigorous and encompass many considerations, including:

- The reputation and integrity of the audit committee and management, including the results of background checks and searches for regulatory sanctions of key management members and members of the audit committee.
- The management culture, including management's commitment to the appropriate application of accounting standards (e.g., generally accepted accounting principles in the United States of America (US GAAP)) and to implementing and maintaining effective internal control over financial reporting.
- The evaluation of certain risk factors relative to the engagement, as well as the nature of the services we are requested to perform.
- The nature of the business, with special focus on emerging or unusual businesses where association may impair our brand or reputation.
- Independence and conflict-of-interest assessments and considerations.
- The apparent financial viability of the entity at the time of our assessment.

Our assessment of audit engagement risk begins during the client acceptance or continuance process and lasts throughout the engagement, influencing the nature, timing, and extent of audit procedures

we perform, as well as resources within the Deloitte Network that we involve in the performance of our audit services.

### Audit approach

Our approach to a high-quality audit involves an audit methodology, common across the Deloitte Network, supplemented by audit tools for use by our professionals to plan, perform, supervise, review, document, conclude, and communicate the results of each audit. Our audit approach is underpinned by professional standards.

Our audit methodology is nimble and recognizes that advances in the management of large data sets and in statistical science are relevant to continuing to enhance the quality of our audits. Our audit methodology is fueled by innovation. Our investments in transformational applications are bringing artificial intelligence, automated workflow processes, and advanced analytics into the audit process. The methodology is not static—it is ever-evolving to keep pace with the changing demands of companies, investors, and others in the capital markets.

Our audit methodology is risk-based, focusing on those financial statement account balances and underlying assertions that have a greater possibility of being materially misstated. During the planning phase of the audit, we identify risks of material misstatement and then tailor the audit to respond to such risks. Our risk assessment process draws on our understanding of the entity and both its internal and external environment. We consider the quality of an entity's internal control processes, the characteristics of financial statement elements and whether such elements are subject to significant judgment and estimation, and the competency of the entity's personnel. We look to an entity's competitive position in its industry and macroeconomic events or trends that may change an entity's risk profile.

Once the initial risk assessment is complete, the audit team tailors and executes procedures to address the assessed risks of material misstatement, focusing on gathering sufficient appropriate audit evidence. If we are performing an integrated audit—i.e., an audit of both the financial statements and the effectiveness of the entity's internal control over financial reporting—our identification and testing of internal controls that address those assessed risks of material misstatement becomes a required part of our audit.



### Audit & Assurance Transformation

Being a relevant profession of the future and a sustainable business that evolves with the pace of change in technology and society is critical. Driving this goal is the Deloitte Audit & Assurance Transformation initiative, which is currently being developed and deployed across the Deloitte Network, including Deloitte & Touche LLP.<sup>1</sup>

Audit & Assurance Transformation is an important shift across the network in the way Deloitte professionals work and includes:

The Deloitte Way: standardization of audit processes supported by global technology suite	Real-time audit quality monitoring
Enhanced talent model that includes learning, rewards and recognition, centers of excellence, and delivery centers	Agile deployment of tools and technologies to respond to changing environments

### The audit engagement team

The selection of the engagement team is important to the execution of an effective and efficient audit. An audit partner or managing director has leadership responsibilities for the audit. In the case of public company audits, a partner is required to lead the engagement team. In this report, we use “engagement partner” to describe the individual with responsibility for the overall quality on each audit. The team typically includes one or more of the following professionals: audit senior manager, audit manager, audit senior, audit staff, as well as relevant internal specialists. The engagement team’s composition varies depending on the size, nature, and complexity of the company’s operations.

### Rotation of key audit partners and professionals

In accordance with the requirements of the US Securities and Exchange Commission (SEC), the engagement partner and the partner serving as the engagement quality control reviewer (EQCR) for public companies may not serve in those capacities for more than five consecutive years. A time-out period of at least five years is required before either partner may return to the engagement. Certain other partners who provide audit services must rotate every seven years and are subject to a two-year time-out period. The periodic rotation of partners is an important requirement that helps us maintain our objectivity and professional skepticism on audit engagements. It is also an opportunity to develop leaders. We have a deliberate and objective succession planning process that identifies leaders to fill engagement partner roles and other senior leadership positions.

### Engagement supervision and review

The engagement partner leads the overall planning and conduct of the audit. More experienced team members supervise less experienced members so that professionals at all levels receive guidance to help perform their work effectively. A review of the audit documentation prepared on an engagement is performed by members of the engagement team who have more experience than the preparer.

### Audit documentation

Audit documentation is the written record of our audit engagement. It demonstrates that the work performed complies with professional standards, provides evidence of the basis for our conclusions concerning each relevant financial statement assertion, and shows that the underlying accounting records agree or reconcile with the financial statements. We have clearly articulated policies and practice aids that assist our practitioners in understanding and complying with documentation and archiving processes and requirements. The engagement partner is ultimately responsible for the timely assembly and archiving of the audit documentation.

<sup>1</sup> Deloitte & Touche LLP is the Deloitte US Entity that provides audit, assurance, and other attest and advisory services, and is registered with the PCAOB to perform audits of US public companies. For more information regarding the legal structure and governance mechanisms of the Deloitte US Entities, see the Legal Structure of the Deloitte Network and the Deloitte US entities section of this report.



