Our purpose

Dating back to the founding of the modern profession by W.W. Deloitte in 1845, the work of our auditors makes an impact that matters. The miracle of modern global markets is only made possible when investors trust corporate financial statements and disclosures. As independent auditors, we enhance trust in the companies we audit, helping a multi-trillion dollar capital markets system function with greater confidence.

Our work helps the markets to trade with trust and confidence—the companies we audit represent more than $6.5 trillion of market capitalization.

Our services facilitate capital formation—enabling existing businesses to grow and expand, and entrepreneurs to raise the capital that fuels innovation.

Our independent, outside-in perspective delivers insights that enable clients to run more effective organizations—driving economic growth, job creation, and innovation in the broader economy.
Tangible results
Our commitment to leading the profession

Delivering audit quality

Over 50% reduction in PCAOB comments since 2011

Over $100 million invested in new Global Center of Excellence for Audit Quality

Institutionalized a culture of continuous improvement

Investing in our people

$300 million state-of-the-art learning center

Leading-edge 16-week family leave program

22% reduction in voluntary turnover

Transforming through innovation

Several hundred million dollars invested in next-generation technologies

2016 WINNER Most Innovative Practice, Large Firm

Audit Innovation of the Year International Accounting Bulletin

9 next-generation applications and analytics tools

Seeking outside perspectives

Unique external Audit Quality Advisory Council, comprised of eminent stakeholders

CFO Magazine Readers’ Choice Award

Top Accounting Firm Among the Big 4
Contents

A message from our leadership 1
Our responsibility, our commitment 2
Looking to the future: understanding the needs of our stakeholders 3
Transforming the audit through innovation 5
Investing in tomorrow’s talent 8
Monitoring our practice and holding ourselves accountable 10
Shaping the future of the profession 12
Excellence, every day 15

About Deloitte
To the clients and stakeholders of Deloitte & Touche LLP:

The audit profession is in the midst of a rapid transformation, creating unprecedented opportunities to enhance the value we deliver to the capital markets. The proliferation of data analytics and artificial intelligence opens the door to modernizing the manner in which an audit is conducted, driving higher levels of quality and enhanced insights. At the same time, the breadth of financial information that investors are consuming is evolving rapidly. These trends make the need for our core service—delivering high-quality assurance on the financial information that moves markets—more important than ever. At Deloitte, our professionals are hard at work delivering the audit of the future, today.

We take great pride in fulfilling our public interest responsibility. We appreciate the opportunity to share with you our perspectives on the foundational importance of audit quality to our firm; the substantial investments we are making to continuously enhance the quality of our work; and most importantly, our vision for a very vibrant and robust future, rooted in our mission of delivering trust and confidence to investors. Among the topics we cover in this report are:

- The investments we have made in innovation, and how we are integrating advanced technologies with process and methodology enhancements to deliver the audit of the future;
- Our commitment to soliciting outside feedback from eminent stakeholders through our Audit Quality Advisory Council, consistent with upholding our public interest responsibility;
- Insights into some of the quantitative metrics we use to monitor our practice and hold ourselves accountable for quality;
- Our talent development and retention practices that are driving substantial reductions in voluntary turnover—including an intense focus on inclusion, and the roll out of a leading-edge, 16-week, fully paid family leave program to support a wide range of life events impacting professionals and their families; and,
- Steps we are taking to rapidly globalize the Deloitte Network, driving consistent execution of high-quality audit services around the world.

One thing is certain: The only way to stay ahead of change is to invest and lead. We will persist in our efforts to enhance the quality and effectiveness of the audit through our unwavering commitment to continuous improvement, ongoing dialogue with our regulators and key stakeholders, and an intense focus on innovating audit delivery.

Sincerely,

Joe Ucuzoglu
Chairman and Chief Executive Officer
Deloitte & Touche LLP

Cathy Engelbert
Chief Executive Officer
Deloitte LLP
Our responsibility, our commitment

At Deloitte, audit quality is our highest priority. Quality informs every aspect of our audit practice, from strategy to delivery, and guides every step we take to support and develop our professionals. Our pursuit of audit quality is at the center of our culture of continuous improvement and innovation, as we seek to make our best work today even better tomorrow. Committed to lead, we are raising standards of audit quality across the global Deloitte Network and across the profession.

This report focuses on the steps we are taking to further enhance audit quality, the investments we are making to transform the audit, and our commitment to embracing a bold, new mindset as we continue shaping the future of the audit profession.

Reinforcing trust and stability in the capital markets
As auditors, we play a vital role in facilitating increased transparency in the capital markets. It is our responsibility to keep quality consistently high across all of our audits. We are dedicated to continuous improvement at every level of our organization and unwavering in our efforts to deepen accountability at every step of the audit process.

Our culture of continuous improvement is firmly rooted in accountability. Our leaders set the tone, holding themselves accountable and clearly communicating our commitment to audit quality. We invest in the development of all our professionals. Ultimately, audit quality comes down to the work they do every day. We couple learning and development with strong performance management, and we continue to set expectations, metrics, and incentives that are tightly aligned with achieving high-quality objectives.

