

EY UK 2018 Transparency Report



2018 Highlights

Audit quality

External review



82% of EY's FTSE 350 audits and 67% of all inspected audits required no more than limited improvements

(FY17: 92% and 88% respectively)

as at 29 October 2018

No FRC fines for audit work completed in the last five years and no sanctions against EY UK partners in respect of that period

Internal review

108 engagements reviewed in FY18, covering

47% of our

Responsible Individuals, of

which 81% had

no improvements or minor improvements only

Delivery

Of our people in Audit



96% consider delivering quality audits a priority

and

97% understand their role as an auditor in providing independent assurance, supporting strong capital markets and protecting the public interest



Our people

We provided jobs for

1,200+ young people

through student places and apprenticeships, including

600 in regional offices



We employ 4,300+ people in regional offices

We hired approx. 15% more students with social mobility characteristics



Of our 4,500 new

promotes 45% were

women and 25% were

BAME

EY UK FY18 partner representation comprises



21% female and

10% BAME

with a three-year rolling average EY UK new

partner representation 24% female and 13% BAME

Results

EY UK revenues grew by 2.8% to £2.412bn



Audit revenues grew by 4% on last year to £458m (FY17 £442m) and constitute 19.0% of firm revenues (FY17 18.8%)

EY Foundation 4th year:

- ▶ 5,500 + EY people volunteered almost 45 thousand hours
- ▶ Helping 3,300+ young people and social entrepreneurs in 14 locations across the UK



EY named Sunday Times 2018

10th best UK company to work for

Environmental sustainability

Replaced 6.5 million plastic and paper-based disposable cups with reusable cups and bottles

Refer to our Environmental Sustainability Overview for further details about our Environmental objectives and targets

<https://www.ey.com/uk/en/about-us/corporate-responsibility/about-ey---cmt-to-corp-resp---environment>

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Context

In the UK, Ernst & Young LLP (Company number: OC300001) is a limited liability partnership, wholly owned by its members, incorporated in England & Wales and is a member firm of Ernst & Young Global Limited (EYG), a UK company limited by guarantee.

In this report, we refer to ourselves as 'EY UK', 'we', 'us' or 'our'. EY refers collectively to the global organisation of the member firms of EYG. This Report relates to EY UK's principal activities for the period from 1 July 2017 to 29 June 2018, unless otherwise stated. The reporting period is referred to throughout the Report as FY18. The following reporting period is referred to as FY19.

Being transparent about our commitment to audit quality is very much in the public interest and underpins our approach to this Audit Transparency Report. The Report serves as an important mechanism for us to transparently communicate with regulators, investors, audit committee chairs and other stakeholders.

The Report has been prepared in accordance with the new rules mandated by EU Regulation 537/2014 of the European Parliament and of the Council of 16 April 2014 (the EU Audit Regulation) Article 13. The EU Audit Regulation came into force on 17 June 2016 and requires the publication of an annual transparency report by audit firms that carry out statutory audits of public interest entities (PIEs). It supersedes the provisions of the Statutory Auditors (Transparency) Instrument 2008. A reconciliation to the requirements of the EU Audit Regulation is provided in Appendix 4.

We are also required to comply with The Local Auditors (Transparency) Instrument 2015 (the Instrument), as in the current year we made audit reports on the annual accounts of major local audits, as defined in The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014. A reconciliation to the requirements of the Instrument is provided in Appendix 5.

In January 2010, the Institute of Chartered Accountants in England & Wales (ICAEW) published the Audit Firm Governance Code (AFGC), which sets a benchmark for good governance and applies to firms auditing 20 or more listed companies. A revised Code was published on 27 July 2016. Although the AFGC applied to financial periods beginning on or after 1 September 2016, we sought to implement as much of the 2016 AFGC as possible in the prior year.

As a firm, we are committed to the AFGC. In accordance with 'Governance reporting principle E2', in the Audit Firm Governance Code 2016 ('the Code'), the EY UK Board confirms that EY UK has complied with the provisions of the Code. The Appendix 3 provides a list of the Code's principles and provisions with a reference next to each requirement to show where, in the EY UK 2018 Transparency Report, we explain how EY UK met each requirement.

The AFGC requires firms to determine Key Performance Indicators for governance (KPIs) and report against them. We report on how we achieved our governance KPIs in section 6 of the Report.

Throughout the Report, where we refer to the results of surveys, these surveys were sent to the full relevant population and the quoted results refer to the views of those people who responded.

Finally, we are currently reviewing the new provisions of the UK Corporate Governance code (the Code) and considering how we may adopt these principles in our 2019 report.

Section 1

Leadership Messages

The EY logo is positioned in the bottom right corner of the page. It consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is located above the 'Y', pointing downwards towards the logo. The background of the entire page is a low-angle photograph of a modern glass skyscraper with a blue tint, showing reflections and structural elements.