### Engagement quality control review

In addition to the engagement partner review, every public company audit engagement is subject to an independent engagement quality control review. This review is performed by a partner designated by the leadership in our Quality and Professional Practice Network (Quality Network). As required by Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 1220, Engagement Quality Review, available at: <https://pcaobus.org/Standards/Auditing/Pages/AS1220.aspx>, for public company engagements, the EQCR evaluates the engagement team's significant judgments and related conclusions regarding both the overall engagement and the preparation of the audit report(s) and determines whether to provide a concurring approval of issuance.

### Consultation

Quality and risk management considerations are integral to our audit business. That is why we view consultation as an essential, collaborative process—one that helps determine the most appropriate answers to complex questions. We designed our consultation policies to provide reasonable assurance that agreement is reached between the party seeking the consultation and the party consulted and that conclusions are documented, understood, and implemented. In addition to consultations, whenever partners and managing directors need additional information, perspectives, or specialized knowledge, they are encouraged to seek assistance from the Quality Network.

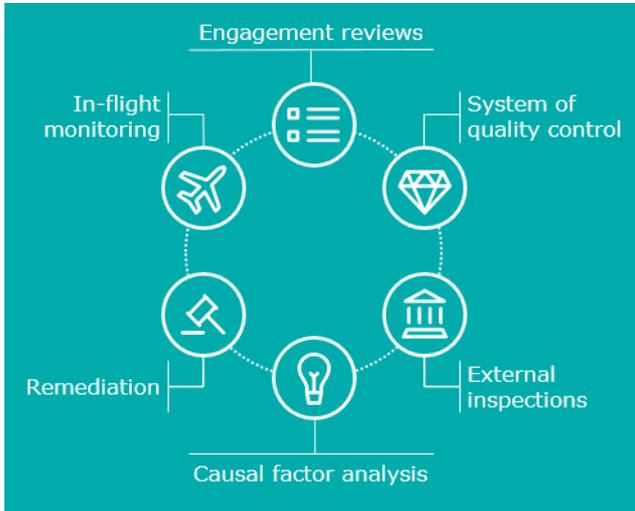
### The Quality and Professional Practice Network

This Quality Network is composed of a team of national partners, managing directors, and other professionals. This national team is supplemented by experienced regional and local professionals and supporting technology. The network's primary goals are to provide consultation resources with deep technical knowledge in accounting, auditing, and risk; to design, operate, and monitor our quality control system; to provide oversight, leadership, and direction on quality activities; to maintain audit manuals, policies, and guidance used by our professionals; and to assist in addressing questions from audit engagement teams.

Through consultation and collaboration, this Quality Network provides our audit engagement teams with access to knowledgeable, competent, and objective professionals who provide authoritative insights that are essential to delivering high-quality audits in a complex and uncertain environment.



# External and internal audit quality monitoring



## Audit Quality Monitoring & Measurement

A continued focus on audit quality is of key importance to the Deloitte brand. It is critical that a Deloitte audit is consistently executed and of high-quality, wherever in the world it is performed.

The objectives of the Global Audit Quality Monitoring & Measurement (AQMM) program are to:

- Transform the way audit quality is monitored and measured and audit deficiencies are resolved; and
- Enhance the internal system of quality control, which all Deloitte Network firms follow

The AQMM program is focused on driving:

- Continuous, consistent, and robust monitoring of completed and in-flight engagements
- Fundamental understanding of deficiencies and timely execution of corrective actions by all member firms consistently
- Greater transparency and consistency in reporting key measures of audit quality

Audit & Assurance maintains policies and procedures to promote an internal culture based on the recognition that quality is the number one priority. Professional excellence is the foundation for achieving audit quality on a consistent basis.



### In-flight monitoring

Continuous audit quality monitoring identifies and remediates audit issues on “in-flight” engagements, driving identification,

timely solutions, and real-time corrective actions achieved by utilizing an integrated approach to monitoring and measuring execution of the audit methodology enhancements.



### System of quality control

System of Quality Control (SQC) includes numerous elements, such as documenting key areas of the SQC processes and controls and performing procedures for testing the operating effectiveness of the SQC, including execution of a comprehensive SQC review program.

Used in conjunction with other metrics, Audit Quality Indicators (AQIs) further assist in developing and monitoring audit quality action plans and reporting on the progress in its audit quality journey. AQIs are integrated with ongoing AQMM activities.

In addition, proper timing and sequencing of audit activities, including timely reviews of work performed and the resolution of matters identified, are closely associated with high-quality audits. Audit Quality Milestones are intended to drive consistency of engagement teams in project management; timing of when work is done; and necessary focus on engagement staffing, including sufficiency of assigned resources.



### Engagement Reviews

Our Internal Inspections group evaluates the work performed for a sample of audit engagements to assess compliance with our system of quality control, as well as US GAAP and standards of the PCAOB, or other applicable regulatory bodies and standard setters, as appropriate. The scope of an internal inspection includes an evaluation of the quality of the audit work performed on the selected audit and a review of certain practices, policies, and procedures related to audit quality and performance.

Any engagement partner or managing director who supervises audits or other attest engagements ordinarily has a sample of his or her engagements reviewed at intervals generally not to exceed four years. This approach provides a representative cross-section of engagements of both public and non-public companies selected for inspection each year. Additionally, certain risk-based selections are made each year, which add a level of unpredictability to the selection process.