We have also made substantial, comprehensive investments in our audit practice to improve the consistency of audit execution and respond to evolving investor demands. With emerging technologies, such as analytics and artificial intelligence, and smarter approaches to managing and monitoring audit teams and the audit process, we continue to accelerate our progress.

The companies we audit and the investing public will benefit directly from these advances.

“We are transforming the audit as part of our relentless commitment to audit quality and protecting the public interest. Our methodology is evolving, we are sharpening our focus on risk assessment and we are leveraging data analytics and artificial intelligence in the execution of the audit. All of these efforts are centered on raising the bar on audit quality.”

— Dave Sullivan
National Managing Partner, Quality and Professional Practice
Deloitte & Touche LLP

Audit Imperatives
We created eight Audit Imperatives to guide our practice and serve as a core component of our quality efforts. Our professionals have rallied around these imperatives, and the imperatives are a bedrock of our continuous improvement culture.
Looking to the future: understanding the needs of our stakeholders

As we look to the future and embark on a transformation of the audit process, we believe it is imperative that the direction we take is guided by outside perspectives and stakeholder expectations. Below, we introduce our Audit Quality Advisory Council (AQAC), which is comprised of eminent representatives from a cross-section of important constituencies. And on the following page, we share the feedback we have gathered through surveys as to the evolving assurance needs of the capital markets. The quality and innovation initiatives described throughout the remainder of our report are directly responsive to these external sources of input.

Members of the AQAC provide input to Deloitte based on their current and prior leadership roles and experiences as academics, regulators, investors, standards setters, auditors, audit committee members, and public company executives.

Audit Quality Advisory Council

Daniel Goelzer, Chair
Mr. Goelzer is an attorney in private practice at Baker and McKenzie LLP. He is a founding board member of the Public Company Accounting Oversight Board (PCAOB) and a former general counsel of the US Securities and Exchange Commission (SEC).

Arnold Hanish
Mr. Hanish is retired from Eli Lilly and Company, where he was vice president and chief accounting officer. He is a former member of the PCAOB Standing Advisory Group and currently serves as a public company board member.

Jon Lukomnik
Mr. Lukomnik is a managing partner of Sinclair Capital LLC, a strategic consultancy to corporations, institutional investors, and the investment management industry. He is also the executive director of the Investor Responsibility Research Center Institute and a member of the PCAOB Standing Advisory Group. He has been honored by the National Association of Corporate Directors, the International Corporate Governance Network, Ethisphere, and Global Proxy Watch, among others.

Zoe-Vonna Palmrose
Ms. Palmrose is the Hanson Professor in Business Administration and Director of the Masters of Professional Accounting Program for Auditing and Assurance in the Foster School of Business at the University of Washington–Seattle. She served as deputy chief accountant for professional practice in the Office of the Chief Accountant at the SEC. She was a member of the Public Oversight Board’s Panel on Audit Effectiveness and the American Institute of CPA’s Auditing Standards Board Fraud Task Force.

Phil Wedemeyer
Mr. Wedemeyer served at the PCAOB as director of the Office of Research and Analysis and as a deputy director in the Division of Registrations and Inspections. He retired from Grant Thornton LLP and was a partner for many years at Arthur Andersen LLP. He currently serves as a board member at public and private companies.

Topics addressed by the AQAC

Our dialogue with the AQAC is robust and focused on topics shaping the future of the profession. Over the past year, our discussion with the AQAC has covered topics such as:

- Continuous quality improvement plans in the US and globally
- Innovation and transformation
- Future of assurance
- Operating a global network
- Multidisciplinary business model

Looking to the future: understanding the needs of our stakeholders
Looking to the future: understanding the needs of our stakeholders

Technology continues to drive change at an exponential rate. New business models and business ecosystems are emerging. The marketplace is dynamic. Our Audit of the Future Survey of more than 250 investors, audit committee members, and financial statement preparers revealed a growing consensus that the traditional audit and the profession as a whole must evolve to keep pace with change, and in response to evolving demands.

Today, information has more power to move markets more rapidly and more profoundly than ever before. The investing public has rising expectations about transparency, access to information, and the quality of information.

Our Audit of the Future Survey brings this shift into focus. More than two-thirds of those surveyed agreed that the audit should, first and foremost, provide reasonable assurance that financial statements are free of material misstatements and that companies’ systems of internal control over financial reporting are effective.

But for a growing number of investors, the survey indicated that audit quality involves something more. A clear majority of those surveyed believe auditors should provide assurance on information beyond traditional financial statements; and three-quarters of respondents believe auditors should harness technology to accomplish that.

We are already taking steps to move audit quality beyond its traditional limits, applying a streamlined, intelligent approach to the audit and leveraging innovative tools and technologies. These coordinated efforts will transform the audit to improve quality today and help companies and investors meet the challenges of tomorrow’s business environment.

“Many investors today are looking for broader and deeper insights that can help them make smarter, more informed decisions. To meet this demand and to bring audits into the future will require significant investments and a mindset that is bolder than the public accounting profession has been known for historically.”