EY

Leadership messages

Foreword from the EY UK Chairman



This year the audit profession and its regulators have come under intense scrutiny from policymakers and other stakeholders. The report of the parliamentary inquiry into the collapse of Carillion, for example, questioned whether the statutory audit still meets the needs of society and creates trust in business.

These circumstances have highlighted the need for all audit firms - EY UK included - to communicate more effectively with stakeholders to ensure a better understanding of the role of auditors, and what needs to change to meet public expectations.

I am aware of some commentators' concern that audit firms may sometimes put their commercial success ahead of the public interest. So while I am proud of the success we have achieved, not least because this allows us to invest in the quality of our future audit services, I can tell you, as the chairman of EY UK, it is our absolute priority to serve and protect the public interest.

The foundation of this is our purpose, **Building a Better Working World** and our **shared values**: integrity, respect and teaming of colleagues who have energy, enthusiasm and the courage to lead; and take pride in building relationships based on doing the right thing.

It is our role to build **trust and confidence** in the capital markets and wider economies by maintaining and developing positive relationships with our stakeholders. Therefore we have been actively engaging with investors, regulators and other stakeholders to explore measures which might help deliver even higher quality audits and address the concerns raised by politicians and others.

We believe our current structure, built on a multidisciplinary model, offers the breadth and depth of technical skills and industry experience to deliver high-quality audits, while also helping to drive innovation across the EY service lines. It allows us to share diverse skills and views that better enable EY UK to serve the public interest and provide our clients with a quality service across all of their functions and geographies.

There has been considerable media attention in the last year on fines and investigations into audits. Against that backdrop, we are positive but not complacent that EY UK has not been fined by the Financial Reporting Council (FRC) on audit work completed in the last five years, nor have any of our partners been sanctioned in respect of that period. The actions we have taken, in part prompted by the FRC's announcement of an investigation into the 2012 year-end audit of Tech Data Limited, have been focused on improving audit quality including establishing a major change programme.

We are committed to ensuring the quality of the audits we provide. However, we were disappointed that our latest audit inspection results from the FRC dropped from last year's high level: 82% of our FTSE 350 audits required 'no more than limited improvements' - based on the FRC's categories for audit quality. This compared to 92% in 2017. Encouragingly though, the regulator said there were improvements in all of the areas it had identified the previous year.

Ultimately our business, regardless of structure, specialism and sector, relies on the effectiveness and professionalism of all our people. As well as delivering high quality audits, our multidisciplinary model helps us attract, retain and develop the very best people in the market.

We continue to invest in activities that enable us to recruit and nurture the best talent from all potential sources - from school leavers and those we attract via our EY Foundation outreach programme, to graduates and experienced professionals from industry.

I am especially proud of our Smart Futures programme, which helps to broaden access to work for individuals from low income backgrounds. EY UK was named one of UK's top employers for social mobility and ranked seventh in the Top 50 Social Mobility Employer Index 2018. We have supported 900 young people into education and employment through the EY Foundation.

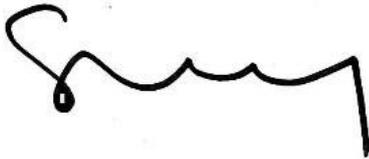
We also welcomed 71 new partners in EY UK this year of whom 15% were black, Asian and minority ethnic (BAME) and 20% were female. Earlier this year, EY made the decision to lead the way in terms of gender and ethnicity pay gap reporting, publishing our pay gap report; the first professional services firm to do so. There is much more to be done to encourage even greater diversity and inclusion in our profession, but we have made great strides this year.

Leadership messages

I am proud of the achievements of all of our 14,500 people this year and would like to thank them all for their hard work, contribution and professionalism. I would also like to take this opportunity to thank our Independent Non-Executive Directors for their challenge and guidance throughout the year.

Looking ahead, EY UK recognises that we must continue to invest in activities that build trust, grow our talent and deliver innovation through the adoption of technology.

Audit is the cornerstone of our business and the EY brand. Our reputation is built upon our hard-working professional people who deliver consistently high-quality services. If we all continue to commit to the personal pursuit of excellence, our firm's reputation can only grow stronger.

A handwritten signature in black ink, appearing to read 'Steve Varley', with a stylized, wavy line extending from the end.

Steve Varley, EY UK Chairman

Leadership messages

Report from the Chair of the Independent Non-Executive Oversight Committee



In an eventful year, and in the midst of further high-profile political, investor and regulatory challenge and change, I am pleased to offer my second report as the Chair of EY UK's Independent Non-Executive (INE) Oversight Committee (IOC). This report covers FY18.