A dedicated group of audit partners, managing directors, and senior managers make up our core inspection team and lead, or are reviewers for, many of the inspections. Other partners, managing directors, and senior managers, including those with industry or other specialized knowledge, provide assistance.

Our internal inspectors share their findings on a specific audit engagement with the engagement team, the Audit Professional Practice Director in the applicable office, and the Regional National Professional Practice Director. Remediation of inspection findings is undertaken, when necessary, on individual engagements and the lessons learned from the inspections are more broadly used to enhance audit quality, including through communication with the Audit & Assurance business and integration with the learning curriculum.

The findings of our internal inspections and the themes identified by the PCAOB's inspections, as described below, are generally consistent.



### External inspections

In addition to reviews conducted by our own Internal Inspections group, our public company audits are subject to inspection by the PCAOB and our non-SEC issuer engagements are subject to inspection triennially by another accounting firm as part of the American Institute of Certified Public Accountants (AICPA) peer review program.

Annual PCAOB inspections are required for registered public accounting firms that perform more than 100 US public company audits annually. We are supportive of the role the PCAOB plays in strengthening confidence in the integrity of the independent audit process. The PCAOB's rigorous inspection process is an important element in achieving our shared objectives—we are committed to the consistent execution of high-quality audits for the benefit of the investing public. The scope of the inspections includes an evaluation of the quality of the audit work performed on selected audits, as well as a review of firm practices, policies, and procedures. The inspections page of the PCAOB website at: <https://pcaobus.org/Inspections/Pages/default.aspx> and the Guide to PCAOB Inspections, published by the Center for Audit Quality (CAQ), available at: <https://www.theqaq.org/guide-pcaob-inspections?sfvrsn=0>, provide more information about the PCAOB's process for inspecting public company auditing firms.

The annual PCAOB inspection report for audit firms includes a public and a nonpublic portion.

**Public portion of inspection reports**—The public portion of each inspection report includes those audit deficiencies that the PCAOB considers to be of particular significance relative to the engagements inspected. For those deficiencies and for any other auditing deficiencies identified during the inspection process, PCAOB standards require that the firm under inspection assess whether the PCAOB findings affect its ability to support previously expressed audit opinions and, accordingly, whether corrective actions are needed. Corrective actions generally include remediating omitted procedures by performing additional or enhanced audit procedures and, in some cases, reissuance of an audit report.

The report on the 2017 Inspection of Deloitte & Touche LLP, dated December 20, 2018, is the PCAOB's most recent inspection report on our audit business. The full text of the public portion of the PCAOB's 2017 inspection report is available on the PCAOB's website at:

<https://pcaobus.org/Inspections/Reports/Document/s/104-2019-001-Deloitte-Touche-LLP.pdf>.

**Nonpublic portion of inspection reports**—The nonpublic portion of each inspection report contains certain observations about the firm's audit performance and system of quality control. The Sarbanes-Oxley Act of 2002 requires that the PCAOB's observations on the firm's quality control procedures not be made public by the PCAOB provided that, within 12 months of the date of the inspection report, the firm addresses those observations to the PCAOB's satisfaction. Once the PCAOB determines that our remediation activities have addressed the quality control deficiencies cited in that year's inspection report to its satisfaction, or determines that portions will be publicly released because certain matters have not been addressed to its satisfaction, that inspection year is "closed."

On October 8, 2018, we submitted our final written action remediation plan designed to address the quality control observations outlined in Part II of the 2016 inspection report. The PCAOB is currently reviewing this remediation response.

Generally speaking, the observations included in the nonpublic portion of our inspection reports are similar to those included in reports the PCAOB has issued that highlight issues common to the largest firms in the profession.



**Peer review—audits of nonpublic entities**—In addition to the PCAOB inspections of public company audits, professional requirements of the AICPA and many state accountancy boards require that public accounting firms (CPA firms) undergo a peer review of their accounting and auditing practices related to nonpublic entities. Another CPA firm conducts the peer review every three years.

A peer review of our system of quality control for the year ended March 31, 2017, was completed in December 2017 and primarily related to audit engagements for the year ended December 31, 2016. Our report, with the highest rating of “pass,” is posted to the AICPA website at:

[https://peerreview.aicpa.org/public\\_file\\_search.html](https://peerreview.aicpa.org/public_file_search.html).



#### **Causal factor analysis and remediation**

We take all inspection observations very seriously. We seize opportunities to enhance the quality of our audits and have taken the constructive feedback from past inspections to make changes that are yielding desired

improvements in audit quality. We are committed to constructive engagement with the PCAOB, our primary regulator, and we analyze and perform remedial procedures relative to each written inspection comment we receive. In addition, we perform analyses to identify the causal factors behind our positive inspection outcomes, as well as those contributing to inspection findings, and we develop action plans accordingly to continuously enhance audit quality. Furthermore, we assess whether corrective actions to our system of quality control may also be appropriate and, if so, such actions are designed, implemented, and monitored.

We are managing our Audit & Assurance business with audit quality as our number one priority, using consistent, nationally driven policies. We have made substantial, comprehensive investments in our Audit & Assurance business to enhance the consistency of our audit execution in an increasingly dynamic economic environment and respond to the evolving requirements of capital markets.