— Joe Ucuzoglu
Chairman and Chief Executive Officer
Deloitte & Touche LLP

Deloitte’s Audit of the Future Survey results
Transforming the audit through innovation

Advancements in technology and evolving markets are driving dramatic changes in business—which means audit, too, must evolve. Deloitte is proud to be at the forefront of the transformation, not only responding to change but reshaping what is possible. It’s why we continuously invest in audit quality and in developing next-generation proprietary technologies that are significantly improving the audit process. To date, we have invested several hundred million dollars in our efforts to transform the audit.

Our dedicated Audit Innovation team of more than 100 professionals draws on the resources and best thinking from across Deloitte’s multidisciplinary organization. The team collaborates with technical experts, developers, designers, consultants, data scientists, and strategists to create new tools and technologies that help drive audit quality, transparency, and insight.

By embedding these new tools within our risk-based methodology and overlaying a proprietary project management approach, we are transforming the audit process. At Deloitte, better technology and smarter methodology—new tools and new approaches—go hand in hand. Our goal is simple and clear: A high-quality audit that is transparent, customized, and integrated, all to deliver high-quality assurance and insights that inform intelligent, real-time decisions and professional judgment.

The audit of the future

Our investments in innovation and execution are transforming the way in which audits are delivered. We are on a journey that will shape the audit of the future—empowering our people to continuously improve quality, deliver greater insights to our clients and the capital markets, and streamline the audit process by seamlessly accessing data from our clients in real time.

Through our transformation, we will deliver:

• **Enhanced quality**—We will continuously enhance quality by leveraging technology-enabled solutions that pinpoint risks and focus our audit effort where it matters most.

• **Greater insights**—We will leverage our outside-in perspective and deep industry expertise to deliver insights that better inform the decisions of our clients and the markets.

• **Streamlined audit process**—We will deploy technologies that seamlessly extract and process client data in real time, providing greater connectivity, transparency, and the ability to deliver advanced audit analytics at scale while freeing up the time previously spent on manual processes to focus on complex professional judgments.

As we look to the future, one thing is certain—the rapid progression of technology and new exponentials will continue to drive the evolution of the audit and how the profession serves the capital markets. For example, Blockchain has the potential to revolutionize how financial transactions are recorded and stored.

This could have a deep and widespread impact on many industries, including our profession, and how we audit both financial statements and internal controls over financial reporting. It may also create the demand for new assurance services over the Blockchain. Similarly, as we move toward a more connected future with the “Internet of Things,” we expect to see the emergence of applications featuring secure communication between intelligent devices with no human involvement whatsoever—enabling auditors to leverage the richness of data analytics to focus their attention on more strategic and impactful activities. We are committed to continued investment in these and other emerging technologies that enable the delivery of greater quality, insights, and value to our clients and the markets.

When we imagine the audit of the future, we see it as an even more valuable enabler of our vibrant capital markets—potentially providing continuous assurance and insights, leveraging advanced technology platforms and automation, and showcasing the most valuable skills and expertise of our professionals.
Our proprietary artificial intelligence engine, Argus, enables our auditors to review large volumes of documents using sophisticated algorithms—empowering our professionals and equipping them with better information to make decisions and share more robust insights.

Our Deloitte audit, fueled by innovation

Deloitte’s next-generation applications define the very edge of audit innovation, bringing artificial intelligence, automated workflow processes, and advanced analytics into the audit process.

Today, audit teams use online collaboration tools to interact seamlessly with clients and leverage technologies to deliver a transparent and intuitive audit, powered by real-time information.

We can do more than ever before to raise audit quality with data. We are using advanced data analytics and visualizations to glean deeper, more meaningful insights. Our data specialists are equipped with cutting-edge analytics and visualization solutions, as well as deep expertise in data science. These critical members of our audit teams analyze large data sets to uncover and communicate hidden patterns, linkages, and anomalies.

Transforming audit execution

Along with developing next-generation applications and advanced analytics, we are transforming our methods and approaches to help optimize execution of the audit and deliver higher quality consistently throughout the year.

Risk-based audit methodology

Our audit is designed around a customized risk assessment that leverages our suite of innovative audit applications, using data analytics and artificial intelligence to drive a deep understanding of an entity and its business. This tailored approach enables us to focus our attention and resources on the audit areas that are most relevant for each business, improving audit quality and effectiveness.

Audit delivery centers

These hubs give audit teams access to a pool of highly skilled professionals with deep experience and knowledge in a particular audit area, industry, process, or tool. In addition to increased effectiveness, we benefit from the leading practices and insights these professionals have developed while honing their specialties.

Over the past year, we delivered 1.5 million hours through our audit delivery centers to enhance quality and, in some cases, deliver around-the-clock audit services. We have 15 audit delivery centers that focus on audit matters unique to certain industries, as well as audit matters that span industries, such as auditing goodwill and employee benefit plans.