The activities of the INEs and the work of the IOC continued to centre on enhancing the firm's focus on public interest matters and meeting the requirements of the Financial Reporting Council's (FRC's) Audit Firm Governance Code (AFGC). We have also actively engaged in the FRC's Audit Firm Monitoring Approach, recognising that yet another step change is required for the firm to fulfil its public interest responsibilities and meet the expectations of society more broadly.

INE Oversight Committee

The IOC was formed last year and in meeting the purpose of the AFGC, it is my responsibility as its Chair to report to the Board of EY UK on the IOC's behalf.

During the year, our membership of three INEs was unchanged. However, the challenge of meeting the AFGC independence principle proved difficult when EY UK was appointed as the auditors of Vodafone Idea Limited, resulting in Rosemary Martin's resignation from the firm on 3 August 2018.

I would like to personally thank Rosemary for her invaluable contribution to the IOC in its first and formative year. We are now looking for another high calibre, independent individual to join the committee to work alongside Sir Peter Westmacott and myself.

IOC focus areas

With the aims of the AFGC at the forefront of our minds, we have focused on audit quality standards, reputational issues across all the service lines and the resilience of the firm to issues that might threaten its viability. Aligned to these three priority areas of focus, among the topics we have reviewed and discussed are ethics, culture, the risk and control framework in the four service lines, emerging regulatory issues and stakeholder engagement. These key themes form the foundation of our INE agenda and underpin all our activities. By focusing on these areas, we aim to both reinforce EY UK's strengths as a firm and benefit the wider public interest.

In order to address these priorities, the IOC works closely with EY UK's Audit Quality Board, its Risk Oversight Committee and the Ethics Partner. We also engage regularly with the senior leadership of EY UK through our attendance at the quarterly board meetings and regular bilateral meetings with senior executives of the firm. This gives us a good understanding of the firm's business model and financial position.

In terms of audit quality, the outcome of the FRC's Audit Quality Review for the year was disappointing compared to the prior year, principally in relation to the audit of aspects of provisions in financial services entities and the audit of pension scheme assets and liabilities. More encouragingly, the FRC did see improvements in all areas where it had key findings the previous year. EY UK accepts the need for a further step change in its audit quality work and remains committed to investing heavily in people and technology initiatives - the firm is determined to address areas where shortcomings have arisen. The INEs will monitor this closely in the coming year.

Now in our second year, we have focused some of our time on specific industry sectors. As an example, we held detailed reviews of preparations for upcoming bank audits and the new financial reporting standard on financial instruments (IFRS 9), which came into effect in January 2018.

Culture continues to be a key theme for the INEs. Last year, EY UK's first ever culture assessment provided unique and constructive insights for the firm. This has informed how it has addressed topics such as quality, integrity, ethics and whistleblowing. In support of this, the INEs proactively sought to meet and talk to EY employees across the country, both in regional offices and departments, as well as representatives of the staff association, EY Voice.

Leadership messages

We want to hear staff members' views first-hand and understand where they feel improvements need to be made.

We are also looking to test our understanding of issues such as resourcing and the risk and control framework during these visits. We are aware from this and staff feedback in the most recent employee engagement survey that there are resourcing pressures within the Assurance function which are being exacerbated by the visa situation in relation to certain countries. Management are very focused on this issue at present and we will monitor progress closely in the year ahead.

Effectiveness of the IOC

To ensure that the IOC was both effective and fulfilling our responsibilities, we held a full day meeting with senior management and some outside stakeholders to provide an opportunity to explore what more the INEs could do to enhance our impact.

During this meeting, we reviewed the breadth and depth of the work currently undertaken by the INEs in some detail, as well as our key stakeholders' expectations and the external environment for the profession.

Following this discussion, we have committed to prioritising areas where we believe we can deepen our efforts and make the most impact in FY19, for example in relation to the three lines of defence in the firm. We also intend to undertake broader and more structured external stakeholder engagement, with a combination of one-to-one meetings and EY UK-hosted events, involving clients and investors, amongst others.

Wider external stakeholder engagement

Engagement with the FRC and the INEs of the largest accounting firms has been formalised this year through the activation of the regulator's Audit Firm Monitoring Approach. This requires the INEs to meet with the competent authority twice a year. This provides an invaluable opportunity for all INEs across the firms to discuss regulatory issues and other matters material to the wider auditing profession.

We believe that proactive stakeholder engagement is a vital part of our role - especially against the backdrop of the ongoing Brexit negotiations, the collapse of Carillion, the Kingman Review of the FRC and the activities of the Competition and Markets Authority in relation to competition in the audit market.

We took part in the Call for Evidence by the Kingman Review, separately from EY UK. The INEs believe a revised remit will help to increase the FRC's impact and effectiveness as the regulator of audit, particularly in a period when the audit profession may be changing rapidly and profoundly as a result of potentially far-reaching developments in the nature of audits, in the use of technology in audits, and in the audit market itself.