#### **Statement on the effectiveness of the functioning of the internal quality control system**

As we strive to be the standard of professional excellence, we are committed to the consistent delivery of high-quality audits and the effective functioning of our system of internal quality control. Our monitoring and review activities have confirmed that our system of quality control is operating effectively. The results of these activities are communicated regularly to our leadership and allow us to identify areas in need of potential improvement now or in the future. Our process includes an internal certification process by partners and managing directors with responsibilities for the various aspects of the system of quality control to emphasize the importance of effective quality control. The internal certification process supports the chairman and Chief Executive Officer (CEO) of Deloitte & Touche LLP’s responsibility for our internal system of quality control.



# Independence, ethics, and compliance related disclosures

## Deloitte Global Independence



Sets **independence policies and procedures** based upon the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants and the independence standards of the US SEC and the PCAOB. Performs full reviews of independence quality controls on a three-year cycle, annual focused reviews for the off-cycle years, and in-depth follow-up reviews as needed.



Performs **on-going monitoring** activities across the Deloitte Network—enabling continuous enhancements to global policies, quality controls, tools, and practice support activities.



Delivers **global systems** to provide professionals with entity information to support compliance with personal and professional independence requirements, including financial interests and scope of service approvals.



Supports **independence awareness** across the Deloitte Network through active engagement with independence and business leadership groups; periodic communications and alerts; and development of guidance, learning, and instructions.

All professionals of the Deloitte US Entities are expected to act with integrity in accordance with high ethical standards as presented in our US Code of Ethics and Professional Conduct (Code), which includes our Global Principles of Business Conduct that is available at:

<https://ecode.deloitte.com/welcome>. The Code specifies expectations for all professionals of the Deloitte US Entities regarding ethics and compliance standards, as well as explaining each individual's responsibilities to the public, clients, and colleagues. Professionals receive a variety of communications and training promoting ethical behavior. Channels for discussing issues regarding ethics and compliance are well established and used regularly.

High ethical standards within Audit & Assurance are maintained through a set of policies and programs that function across all the Deloitte US Entities. Our professionals are accountable for demonstrating high levels of integrity and professionalism at all times.

Our independence requirements apply to all Deloitte US Entities' professionals, whether or not they are directly involved in delivering audit services. The National Managing Partner for the Independence and Conflicts Network (ICN) is responsible for overseeing and managing the independence policies and related training, organizing and staffing of the independence

consultation function, monitoring personal and certain audit engagement-related independence compliance, and overseeing the Deloitte US Entities' independence systems. The Chief Ethics and Compliance Officer is responsible for making sure appropriate disciplinary action is taken when independence policy or regulatory violations occur.

## Communications to our professionals

We use a variety of communication channels and approaches, such as our intranet site, email communication campaigns, leadership messages, mandatory training, and embedded messaging in various career milestone trainings (including prehire and onboarding) to promote and reinforce the importance of ethical behavior; compliance with laws, professional standards, and responsibilities; and policies across the Deloitte US Entities.

## Part of our culture from the beginning

During our two-day onboarding process for new hires, professionals are introduced to Deloitte's standards and expectations for ethics, independence, confidentiality/data privacy, and compliance. After the initial two-day onboarding program, we require all new professionals to complete several trainings covering these topics in more detail during the first 14–60 days with our organization. We also conduct periodic mandatory training for our professionals related to specific ethics and independence related topics.



### Tools and resources

Our readily accessible tools and resources make it easier for our professionals to meet their independence and compliance requirements.

Our Compliance HelpDesk is available to both employees and their spouses/spousal equivalents to assist in answering questions about independence and compliance requirements. In addition, our professionals can access and track their compliance status on My Compliance Dashboard via our intranet or mobile application.

We actively encourage our professionals to speak with their supervisors or contact the Ethics and Compliance Office about ethics and compliance issues, and offer the Integrity Helpline, a confidential, 24-hours-a-day, 365-days-a-year service that is accessible from any location.

### Individual compliance and internal monitoring

To help our professionals maintain their personal independence, the Deloitte US Entities provide access to integrated systems that contain regularly updated information about companies that are restricted for independence reasons (restricted entities), and a platform for tracking and monitoring certain professionals' investments and financial relationships in the Deloitte Tracking and Trading System.

Our broker data import program enables partners, principals, managing directors and other professionals to authorize their brokerage account holdings to be automatically imported into their Tracking and Trading System portfolio. To monitor the accuracy of information reported in the Tracking and Trading System, the Independence Monitoring team performs audits of selected professionals, typically partners, principals, managing directors, and other management-level professionals.

### Personal representations and reporting of apparent independence violations

All US professionals are required to submit an annual "Representation on Independence, Ethics, and Compliance" to confirm they have read, understood, and complied with our Code, as well as independence policies and guidance. In addition, all partners, principals, managing directors, senior managers, and managers provide representations twice a year. All representations, in which self-disclosures of potential policy violations are made by professionals, are reviewed by the Independence Monitoring team.

Professionals are required to report potential independence violations involving themselves, their spouses, spousal equivalents, or dependents when they are identified. The ICN is informed of apparent independence violations to determine the appropriateness of the corrective actions and the need for communications and/or actions with respect to the clients involved. Ethics and Compliance considers the need for any disciplinary measures and the Chief Ethics and Compliance Officer regularly reports to Deloitte's senior leadership regarding regulatory and policy violations and disciplinary actions taken.