Deloitte’s advanced analytics and visualizations provide engagement teams and clients with deeper, more meaningful insights. Our next-generation applications define the leading edge of audit innovation, leveraging artificial intelligence, automated workflow processes, and cognitive technologies to streamline audit delivery and provide greater transparency throughout the process. Our technology is used by all US audit professionals. These applications include, among others:

- **Electronic document interrogation and analysis (Argus)**
  - Leverages cognitive technologies such as advanced machine learning and natural language processing to quickly process, highlight, and extract key information from electronic documents—to focus on what matters most. Argus helps our professionals provide meaningful insights, including a summary of key analytics across an entire population of documents.

- **Online collaboration, information sharing, and progress tracking (Deloitte Online and Deloitte Connect)**
  - Enables clients to communicate and collaborate seamlessly with the Deloitte audit team—and to effectively monitor and manage the audit process—via a secure online collaboration site that has been designed with unique engagement requirements in mind.

- **Automated analysis of SEC and IFRS filing disclosures (Disclosure Analytics)**
  - Offers real-time, online access to SEC and International Financial Reporting Standards (IFRS) filing disclosures and accounting policies, and SEC comment letters, enabling instantaneous peer comparisons, as well as updates on emerging disclosures and industry trends, contributing to better, more informed disclosures.

- **Mobile-enabled inventory counts (Icount)**
  - Allows our professionals to use mobile devices to perform physical inventory observations and transmit results in real time while on site, enabling the audit team to monitor and review all location counts instantly using the web-based application.
Award-winning innovation
Deloitte’s steadfast commitment to leading the profession in audit quality and innovation has received international accolades. Deloitte was recognized with International Accounting Bulletin’s prestigious “Audit Innovation of the Year” award, with special recognition for our Argus technology. Most recently, the British Accountancy Awards named Deloitte the “Most Innovative Practice” (Large Firm category), recognizing our best-in-class audit analytics platform and our investment in cognitive and robotic technologies within our audit practice.

"Every part of our organization is dedicated to audit innovation, from cutting-edge tools and technologies that improve client service delivery and audit quality, to the way our professionals work together to deliver insights. At Deloitte, we’re creating the audit of the future today because we’ve built an organization where great ideas are translated into practical steps, every day."

— Lara Abrash
National Managing Partner, Audit Innovation and Client Service Delivery
Deloitte & Touche LLP

Optimizing interim
Deloitte is working actively to distribute audit activities more evenly throughout the calendar year, reducing the workload for our clients and audit professionals during peak audit periods. In addition, this approach enables us to understand and manage risks more effectively and tackle important issues as they arise.

This approach to audit execution enhances quality and offers numerous benefits—allowing us to provide a customized audit tailored to the unique risks and requirements of our clients’ businesses; providing deep knowledge and experience in specialized areas; and improving effectiveness and insights.

Advanced data analysis of journal entries (Deloitte Optix)
Analyzes large data sets in near real time to uncover hidden patterns, trends, and risks in large journal entry populations, providing important operational and control insights.

Automated management of the audit confirmation process (Iconfirm)
Coordinates multiple stakeholders in the confirmation process on an online platform to provide efficiencies and support high-quality audits. Iconfirm offers a differentiated experience for our professionals and clients by automating and streamlining the confirmation process, including preparing, sending, receiving, and monitoring activities.

Industry-specific data analytics and visualizations (Deloitte Analytics Library)
Serves as a repository of leading-practice analytics that our engagement teams can use for planning and performing the audit, as well as sharing insights obtained from our analysis. A collection of analytics and visualizations is tailored for each industry sector—for example, allowance for loan loss analytics for the banking industry and claims analytics for the insurance industry.

Comprehensive risk analytics (Deloitte Signal)
Examines a wide range of industry data and identifies potential risks using trend and regression analysis, which then enables our audit teams to identify fraud and other risk factors so that we—and our clients—can get in front of potential issues, rather than waiting to find them after they have occurred.
Investing in tomorrow’s talent

Deloitte is a recognized leader and employer of choice, striving to create a leadership environment focused on the development and well-being of all of our professionals. We have been at the forefront of fostering an inclusive culture that invites authenticity, fosters a sense of community, values diverse experiences and perspectives, and enables our professionals to play to their unique strengths. We are consistently ranked as one of the best places to work, and honored for our inclusive culture and increasingly diverse workforce. The reason for our success is straightforward: We invest in our people to give them opportunities to grow and thrive. Our transformed approach to audit delivery is enabling our professionals to use more advanced analytics and technologies on the audit, apply more critical thinking, spend more time applying professional judgment, and gain a deeper understanding of a client’s business and industry—all contributing to an improved talent experience for our people.

We have made substantial investments in our talent strategies and transformed our technical audit curriculum. Deloitte auditors have logged more than 900,000 hours of learning in our updated curriculum over the past year alone. We target learners by level of expertise, using a dynamic mix of live, instructor-led, virtual, and engagement team-based courses. All client service professionals of Deloitte & Touche LLP are required to complete at least 20 hours of CPE each year and at least 120 hours every three years. Professionals who spend more than 25 percent of their time on audit or other attest engagements or who have partner, managing director, or manager responsibilities for such engagements must devote at least 40 percent of their minimum required CPE hours to accounting and auditing. In addition, we have mandatory technical learning requirements. We monitor extensively for compliance, and equip learners to bring lessons back to the engagement team where they can be applied to fieldwork. These efforts are yielding strong results.