We also participated in EY annual events such as the Financial Reporting Outlook conference and the Audit Quality Summit, where we had the opportunity to engage with both EY clients and audit committee chairs.

Appreciating that the AFGC is principally intended to benefit investors, we have continued our regular programme of meeting institutional investors. This year the INEs met with more than 35 institutional investors representing £5.28 trillion assets under management through the EY Dialogue with Investors biannual event. These events are important as they are designed with the investors for the investors, giving us the opportunity to hear about the issues at the forefront of their minds. This year the topics of interest included corporate governance, corporate reporting, audit quality and independence.

In order to expand our engagement activities, for the first time this year the INEs participated in some one-on-one meetings and discussions with investors. We are now using these insights to help us further develop our IOC agenda and activities.

In addition, as a global organisation, EY has continued its work on the Embankment Project in conjunction with the Coalition for Inclusive Capitalism. A key objective of this initiative is to help companies explain more clearly how they create long-term value through enhancing the corporate report for stakeholders. The IOC sees this work as an important step in addressing the audit expectation gap.

Engagement with EY Global

EY is a global organisation. Working closely together across the world is essential in delivering high-quality audits across national borders. I am a member of the Global Governance Council (GGC) and also represent the UK INEs on the global Public Interest Committee (PIC), which I have chaired since April 2017. These roles enable me to build strong relationships with our international colleagues, while also making sure UK issues are high on the global organisation's agenda.

Leadership messages

The PIC remains focused first and foremost on audit quality, primarily through the Sustainable Audit Quality programme. In that context, the UK INEs also monitor performance against the targets for inspection results set out by the International Forum of Independent Audit Regulators (IFIAR).

Looking forward

Our work as INEs will continue to focus first and foremost on audit quality. We will continue to engage regularly with the FRC to understand clearly its priorities. We are supportive of the Kingman Review, and look forward to considering the recommendations when the report is published at the end of 2018. We believe the regulator has an important role to play in building greater trust and confidence in both the profession and the UK economy as a whole.

Conclusion

As EY UK's INEs, we are very committed to our public interest responsibilities, and we believe we have an important part to play in improving confidence in the firm by promoting audit quality, supporting EY's reputation across all its service lines and minimising the risk of the firm's failure. In a year in which trust in the profession - and the wider world of business - has been diminished by high-profile examples of failure, it is essential for EY to help to restore a positive relationship between business and the public. We are therefore pleased that EY UK has made a public commitment to help achieve this very important goal. As INEs we will play our part to the full.

We welcome your feedback on this Transparency Report and would be delighted to answer any questions on our roles, responsibilities and work. Please do not hesitate to contact me:

david.thorburn@uk.ey.com.



David Thorburn, Chair of the IOC

Leadership messages

Message from the EY UK and Ireland Assurance Managing Partner and Head of EY UK Audit



Our profession in the UK is under intense scrutiny following high-profile corporate failures such as Carillion and BHS. We are saddened by these collapses and the impact they have had on the many affected investors, employees, sub-contractors and other stakeholders. These events have also served to accelerate the fracturing of trust between business and society. Although these companies were not EY audit clients, it is important that the causes of these failures are properly analysed and lessons learned by all.

Increasingly, the public is expecting more and more from the audit than its current remit requires. This difference is known as the 'audit expectation gap'. We believe the time is right for all concerned in the corporate control ecosystem to seize the moment and consider deeply what society expects from businesses and the assurance it needs over their activity.

During this period of business trust decline, society is increasingly questioning how companies deliver for all their stakeholders not just their shareholders.

Stakeholder value

Since 2015, EY has been working on a framework to help companies better demonstrate how their strategies are delivering value for all their stakeholders. We started this journey as we recognised companies were struggling to communicate this value creation. This situation was perpetuating short-term pressures on business and failing to alleviate the loss of societal trust.

This work has led to a unique, global, market-led initiative to identify practical suggestions for how to measure some of the multiple dimensions of stakeholder value that businesses create. The initiative involves corporations, asset managers and asset owners representing around \$30 trillion of assets under management. It is called the Embankment Project for Inclusive Capitalism (EPIC), and the outputs of this project will be presented publicly in November 2018. EPIC is just one example of how EY UK has been working to ensure the audit is relevant and fulfilling our purpose to help build trust and confidence in the capital markets.

Audit market reform

We are committed to supporting Sir John Kingman's independent review of the Financial Reporting Council (FRC) and welcome the study of the audit market recently issued by the Competition and Markets Authority (CMA). We are engaging actively with both these reviews.

There are multiple complex issues to be addressed but it is clear society is looking for a new solution. However, whatever the conclusion of these reviews, we need to ensure a market that delivers high-quality audits is the primary objective of any reforms.

We at EY would welcome a market that is attractive enough to encourage new entrants. We believe this should be achieved through a fundamental review of corporate reporting and the audit scope, by considering how better to engage the "demand side" of the market in auditor selection and review and by implementing a stronger regulatory framework.