### Scope of services for attest clients

Our engagement acceptance policies for nonaudit services require that the partner, principal, or managing director for each potential engagement undertakes a process that determines whether independence must be maintained with respect to the client, even if the client is not an attest client.

Because of limitations on the permissible services for attest clients and their affiliates, independence is considered as part of the engagement acceptance process. If independence from the client is required, the engagement partner, principal, or managing director must verify, prior to beginning the engagement, that the services to be provided are permissible and have been preapproved by the lead client service partner and, where necessary, the audit committee or its equivalent.

Each year, the Independence Monitoring team conducts engagement independence inspections of selected restricted entity audit clients for review of scope-of-service approvals and related documentation, including documentation of communications and discussions with the audit committee, and the permissibility of the services. The results of the inspections are communicated to the engagement team as well as Audit & Assurance leadership for consideration in evaluating the engagement team's overall performance.

### Business relationships

**Marketplace**—A marketplace relationship is one where a Deloitte US Entity engages with a third party to provide services to clients or promote eminence in the marketplace. All new marketplace business relationships require reviews by the lead relationship partner and by the ICN Business Relationship team. A database of approved marketplace business relationships is maintained and each continuing relationship undergoes an independence update at least annually.



**Vendor**—Vendor business relationships are relationships wherein a Deloitte US Entity or its personnel purchases goods or services for internal use. Prior to entering into significant vendor business relationships, the ICN Business Relationship team reviews all such relationships with restricted entities to assess compliance with established policies and procedures.

The Independence Monitoring team conducts annual reviews of the processes used by, and the controls in place for, each Deloitte US Entity to ascertain whether marketplace business relationships are identified and submitted for review and approval in a timely manner and in compliance with established policies. It also evaluates a sample of vendor business relationships with restricted entities to assess whether they have been through the appropriate processes and protocols and are in compliance with established policies.

#### **Internal review of independence practices**

The Deloitte US Entities have conducted a thorough internal review of our independence practices. The

results have been reported to leadership and provide reasonable assurance that our professionals are in compliance with the requisite independence policies and procedures. In the event of noncompliance, we have addressed each matter on a case-by-case basis at a programmatic and individual level, providing additional training, guidance, or disciplinary action as necessary.

#### **Results of noncompliance**

Our policies include expectations concerning independence policies and the consequences of noncompliance. Such actions may involve written reprimands, additional required training, counseling by applicable leadership, additional independence audits, monetary penalties, reductions in performance ratings, restrictions on the individual from providing services, changing the individual's job responsibilities, and termination/separation from the Deloitte US Entities. A national independence compliance review committee composed of senior leaders addresses more serious violations by partners, principals, and managing directors.



# Professional development and performance management

## Learning and development programs

Our professional development program illustrates our recognition that continuous improvement requires continuous learning. We provide training and education on technical and regulatory matters; professional ethics and independence; and nontechnical programming that focuses on leadership development, improved productivity, and project management. Deloitte University in Westlake, Texas, symbolizes the priority we place on investing in professional development.

Our professional development program is designed to build the technical, industry, professional, and leadership skills essential to excellence and to attract and retain top talent in the profession. Formal learning programs include live instructor-led, virtual instructor-led, and e-Learning courses with instructional designers and Deloitte subject matter resources. In fiscal year 2019, our innovative programs for Deloitte auditors offered more than 880,000 learning hours, including interactive simulation-based programs, case studies, and immersion courses. We enhance our culture of development by using annual personal development plans and providing learning materials and experiences created for professionals to leverage on the job and on demand.

Our extensive curriculum, updated annually, covers technical accounting and auditing matters, as well as regulatory, professional ethics, and independence issues for all levels from new hire to partner and managing director. The curriculum encompasses a wide variety of topics and an in-depth exploration of many areas of auditing, including the use of our innovative tools and data analytics, which contributes to quality audit execution and reinforces the role of the auditor. In addition, every year, our partners, managing directors, senior managers, and managers attend level-specific intensive programs focused on timely accounting and auditing issues, specialized industry matters, and a variety of leadership and professional topics.

Our client service professionals have rigorous external and internal continuing professional education (CPE) requirements. All Audit & Assurance client service professionals, whether

CPAs or not, are required to complete at least 40 CPE credits by December 31 every calendar year. For professionals performing client service who also devote more than 25 percent of their available time to performing attest services or have engagement partner or manager-level responsibility for the overall supervision of attest services, at least 16 of the required 40 CPE credits must be in the subject areas of accounting and/or auditing. We monitor compliance with internal and external CPE requirements.

Deloitte supports our professionals in maintaining necessary licensing and certifications and offers learning opportunities to stay current on professional standards. We encourage our partners, principals, managing directors, senior managers, and managers to teach or facilitate learning programs. We encourage all levels to participate in profession-wide organizations and in the programs they sponsor, such as the CAQ, the AICPA, state boards of accountancy, and state CPA societies.

## Partner, principal, and managing director annual performance management and partner/principal earnings allocation process

The annual performance management and earnings allocation practices of the Deloitte US Entities emphasize shared values and promote the attainment of our top priorities.

Clear expectations are set out for partners, principals, and managing directors engaged in the delivery of audit services that indicate they must be committed to professional excellence, which includes exhibiting a high level of audit mastery/proficiency.

At the start of the fiscal year, partners, principals, and managing directors set goals based on expectations of their peer group, roles, responsibilities, and organizational strategic objectives. Goals are subject to review and input by their career advisor and leadership, and progress is assessed throughout the year, including at fiscal year end.