**Our commitment to diversity and inclusion is widely recognized**

Deloitte University

To help our professionals achieve higher levels of performance, we invested $300 million to establish Deloitte University (DU), a state-of-the-art learning and leadership development center. Our professionals have logged more than 3.7 million learning hours at DU since its inception in 2011.

A holistic approach: Audit 360°

Our professional development model has become more holistic, moving beyond technical education to include industry specialization, exercises in critical thinking, and leadership development. A new learning system called Audit 360° deepens our investment in this holistic approach. Audit 360° allows all of our audit professionals to tailor both technical and soft skills curricula more closely to their needs, specify on-the-job experiences that will help them grow, and gain exposure to people and projects that will expand their professional competence.

Next-generation learning

We continue to evolve our learning platforms, leveraging innovative approaches and new technologies.

Nano Learning is one area we are exploring. These bite-sized lessons are delivered in 10- to 30-minute increments, putting critical information in professionals’ hands in a timely way, while also building a valuable library of readily accessible and searchable information assets.

We are also investing in new analytics learning across all levels of our organization and have integrated our existing training with our methodology, analytics, and tools to drive integration and application across our engagements. The profession now requires analytics specialists, and we anticipate the day when every auditor

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1 Represents mandatory core learning hours. In addition to these courses, additional mandatory learning is delivered at times based on the current needs of the audit profession.
“We attract and retain the best talent, develop their technical and leadership skills, and leverage their industry expertise across the practice. We’re focused on creating a Distinctively Deloitte experience that supports their continued development and well-being so they can deliver exceptional value to the capital markets.”

—Stacy Janiak
National Managing Partner, Markets and Talent
Deloitte & Touche LLP

we recruit will have working knowledge of analytics. Learning to interpret large data sets and build a big data story is increasingly important in professional development to enable auditors to deliver the deeper insights today’s investing public demands.

**Developing innovative technologies**
As we use cutting-edge technologies to modernize the audit, our professionals are generating the next big ideas for investment. Through our annual Audit Innovation Challenge, competing teams develop and pitch bold ideas to transform the way we approach the audit. In 2016, more than 200 ideas were submitted, and we are committed to invest in the winning ideas. Additionally, Deloitte hosts an Audit Innovation Campus Challenge to share our culture of innovation with academia and potential future auditors. Students are invited to challenge their thinking and put their research skills to the test by presenting their ideas to a panel of Deloitte judges. In fall 2016, this program expanded to more than 30 campuses across the US, with winning regional teams advancing to the finals at Deloitte University. Through these events, innovation is not only becoming part of our cultural DNA and our way of thinking, but an opportunity to attract and retain the best talent.

**Empowered well-being**
We have made significant strides to ensure our professionals maintain a healthy mental and physical sense of well-being throughout the year and are competitively compensated. Through engagement flexibility, email-free weekends, alternate career paths, and developmental opportunities, we are helping our professionals achieve the desired formal or informal flexibility that works for them and the practice.

Most recently, Deloitte has introduced a **16-week, fully paid family leave program** to support a range of life events impacting professionals and their families—from celebrating the arrival of a new child, to caring for a spouse or significant other, to supporting aging parents.

As a result of these and other ongoing initiatives, we have seen an increase in retention levels and our professionals are better able to unplug during their time away from work.

**Our people are committed to audit quality**
100% of our professionals have signed our Audit Quality Affirmation, confirming their commitment to professional excellence through the execution of our Audit Imperatives.

**Tenure at firm (in years)**

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<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners and managing directors</td>
<td>21.4</td>
<td>21.3</td>
<td>20.9</td>
</tr>
<tr>
<td>Senior managers</td>
<td>11.2</td>
<td>11.2</td>
<td>11.0</td>
</tr>
<tr>
<td>Managers</td>
<td>6.3</td>
<td>6.3</td>
<td>6.3</td>
</tr>
<tr>
<td>Seniors</td>
<td>3.3</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Staff</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
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</table>

**Voluntary turnover rate**
Our overall rate includes partners, managing directors, senior managers, managers, seniors, and staff.

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<th>2016</th>
<th>2015</th>
<th>2014</th>
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<tr>
<td></td>
<td>14%</td>
<td>18%</td>
<td>19%</td>
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Monitoring our practice and holding ourselves accountable

Setting the standard
Our commitment to delivering audits of the highest quality requires an ability to analyze effectively and understand situations in which audit deficiencies are identified through internal and PCAOB inspections, restatements, or other monitoring activities. Further, we leverage a series of measures that help us continuously monitor audit quality and assist with the identification of issues for timely resolution.

We aspire always to be our toughest critic, and our internal inspections and monitoring processes aim to identify and correct issues in real time. Our monitoring program is critical to achieving our continuous improvement objectives and enables us to ascertain the effectiveness of the actions we take to enhance audit quality.