There are a number of ideas being considered to address the constraints around choice in the audit market, for example limits on market share. However, we need to be sure these suggestions do not lead to any unintended consequences, especially any negative impact on audit quality.

In my role as EY UK Head of Audit I know for certain that EY cannot answer these questions alone. The ability to address a broad range of measures, in order to continue to deliver quality and build greater trust and confidence, will require collective engagement across the key stakeholders in the market.

Leadership messages

However, we will do our utmost to engage in this debate to ensure the primary objective of high-quality audits is achieved with other concerns addressed as far as possible.

Audit quality

High quality audit is fundamental to restoring trust in business. At EY we have an established global Sustainable Audit Quality programme. We are proud of the progress we have made in the UK since the launch of our programme a few years ago.

However, the results of FRC's most recent review of our audits, published in June 2018, were disappointing and not as strong as we would wish. Our FTSE 350 audit results had fallen to 82% in the top category - below the FRC's hurdle rate of 90%.

It is clear that we need to reset our audit quality programme and respond to the ever increasing regulatory environment and societal expectation.

The work we have done to model the behaviours of our highest performing teams, using cognitive psychologists, will continue. In the year ahead we will prioritise the extent and consistency of the model's adoption. We aim to transform the behaviours that feature in the model into business-as-usual activity across all of our audit teams.

The Global Milestones programme, which we piloted last year, will help us encourage early planning and timely partner involvement in audits. It will also enable our people to hone their project management skills.

We will augment the work of our Audit Quality Support Team (AQST), which supports audits through a real-time review process, by broadening its composition and increasing its size. This will allow the AQST to support more audit teams and work alongside a specialised global team that conducts additional audit reviews.

We will continue to organise annual audit quality summits to set the priorities and expectations for the year ahead including the expectations of our regulator, which participates in these events and shares its views and priorities.

A risk committee of our Audit Quality Board will also be established. This will provide additional risk-scanning procedures and challenge strategy, judgements and evidence deployed in specific audits.

We have also considered the difference in results of the various quality review processes to which we are subject to. Our internal Audit Quality Review (AQR) results and the results of reviews conducted by the Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales show a better outcome than those of the FRC.

Engagements subject to our AQR process are selected from all audits performed; this year over 100 audits were reviewed. The QAD selects audits that are not in the scope of the FRC. We believe any differences in results are a function of sample selection.

Audit transformation and innovation

As companies become more complex, so do audits, making access to different skills and capabilities more important than ever. Our multidisciplinary model provides the structure, breadth and depth of technical and industry expertise necessary to deliver high-quality audits. It also underpins investment in digital audit, blockchain, robotics and artificial intelligence and the build up of critical mass in emerging markets.

The traditional audit has already been transformed by the use of technology and digital platforms, and the pace of change will only accelerate.

The use of data and artificial intelligence is now reflected in an approach for EY that is truly data driven, with analytics at its core. We have moved from theoretical test cases for robotics into deployment into the core audit methodology. Using digital tools means we can free up our people from doing the more repetitive, but nevertheless important, tasks so that they can spend more time on higher value-add activities.

These new capabilities enable us to search, sift and sort through large quantities of data, allowing us to identify potential areas of risk and understand a company's performance at a more granular level. The audit process is becoming more forward looking, with a focus on anticipating future risks. Our new capabilities are also providing insights into areas that were once thought to be impossible to measure, such as culture.

Talent development

The interplay between innovation and people engagement is becoming increasingly important. In order to build the workforce of the future and attract the different and varied skillsets and backgrounds we need, we continue to widen our approach to recruitment. To continue to attract the very best talent, we have amended some of our screening criteria to support social mobility in the UK.

In a desire to create exceptional development experiences and build our workforce of the future, in 2017 EY UK announced the introduction of a master's degree equivalent apprenticeship in Accountancy & Taxation, open to both school leavers and graduates.

Leadership messages

New apprenticeship programmes have also been introduced in Digital Innovation (Software Engineers and Data Analysts), Business Administration, Risk Compliance and Chartered Manager.

During the year we provided over 1,200 jobs through student places and apprenticeships.

Our performance and audit market developments

During our financial year our UK Audit revenues grew by 4% to £458m.

The level of FTSE 100 audit tenders has continued to decline, down from 13 in 2017 to the six that are expected by the close of 2018. We expect tender volumes to remain around these levels for the next few years before the next wave of rotation and retender activity leads to an increase from 2023 onwards. FTSE 250 audit tender activity remains significant, with 18 audit tenders expected by the close of 2018, and further increases in the next couple of years.