Each partner, principal, and managing director is evaluated on an ongoing basis based on the contributions they make to the business. Quality



considerations are the foundation of the assessment for audit partners, principals, and managing directors and are central to the deployment, peer grouping, and unit/earnings allocation/compensation processes. For those who do not meet quality expectations, custom performance improvement and development plans are designed. These plans address the many aspects of quality and provide leadership support and, in some cases, oversight of work or limitations on assignments. Supervisory partners typically review, support, and monitor these plans.

The partner/principal performance management and earnings allocation practices of the Deloitte US Entities focus on the following critical components:

- Emphasis on shared values of integrity, outstanding value to markets and clients, quality, commitment to each other, and strength from cultural diversity
- Compliance with applicable independence requirements
- Support for professional development and succession
- Assessment of the expectations and skills outlined in our performance criteria for deployment, goal setting, performance feedback, and peering purposes

For partners and principals, an earnings allocation process is employed. Every year, the applicable partnership allocates interests to partners and principals. These interests are referred to as units. Units are assigned to partners and principals on an overall assessment of their performance, in accordance with their peer group. At the end of the fiscal year, unit value is set based on the performance of the Deloitte US Entities. The earnings of partners and principals are determined by their number of units.

To reinforce focus on their primary responsibility—providing high-quality audit services—the policies of the Deloitte US Entities, consistent with federal regulations, forbid audit partners from receiving compensation, bonuses, or other direct financial incentives for selling to their audit clients products or services other than audit, review, or assurance-related services.



# Legal structure of the Deloitte Network and the Deloitte US entities

## The Deloitte Network

The Deloitte Network is a globally connected network of member firms and their affiliates operating in more than 150 countries and territories across the world. These separate and independent member firms operate under a common brand.

## Deloitte Touche Tohmatsu Limited

Deloitte Touche Tohmatsu Limited (DTTL or Deloitte Global) is a UK private company limited by guarantee. DTTL serves a coordinating role for its member firms and their affiliates by requiring adherence to policies and protocols with the objective of promoting a consistently high level of quality, professional conduct, and service across the Deloitte Network. DTTL does not provide professional services to clients, or direct, manage, control, or own any interest in any member firm or any member firm's affiliated entities.

For more information about the Deloitte Network, please see: [About Deloitte](#).

## Deloitte US: legal structure and ownership

In the United States, Deloitte LLP and Deloitte USA LLP are the member firms of DTTL. Deloitte USA LLP holds the rights to the "Deloitte" name, licenses the right to use the name to the Deloitte US Entities, and has certain responsibilities for the cross-functional coordination and oversight of the Deloitte US Entities to protect and enhance the Deloitte brand. Deloitte USA LLP has no ownership interest in Deloitte LLP or its subsidiaries. Services to clients are provided by the subsidiaries of Deloitte LLP, including:

- Deloitte & Touche LLP
- Deloitte Consulting LLP
- Deloitte Financial Advisory Services LLP
- Deloitte Tax LLP
- Deloitte Transactions and Business Analytics LLP

Deloitte USA LLP, Deloitte LLP, and the subsidiaries of Deloitte LLP are each separate and distinct legal entities. Each of the subsidiaries listed above is organized under Delaware law; separately capitalized; has its own chairman, CEO, and board of directors; and these subsidiaries provide a distinct, though

complementary, array of services, including audit & assurance, advisory, tax, and consulting services.

Deloitte & Touche LLP provides audit, assurance, and other attest and advisory services to clients and is registered with the PCAOB to perform audits of US public companies. Deloitte & Touche LLP is a private partnership registered under the laws of the State of Delaware as a limited liability partnership and is owned by Deloitte LLP and its individual partners and principals who actively participate in its business.<sup>2</sup>

Deloitte & Touche LLP is licensed to practice public accountancy in 51 states and US jurisdictions. In addition, where required by state accountancy laws, Deloitte LLP, Deloitte Tax LLP, and Deloitte Financial Advisory Services LLP also are licensed to practice public accountancy in various jurisdictions. These partnerships are subject to state law requirements regarding the licensing of CPAs. All professional practice matters are solely within the control and authority of the entities that are licensed to practice public accountancy in the United States.

Deloitte & Touche LLP is focused on providing high-quality audits to our US-based multinational audit clients through a globally consistent methodology executed locally across our member firm network. Performing audits of multinational companies with subsidiaries around the world involves complexities regarding scoping, coordinating, and executing audit work, whether performed by the US-lead engagement team or component auditors in non-US locations.

Given these complexities, the supervision and review of work performed by other member firms that is relevant to the audit opinions on the consolidated financial statements and internal control over financial reporting (if applicable) of US-based multinational audit clients are highly coordinated and managed elements of these engagements.

<sup>2</sup> Deloitte LLP also is a private partnership registered under the laws of the State of Delaware as a limited liability partnership and is owned by its partners and principals who actively participate in its business or the business of its primary subsidiaries.



# Deloitte & Touche LLP governance—leadership in action

Deloitte & Touche LLP is the Deloitte US Entity that provides audit, assurance, and other attest and advisory services, and it is registered with the PCAOB to perform audits of US public companies.<sup>3</sup> The Chairman and CEO of Deloitte & Touche LLP appoints members to the Deloitte & Touche LLP Board of Directors subject to periodic ratification by a vote of the partners and principals of Deloitte & Touche LLP.