Regulatory inspections and outside perspectives are critical to raising standards and achieving quality outcomes—we value the feedback received through the external inspection process. Our system of internal control utilizes input from various sources, including external inspections, and does so in a timely manner to respond consistently with appropriate actions.

• Rigorous inspections by the PCAOB of public company audits help focus our continuous improvement efforts:

Recent inspection results
Number of Deloitte audits cited in Part I of PCAOB inspection reports

- For non-SEC issuer engagements, the American Institute of Certified Public Accountants (AICPA) Peer Review process provides additional guidance.
- Ongoing dialogue between Deloitte leadership and our AQAC also helps us elevate quality to the benefit of the capital markets.
- Another part of our monitoring efforts includes the review of other external factors, including the rate of restatements. We utilize this information to help further inform our continuous improvement efforts:

Reissuance restatements by year as a % of public companies audited

<table>
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<tr>
<th>Year</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.7%</td>
<td>0.5%</td>
<td>0.9%</td>
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</table>

Internal Control over Financial Reporting (ICFR) reports restated by year as a % of public companies (that are accelerated filers) audited

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>1.3%</td>
<td>0.7%</td>
<td>0.7%</td>
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Looking at our audit work through these different lenses helps orient us in our pursuit of quality, providing feedback on areas where we need to improve that is thorough, detailed, and uncompromising.

Selected resource metrics we use to continuously monitor audit quality
Sufficient engagement management capacity is critically important to allow for experienced professionals to challenge management judgments appropriately and to provide for on-the-job oversight and development of more junior members of the engagement team. While there are many engagement-specific considerations that must be evaluated when determining appropriate leverage models, our quality monitoring has identified that the evaluation of certain quantitative measures of the proportion of engagement management hours to total engagement hours is an important factor in relation to audit quality.

Leverage ratios of audit headcount

<table>
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<tr>
<th>Audit cycle</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners and managing directors to all other audit personnel</td>
<td>1 to 7.7</td>
<td>1 to 7.4</td>
<td>1 to 7.6</td>
</tr>
<tr>
<td>Partners, managing directors, senior managers, and managers to seniors and staff</td>
<td>1 to 2.1</td>
<td>1 to 2.0</td>
<td>1 to 2.0</td>
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Percentage of total audit hours performed by specialists
During the 2016 audit cycle, approximately 20 percent of total audit hours were performed by more than 5,900 specialists working alongside engagement teams, including specialists in tax, information technology, and financial transactions, among others.

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<tr>
<th>Audit cycle</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of total audit hours performed by specialists</td>
<td>19%</td>
<td>19%</td>
<td>17%</td>
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</table>
On the prior page, we shared a summary of our recent inspection results. As detailed below, we are subject to various external and internal inspection processes.

Public portion of PCAOB inspection reports (Part I)
PCAOB inspection reports on public company audits help guide our improvement efforts. While we are proud of the fact that the number of inspection comments we have received from the PCAOB has declined sharply as compared to several years ago, we continue to carefully analyze inspection themes, identify causal factors, and design responsive remedial actions to PCAOB findings. We are focused in particular on addressing areas of repeat findings, including the auditing of subjective management estimates and the auditing of complex internal controls.

Nonpublic portion of PCAOB inspection reports (Part II)
Under the Sarbanes-Oxley Act of 2002, quality control criticisms contained in Part II of PCAOB inspection reports are publicly released only if the PCAOB determines that satisfactory remedial actions have not been taken within 12 months of the report’s issuance. Once the PCAOB determines that remediation activities have addressed quality control deficiencies cited in that year’s inspection report, or determines that portions will be publicly released because certain matters have not been addressed to its satisfaction, that inspection year is “closed.” Recently, the PCAOB informed us that it has made a final determination with respect to the remedial actions we took in response to Part II of our 2013 inspection report, which represents our fifth consecutive year of PCAOB Part II acceptances. The 12-month remediation period closed for the 2014 inspection report, and we submitted our final remediation response on May 9, 2016. The 12-month remediation period for the 2015 inspection report remains open until August 2017. Our entire organization is committed to addressing thoroughly the quality control matters that the PCAOB raises in its inspection reports.

Peer Review
Having received the highest rating (Pass) on our most recent report from our Peer Reviewer in 2014, we are confident in the path we are pursuing to drive continued enhancements in quality in our non-issuer practice.

Internal inspections
On the whole, our internal inspections findings are consistent with PCAOB and Peer Review results, and we are continuously looking to improve our efforts towards real-time monitoring of our practice.

Pre-issuance reviews
For the 2017 audit cycle (June 2016–May 2017), we have developed a “pre-issuance review” monitoring program for selected audits of public companies. The program is designed to determine whether there was thoughtful execution on each of our primary quality initiatives, as well as to identify and communicate areas within the quality initiatives that warrant additional focus or clarification. Those audit engagements where execution issues are identified are subject to additional monitoring to ensure the issues are rectified prior to the issuance of our audit reports.