We are seeing a lot of audit tender activity in financial services, including the UK audits of large European and global financial services companies, which we expect to continue into 2019 and 2020. In light of this we will sustain our investment in the capacity and skills of our financial services audit practice to meet market demand. We are pleased to see that for the smaller financial services companies, tenders often include participation from firms outside the Big Four, which we hope will enable more audit firms to build the skill sets needed to compete in this market.

All of these market dynamics reflect the effects of the mandatory audit firm rotation regulations, which came into effect in 2016. It should be recognised that as well as gaining the opportunity to win new audits we have to resign from others to comply with these regulations.

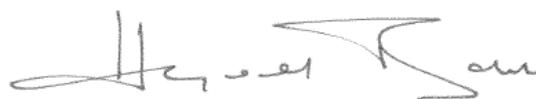
In our 2018 financial year, as well as retaining IMI, we won tenders for six entities from the top end of the market. In financial services we were appointed as the auditors of both Standard Chartered Bank and Nationwide, two of the UK's most important financial institutions. These appointments make EY the market leader in UK banking audit, and combined with RBS, Schroders, Co-Op, LSEG, and Phoenix, they mean that EY is now well established at the top end of the UK financial services audit market.

Our refreshed focus on the private mid-market audit sector has led to 86 wins, with recurring fees of over £12m per annum. Key wins include BitFury, Vice Media, Liverpool Football Club, Collinsons Group, Neptune Energy and Wessex Water.

With the market's focus on high audit quality, greater demand for investment in new technologies and innovation in audit, as well as the increasing demands of the regulatory environment, it seems inevitable that audit fees will rise over the coming years. Independent research from [Source Global Research](#) (providers of research, data, and strategic advice about the global professional services industry) suggests that audit fees have already risen by approximately 10% as a consequence of the changing market dynamics.

Conclusion

The UK audit market is facing a period of unprecedented scrutiny and demand for change. However, if we all focus on how to deliver a market that enables sustainable high quality audit we have an incredible opportunity to address the root causes and deliver the trust and confidence in the capital markets society needs and demands.



Hywel Ball, EY UK&I Managing Partner Assurance and Head of EY UK Audit

Leadership messages

Reflections from EY UK Head of Regulatory & Public Policy



A year of complex strategic challenges

In previous years' transparency reports EY UK has used this section on regulatory developments to write about geopolitical uncertainty, data protection (including the implementation of the EU General Data Protection Regulation), Brexit and rebuilding trust in business. This year, we focus on how we are proactively engaging with key stakeholders to support and drive the much needed regulatory reform.

Regulatory reform is required

As companies need to respond to deliver on society's expectations and address the widening trust gap, corporate reporting also needs to change. We at EY UK will need to respond too. Technology will continue to change what information companies are able to provide to the public and how fast they provide it. In order for us to continue to serve and protect the public interest through the provisions of our audit and assurance services, we recognise that we will need to work together to innovate.

We also believe that, in addition to audit, areas potentially ripe for reform include financial reporting requirements, regulatory oversight, the insolvency regime, corporate governance and corporate culture.

Collective stakeholder engagement will enable the change required

At EY UK we pride ourselves on building strong and transparent relationships with our stakeholders. However, recognising that the recent corporate failures were complex in nature, we undertook an assessment of our existing stakeholder outreach programme. We wanted to assess whether we had the right touchpoints with regulators, clients, non-executive directors, CEOs, investors and our people in order to listen to and understand their concerns.

One of the most dramatic changes that we witnessed this year, was the approach policy makers and regulators took when taking market feedback. As businesses increase in complexity, the traditional government approach to consultation has evolved to be more consultative seeking input from a wider breadth of stakeholders. As a result, we saw a dramatic increase in the number of working groups established this year to address multifaceted topics such as Brexit, non-financial reporting and Corporate Governance.

This year we responded to 18 consultations, whereas last year we responded to 29. The inverse is true with respect to our participation in working groups. This year we proactively and constructively engaged in five working groups, whereas last year we engaged in two.

EY UK is also working closely with our colleagues in the other large audit networks, both in the UK and internationally. In the UK, this activity is coordinated through the Policy & Reputation Group (PRG) in the presence of a competition lawyer. The PRG's mission is to help the largest accounting firms to respond effectively to current and prospective issues relating to the public interest and their collective reputation. Objectives of the PRG include:

- ▶ Identifying current and potential matters of common interest relating to public trust in, and the reputation of, the UK's largest accounting firms
- ▶ Acting as a forum to enable discussion around these matters of common interest
- ▶ Providing links to stakeholders on matters where discussions with individual firms are likely to be duplicative

Globally, EY works closely with the Global Public Policy Committee comprised of the six largest global accounting and auditing networks. The committee aims to find solutions to the real problems that exist, with the profession playing a key role in reform.

Returning to our UK activities, our stakeholder engagement programme this year included speaking more directly to policymakers - because we believe that in order to raise the quality of audit, policymakers should focus on improving regulation.