The Deloitte & Touche LLP Board of Directors is responsible for the governance and oversight of the Deloitte & Touche LLP Audit & Assurance and Risk & Financial Advisory practices. Specific responsibilities include approving the admission of partners and principals, approving the allocation of units and earnings to partners and principals, approving the financial aspects of business plans, and approving strategy.

Senior management of Deloitte & Touche LLP develops and implements the strategy for the Deloitte & Touche LLP Audit & Assurance and Risk & Financial Advisory businesses, including related policies, procedures, other professional practice matters, and leadership appointments. The Deloitte & Touche LLP strategy is developed in alignment with the overall strategic direction established for the Deloitte US Entities. In all their activities, Deloitte & Touche LLP senior leaders are responsible for the overarching objective of audit quality, including compliance with applicable professional standards and regulatory requirements.

The Chairman and CEO of Deloitte & Touche LLP has established a governance model that includes the Deloitte & Touche LLP Board of Directors, Audit & Assurance Executive Committee, and Risk and Financial Advisory Executive Committee.

The Chairman and CEO of Deloitte & Touche LLP supervises the Audit & Assurance Executive Committee, which includes:

## Deloitte & Touche LLP – Audit & Assurance Executive Committee<sup>4</sup>

Lara Abrash, Chairman and Chief Executive Officer

Ellen Basilio, National Managing Partner – US Growth & Offerings

Christine Davine, National Managing Partner – Quality, Risk & Regulatory

Andrew Elcik, National Managing Partner – Accounting & Reporting Advisory

Stephen Gallucci, Senior Advisor – Marketplace Leadership

Timothy Gillam, National Managing Partner – Talent Transformation & Partner Matters

Christopher Griffin, Regional Managing Partner – West

Dipti Gulati, Regional Managing Partner – East

Robert Hollingsworth, National Managing Partner – US Audit & Assurance and Regional Managing Partner – Central

Jonathan Raphael, National Managing Partner – Digital Transformation & Innovation

Sherif Sakr, Chief Operating Officer

The following are the members of the Deloitte & Touche LLP Board of Directors:

## Deloitte & Touche LLP – Board of Directors<sup>4</sup>

Lara Abrash, Chairman of the Board

Christopher Cooper	John Peirson
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D. Scott Gauch	Henry Ristuccia
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Jannie Herchuk	Jeffrey Salvatore
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Trina Huelsman	Justin Silber
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Stacy Janiak	David Sullivan
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<sup>3</sup> For more information regarding the legal structure and governance mechanisms of the Deloitte US Entities, see the Legal structure of the Deloitte Network and the Deloitte US entities section of this report.

<sup>4</sup> All members of the Audit & Assurance Executive Committee and the majority of the members of the Board of Directors are CPAs.

# Appendices



## Appendix A | EU EEA audit firms

### Disclosure in accordance with Article 13.2 (b)(ii)-(iv) of the EU Audit Regulation

The following is a list of the firms in the Deloitte Network that perform statutory audits in a European Union (EU) or European Economic Area (EEA) Member State.

EU/EEA Member State	Name of audit firms carrying out statutory audits in each Member State
Austria	Deloitte Audit Wirtschaftsprüfungs GmbH
	Deloitte Burgenland Wirtschaftsprüfungs GmbH
	Deloitte Niederösterreich Wirtschaftsprüfungs GmbH
	Deloitte Oberösterreich Wirtschaftsprüfungs GmbH
	Deloitte Salzburg Wirtschaftsprüfungs GmbH
	Deloitte Tirol Wirtschaftsprüfungs GmbH
	Deloitte Wirtschaftsprüfung Styria GmbH
Belgium	Deloitte Bedrijfsrevisoren / Réviseurs d'Entreprises CVBA / SCRL
Bulgaria	Deloitte Audit OOD
Croatia	Deloitte d.o.o. za usluge revizije
Cyprus	Deloitte Limited
Czech Republic	Deloitte Audit s.r.o.
Denmark	Deloitte Statsautoriseret Revisionspartnerselskab
Estonia	Deloitte Audit Eesti AS
Finland	Deloitte Oy
France	Deloitte & Associés
	Deloitte Marque & Gendrot
	Deloitte Marque Gendrot
	Audalian Commissaire
	BEAS
	Cisane
	Constantin Associés
	Constantin Entreprises
	Consultants Auditeurs Associés
	DB Consultants
	Durand & Associés
	ECA Audit
	Jacques Serra et Associés
	Laurens Michel Audit
	Opus 3.14 Audit Et Conseil
	Pierre-Henri Scacchi et Associés
Revi Conseil	
Germany	Deloitte GmbH Wirtschaftsprüfungsgesellschaft
	Deutsche Baurevision GmbH Wirtschaftsprüfungsgesellschaft