Quality across the global Deloitte Network
With more than 244,000 professionals around the world, including more than 76,000 in the United States, the global Deloitte Network has unmatched scale to deliver.

We have identified several opportunities where quality standards and execution can be enhanced. We are now working across the global Deloitte Network to share insights, action plans, and learnings from our ongoing audit quality journey in the United States.

Deloitte’s Global Center of Excellence (GCoE) for Audit Quality, launched in June 2015, aims to assist the global Deloitte Network in creating greater consistency, enhanced audit quality, and stronger accountability.

Since the inception of our GCoE, more than 450 resources supporting its efforts have engaged in activities to align global policies and guidance, deliver audit quality and regulatory updates, perform practice reviews, provide PCAOB inspection and remediation support, and develop and deliver focused learning.

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As one of the largest professional services organizations, we have a responsibility to be forward-looking. In addition to identifying and acting on trends uncovered in our Audit of the Future Survey, we are engaged on a number of fronts to raise standards and help investors and companies, as well as the general public and policymakers, appreciate and understand the auditor’s role. To that end, we are constructively engaged in the dialogue around significant audit reforms, quality standards, market transparency, and topics critical to shaping the future of the profession. Here, we offer a few examples.

Advancing auditing standards
Mindful of our duty to the investing public and our responsibility to promote the effective functioning of the capital markets, we have worked constructively with a range of stakeholders to shape proposals aimed at enhancing the effectiveness of audits.

Concept release on audit quality indicators
In July 2015, the PCAOB issued for public comment a concept release on potential audit quality indicators (AQIs), which are metrics intended to provide meaningful insight into audit quality.

We support the exploration and development of AQIs as we believe they have the potential to be a useful tool in helping audit committees understand more about the audit process, the firm engaged to conduct the audit, and considerations for assessing audit quality. Deloitte and other firms have been working together with the Center for Audit Quality to develop the profession’s point of view on AQIs and what we believe would be most helpful in terms of specific measures, and how those measures can be communicated most effectively. In addition, we have been engaged in the field testing of AQIs.

While no one metric alone can determine quality, we have made strides in identifying a set of our own internal quality performance indicators (QPIs) that we believe may be predictive of audit quality, and have created an executive-level dashboard of these indicators that enables our leadership to monitor them at the office, regional, and national levels and drive timely follow-up actions. In this report, we have provided transparency around some of the QPIs we monitor across our practice. Further, we are pleased to share engagement-specific QPIs with audit committees that find this information to be useful.

Over the longer term, we believe, the use of QPIs will become an increasingly valuable tool to assist audit firms in the identification of quality issues for timely resolution.

Auditor’s reporting model
The auditor’s report is the primary vehicle through which the auditor communicates with investors and other interested parties information regarding the audit of the financial statements and internal control. The form of the auditor’s report on the financial statements in the United States has changed very little since the 1940s. Investors and other financial statement users now seek more information about the conduct of an audit in general, and more information that is specific to a particular audit. The PCAOB is currently considering changes to the auditor’s reporting model that would significantly expand the information provided about a financial statement audit, while retaining the current pass/fail approach to the audit report.

We encourage and support an evolution in auditor reporting that results in improvements to the value and relevance of our reports. Enhanced reporting stands to foster increased investor confidence in the rigor of the independent audit process and provide additional information that investors find to be of value.

“As the regulatory landscape continues to evolve, we are engaging proactively with regulators and stakeholders about the future of the audit. The result: increased transparency, and greater trust and confidence in the profession and in the audit report itself.”

—Alex Schillaci
National Managing Partner, Regulatory
Deloitte & Touche LLP

We recognize some constituents have raised concerns that the originally proposed expanded auditor reporting standard could have placed auditors in the position of disclosing original information about a company’s accounting and controls that has not been disclosed by management. In order to strike the right balance and ensure responsiveness to the needs of financial statement users without creating unintended consequences, we have participated in a robust dialogue among various stakeholders on this issue. Change is inevitable—it is incumbent upon us to be a constructive part of the search for reasonable solutions to these challenging issues.
Culture, leadership, and tone at the top

A multidisciplinary practice. This is why we have been an “audit-only firm.” At Deloitte, we see audit as an integral part of providing world-class service to our clients. We are committed to sharing our latest and best insights from across our multidisciplinary organization to drive enduring impact to the capital markets and enhances investor confidence in the rigor of the audit process.

Leading the professional dialogue

Ongoing dialogue and collaboration with key stakeholders help guide our efforts to improve audit quality. Leveraging insights from across our multidisciplinary organization, we engage with audit committees, team with academics, and reach out to bring investors into the dialogue. We are committed to sharing our latest and best thinking to help drive enduring impact to the capital markets.

The power of a multidisciplinary organization

In certain jurisdictions, questions have been raised as to whether firms should be narrowly focused on providing only core audit services. Some refer to this concept as an “audit-only firm.” At Deloitte, we see our robust multidisciplinary model—consisting of our audit, risk advisory, tax, and consulting practices—as an indispensable asset that contributes to the quality of our audits. In order to audit the most difficult and complex areas of a company’s business, it is essential for us to have a vibrant, multidisciplinary organization comprised of leading functional and industry subject matter resources across a range of disciplines.