Leadership messages

EY UK also welcomed the opportunity to contribute positively and constructively to the independent review of the Financial Reporting Council (FRC).

Forward looking

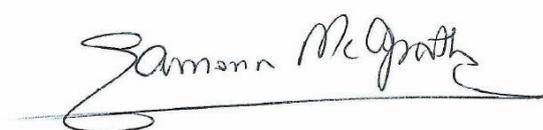
In the next 12 months we will respond to the Kingman report and the Competition and Markets (CMA) review, as well as developments in corporate reporting and the audit of the future project led by the FRC. We will actively play our part in the next stage of the evolution of audit.

On 31 December 2018 I shall retire from EY UK. I am very proud of the firm and of our people who are extremely dedicated professionals. They take their public interest responsibilities seriously. My replacement is Christabel Cowling, a very experienced audit partner. We are pleased to report that Christabel will also be the new Chair of the PRG from 1 January 2019. She has also joined the Board of EY UK. I wish her every success.

Conclusion

Without a doubt there are more challenges and changes ahead for our profession, as indeed there are for our clients. Uncertainties include the impact of Brexit on the economy and on the provision of professional services (including the equivalence of professional qualifications), the impact of the Kingman Review recommendations on the powers of the FRC, and the outcome of the much publicised CMA review. The FRC's recent report, Developments in Audit, clearly shows that the audit market is already changing significantly. For example, the UK PIE auditors fee income from non-audit services provided to audit clients fell by almost 9%. Looking ahead, the FRC has announced that it will review corporate reporting and the scope of the UK statutory audit.

We recognise the importance of the current dialogue around our profession. There are complex challenges that require careful consideration, but we are optimistic that a better outcome can be found for all stakeholders. We remain committed to working with regulators, standard setters and others in order to ensure that EY continues to evolve to best serve business, investors and the public interest.



Eamonn McGrath, EY UK Head of Regulatory & Public Policy



Christabel Cowling, Chief Operating Officer of the EY UK Assurance Business and Audit Partner

Leadership messages

Message from EY UK Managing Partner Risk and General Counsel



Events over the last 12 months have meant that our robust approach to identifying and managing risk has never been more important. In the current environment, for both EY UK and the profession, it is fundamental that a dynamic approach is taken to risk management. This involves challenging ourselves to manage risk in a way that not only ensures compliance with a changing legal and regulatory framework, but also holds ourselves to a higher standard.

The Board of EY UK (the Board) has overall responsibility for risk management and internal controls over the entire business of EY UK. The UK Risk Oversight Committee (ROC) supports the Board in its management of risk and the maintenance of an appropriate control environment. Section 5 of this Transparency Report provides greater detail in respect of our approach to risk management generally including governance and oversight, as well as the principal risks identified this year. As to broader themes, matters that have been important this year have included conflicts, Brexit, contingency planning, and cybersecurity.

Conflicts

Operating in a heavily-regulated environment means that the identification and management of conflicts in accordance with law and regulation has always been paramount. An additional perspective is now brought to bear on the assessment of client relationships by the 'Objective, Reasonable and Informed Third Party' test. This involves an evaluation of client relationships from a perspective beyond the requirements of law and regulation.

In response to the changing environment, and to ensure that we uphold our obligation to protect and serve the public interest, we have enhanced our robust conflicts procedures by establishing a new Conflicts Panel, which also considers high-profile reputational matters. It is chaired by the Regional Conflicts Leader and comprises senior partners from across the firm. Further detail is provided on pages 62 and 82.

Brexit

This year, we have focused more specifically on the risk of a 'no deal' Brexit as the likelihood of that outcome has increased. We conducted a wide-ranging review of our potential exposure across all areas of our business, including our client work, regulatory landscape, data protection, people and supply chains. With the insight gained from this review, we believe that any significant impact on our business can be managed or mitigated effectively and are putting appropriate plans in place to ensure continuity of our client service during the Brexit period and beyond.

Contingency planning and cybersecurity

This year we have responded to two requests from the Financial Reporting Council (FRC) under its Audit Firm Monitoring Approach regime relating to contingency planning and cybersecurity. The results of those reviews confirm that in general our processes, plans and procedures in the areas tested are well developed and operating effectively and provide focus for those areas which we can enhance.

Looking forward

In terms of the future of the legal and regulatory framework in which the profession operates, this is a time of uncertainty and intense scrutiny. In particular, the profession awaits the outcome of Sir John Kingman's Review of the FRC, the Competition and Markets Authority market study into the statutory audit market, and Brexit. A crucial aspect of our approach to risk management will therefore be to engage proactively with any proposed changes and to ensure that a responsive approach to risk management supports the firm in its compliance.

We are acutely aware that EY UK's reputation for providing high-quality professional audit services independently, objectively and ethically is fundamental to our success as independent auditors and the firm more broadly.