EU/EEA Member State	Name of audit firms carrying out statutory audits in each Member State
	SüdTreu Süddeutsche Treuhand GmbH Wirtschaftsprüfungsgesellschaft
Greece	Deloitte Certified Public Accountants SA
Hungary	Deloitte Könyvvizsgáló és Tanácsadó Kft.
Iceland	Deloitte ehf.
Ireland	Deloitte Ireland LLP - Republic of Ireland
Italy	Deloitte & Touche S.p.A.
Latvia	Deloitte Audits Latvia SIA
Liechtenstein	Deloitte (Liechtenstein) AG
Lithuania	Deloitte Lietuva, UAB
Luxembourg	Deloitte Audit
Malta	Deloitte Audit Limited
Netherlands	Deloitte Accountants B.V.
Norway	Deloitte AS
Poland	Deloitte Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa Deloitte Audyt spółka z ograniczoną odpowiedzialnością
Portugal	Deloitte & Associados, SROC S.A.
Romania	Deloitte Audit S.R.L.
Slovakia	Deloitte Audit s.r.o.
Slovenia	Deloitte Revizija d.o.o.
Spain	Deloitte, S.L.
Sweden	Deloitte AB
United Kingdom	Deloitte LLP Deloitte Gibraltar Limited Deloitte NI Limited

### Disclosure in accordance with Article 13.2 (b)(iv) of the EU Audit Regulation

The total turnover achieved by the audit firms that are members of the network, resulting from the statutory audit of annual and consolidated financial statements: € 2 billion<sup>5</sup>

<sup>5</sup> Amount represents an estimate determined based upon best efforts to collect this data. Certain Deloitte audit firms registered to perform statutory audits in respective Member States provide statutory audit services as well as other audit, assurance and non-audit services. While Deloitte endeavored to collect specific statutory audit turnover for each EU/EEA Deloitte audit firm, in certain cases turnover from other services has been included. The turnover amounts included herein are as of May 31, 2019, except for a limited number of instances where a Deloitte audit firm has different financial year end or has not finalized its reporting for such period. In these cases, turnover amounts are for the relevant financial year or preceding financial year. Where currency other than Euros is used in the Member State, the amount in Euros was translated using an average exchange rate in effect for the period June 1, 2018 to May 31, 2019.



## Appendix B | Financial information

We provide information on revenue and earnings by service, employee compensation and benefits as a percentage of revenue, and our capital structure. The following table summarizes the revenue and other statistics of the Deloitte US Entities on a combined basis:<sup>6</sup>

Fiscal year end	2019	2018	2017
<b>Revenue (US \$ in millions)</b>	\$21,913	\$19,897	\$18,551
	<p><b>2019 Revenue</b></p> <p><b>2018 Revenue</b></p> <p><b>2017 Revenue</b></p>		
	<p><b>2019 Earnings</b></p>	<p><b>2018 Earnings</b></p>	<p><b>2017 Earnings</b></p>
<b>Employee compensation and benefits as a percentage of revenue</b>	49.2%	49.1%	49.1%
<b>Capital structure</b>	<p>The majority of our capital structure consists of capital contributed by our partners and principals. In addition to this paid-in capital, the other portion of our capital structure consists of long-term privately placed debt. The debt carries an NAIC 1 designation, NAIC's highest designation, which is comparable to an A or better rating from one of the nationally recognized rating agencies.</p>		

Note: The accounting records of each Deloitte US Entity are prepared on the accrual basis and in a manner that reflects the way the businesses are operated. The financial information shown above is not prepared in accordance with US GAAP. The revenue amounts shown include reimbursable expenses billed to clients. Earnings for each entity include direct costs and expenses, as well as allocated amounts of shared costs and expenses.

<sup>6</sup> Information is as of the fiscal years ended June 1, 2019, June 2, 2018, and June 3, 2017.



## Appendix C | Public interest entities

### US public audit clients as reported to the PCAOB

The PCAOB requires all registered firms to file annual reports on Form 2 each year, covering a 12-month period from April 1 through March 31. In compliance with PCAOB rules, Deloitte & Touche LLP filed an annual report on July 1, 2019, listing all audit reports issued for issuers, as defined under US law, for the 12-month reporting period ended March 31, 2019. Information on such audits is available electronically. To view the list of our issuer audit clients, please refer to our Form 2, Item 4.1 on the PCAOB website at:

<https://rasr.pcaobus.org/Forms/FormSummary.aspx?ID=71AA9682B80A8E39B2D5ED15386D1EB4>.

### Public audit clients as reported in EU member states

Below is a list of our public audit clients that have issued transferable securities on a regulated market in EU member states<sup>7</sup> for which Deloitte & Touche LLP completed an audit during our fiscal year ended June 1, 2019:<sup>8</sup>

- Chembulk Holding LLC
- DXC Technology Co.
- Eagle Bulk Shipco LLC
- Honeywell International Inc.
- Marsh & McLennan Companies, Inc.
- Morgan Stanley
- Morgan Stanley Finance LLC
- Northrop Grumman Corporate
- Pacific Life Funding LLC
- The Boeing Company
- The Procter & Gamble Company
- United Parcel Service, Inc.
- Worldpay, Inc.

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<sup>7</sup> Relevant audit clients generally include companies incorporated outside the EU/EEA whose transferable securities are admitted to trading on a regulated market of any member state of the EU/EEA, with certain exceptions, as described in the frequently asked questions annexes to the Forms A and B (EU) Common Application Forms. Each of the EU member states in which Deloitte & Touche LLP is registered defines relevant audit client in a similar manner.

<sup>8</sup> The aggregate audit and related fees earned as of June 1, 2019 for these companies totaled approximately \$243 million. The aggregate other fees earned as of June 1, 2019 for these companies totaled approximately \$12 million.



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