We recognize that risks are inherent in a multidisciplinary practice. This is why culture, leadership, and tone at the top are so critical to the performance of high-quality audits. We maintain governance structures to ensure that the fulfillment of our public interest mandate—performing high-quality audits—remains the bedrock of our professional services organization. And we are intensely focused on safeguarding our independence, which forms the core of the public trust that the markets place in the external audit function. We have made significant investments in people, processes, and supporting technology in the design of a world-class system of quality control related to the eight functional areas subject to the independence professional standards.

Engaging with audit committees and business leaders

In our role as auditors, we take seriously our reporting relationship to each company’s audit committee, embracing the chance to have candid, two-way conversations that strengthen audit quality and enhance trust in the capital markets. We are encouraged by recent trends in audit committee reporting, with many committees voluntarily enhancing the disclosure around the rigorous oversight they provide of our audit services.

Our commitment to audit committees goes far beyond the individual engagement. We strive to bring thought leadership, industry knowledge, and business insights to every conversation we have, drawing on the vast pool of research and hands-on audit experience that Deloitte offers. We also recognize the unique insights, resources, and perspectives we can offer to business leaders across the C-suite. Our Center for Board Effectiveness provides executives, boards of directors, and others active in governance with resources pertaining to current boardroom issues and governance trends. Deloitte’s CFO Program helps CFOs face growing challenges and demands. We take seriously our opportunity to be at the forefront of the conversations driving business decisions.

Audit committee resources

We have developed a number of resources and programs that help audit committee members fulfill their responsibilities.

Audit Committee Resource Guide
A resource to help audit committee members and management better understand the requirements, roles, and responsibilities of the audit committee.

Audit Committee Symposium
An annual, invitation-only event for audit committee members that examines current and future priorities of audit committees.

Audit Committee Brief
A periodic publication that provides audit committee members with recommendations, overviews of corporate governance resources, regulatory and legislative environment outlooks, and technical updates. The Audit Committee Brief has approximately 17,000 readers per month.

Audit Committee Lab
A facilitated, custom-designed session to help audit committee members enhance their performance as individuals and as part of a high-functioning team, particularly during times of transition. Audit Committee Lab participants include former and sitting CEOs, CFOs, and CXOs; former regulators; academics; and former Big Four leaders.

Deloitte Audit Committee Resources app
Available through the iTunes App Store, this free tablet app provides access to insights from Deloitte on a variety of timely topics, including trends in corporate governance, legislative and regulatory developments, and accounting issues. It features enhanced tablet versions of Deloitte’s Audit Committee Brief and Audit Committee Resource Guide.

For further details about these and other resources, visit: www.deloitte.com/us/audit-committee.
Teaming with academia
As technology advances and the world in which we work continues to rapidly change, we are collaborating with academia to address emerging gaps in audit education in critical areas such as audit analytics. Through the Deloitte Foundation, we invest to help academic institutions integrate new technologies, gain real world insight into changes in the profession, and stay apprised of rapid change.

The Deloitte Foundation also provides education and faculty development support, raises awareness of the profession, and promotes ethical leadership.

Investor outreach
We have enhanced and expanded our outreach to investors and related stakeholders to engage with them on topics of mutual interest as we strive to deliver the highest quality audits. Deloitte plays a leadership role in the Global Auditor Investor Dialogue, a network of representatives from the leading global institutional investors and the six largest global accounting firm networks.

By convening productive conversations around a variety of topics important to investors, audit committees, and auditors, we can build confidence, help shareholders act with more informed purpose, and shape the profession’s point of view.

Expanded assurance
Innovative technologies and the proliferation of data are also driving the evolution of investors’ needs. There is a broadening array of information that is moving markets, yet currently devoid of any form of independent assurance. Non-GAAP information, for example, is widely used by companies to communicate with investors. Similarly, key performance indicators, whether industry-specific or company-focused, financial or non-financial, are critical drivers of decisions by stakeholders. We believe the capital markets could benefit from auditor assurance on this type of information.

Looking out on the horizon, we are currently studying how breakthrough technologies, such as Blockchain, may enable us to evolve the assurance services we provide. Eventually, we foresee the potential for continuous assurance and evergreen audit opinions powered by innovative new technologies. Our capabilities and industry expertise position us to deliver this expanded assurance and bring a new level of quality and value to the markets.
Excellence, every day

Firmly dedicated to continuously improving audit quality, Deloitte is intensely focused on innovating audit delivery, engaging with regulators and other stakeholders on issues impacting the profession, and fulfilling our responsibility to the investing public. That broad purpose defines and directs all that we do.

“The investing public is looking for a trusted source in an increasingly complex and challenging global business environment. Deloitte’s investments in innovation are transforming the way we execute audits, enabling us to deliver more valuable insights and higher audit quality to meet the needs of today’s dynamic capital markets, investors, and companies.”

—Joe Ucuzoglu
Chairman and Chief Executive Officer
Deloitte & Touche LLP