A handwritten signature in black ink, appearing to read 'Lisa Cameron'.

**Lisa Cameron, EY UK Managing Partner Risk and
General Counsel**

Section 2

Trust in audit



Trust in audit

In the EY UK 2017 Transparency Report we published key findings from our 2017 EY Cultural Assessment, which included the following high level observations:

- ▶ Our people's personal values align with EY's stated purpose, strategy and values
- ▶ Our strategic priorities are dominant in EY's current culture
- ▶ Quality is a dominant focus area in the UK Audit culture

We also noted a desire by our people for more focus on our purpose, and the risk to sustainable audit quality that a long-hours culture may present. The positive link between employee engagement and cultural health was also made clear.

We applied these observations to inform, and in some instances recalibrate, our business activities over the last financial year. In this section we set out how we have been building on the identified cultural strengths and responding to areas for development. The steps we took were deliberately diverse, to enable a holistic approach. As set out on the following pages of this section, they focused on:

- ▶ Tone at the top (pages 18-21)
Strengthening our people's connection with our purpose of Building a Better Working World
- ▶ Our commitment to audit quality (pages 21-38)
Applying a root cause analysis (RCA) to get a better understanding of where we have fallen short and responding to feedback from the external audit inspections conducted by the Financial Reporting Council (FRC) and our internal quality reviews, in order to 'reset and start again'
- ▶ Technology and the future of assurance (pages 39-43)
Investing in technology, which will allow audits to be delivered in an increasingly efficient and effective way and develop an enhanced assurance offering of the future
- ▶ Listening to the demands of our stakeholders (pages 44-45)

Tone at the top

In a remarkably short period, we have watched our world being transformed by robotics and artificial intelligence (AI). We have also witnessed major economic and political shifts that have significantly affected the global business community and society.

Our research suggests that recently the profession has lost sight of the difference it makes and the value it provides to society. So as part of our work to help reshape the auditing profession, we are working with the professional bodies to address this loss in professional self-esteem.

With this in mind, over the past year our leadership has focused heavily on strengthening our people's connection with the EY purpose of Building a Better Working World. The EY UK Chairman and other leaders - aware of how they set the tone for our business - engaged in a campaign emphasising the importance of the EY purpose in delivering on the EY Vision 2020+ strategy, and the critical role our people play in defining who EY is as an organisation. We are pleased that in our latest audit quality survey **97%** of our audit people replied positively when asked whether they understood their role as an auditor in providing independent assurance, supporting strong capital markets and protecting the public interest.

We have also continued our work in assessing the tone our leadership sets for our business. All interactions with and communications from our leadership have the potential to communicate to our people the behaviours that are valued most by our organisation. While some of these, such as our town halls and what is said during meetings, are difficult to measure, others, such as emails and other written communications from leadership, offer useful data points on how our leaders' words align with our values. For this reason, these communications are monitored and assessed each year by the EY EMEA Risk Management team. A range of different topics are covered to include quality in service delivery, with a particular focus on audit quality, financial crime, data security, data privacy, independence, health and safety and other risk management topics. In addition, at one of the FY18 Partner Conferences, the Assurance Managing Partner and the Risk Management Managing Partner co-presented a session called 'Trust', which is part of the FY19 firm-wide strategy.

To increase the effectiveness of delivery, EY UK uses a variety of different delivery methods such as emails, webcasts, daily news alerts, posters and plasma screens, online games and others.

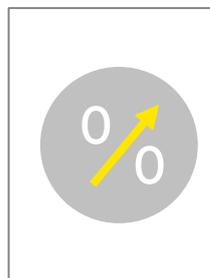
Case Study: Building a Better Working World game

The Better Working World game is played face-to-face and allows our people to think about our purpose and how it connects with their day-to-day role.

The game is based on a discussion but uses quiz elements and a board to keep things competitive and fun. It is collaborative and inclusive of all service lines, ranks and roles. The board, made with sustainable materials, selected game cards and even the box itself reveal video, case studies and mini-games with augmented reality content.



Our latest FY18 People Survey scores indicate a **7%** increase in those who felt EY's purpose was motivating to them



Reversing a score that decreased by **6%** in the prior year.

Complementary to these efforts, we also launched a new platform to collate examples of how individuals, teams and we as a firm have delivered on our purpose. Numerous inspiring video case studies from across the EY UK business are now being widely shared.

We continued to work with cognitive psychologists to assess what gives people fulfilment in their careers. As a consequence we are now confident that we can do more to emphasise how every day-to-day activity aligns with our overall professional purpose and the value it brings to our clients. For this reason the formalisation and rollout of the psychologists' work is a priority for the coming year as we look to embed the core aspects of employee fulfilment within the audit practice.

Tone at the top - culture

In our rapidly changing world, responsibility for good corporate governance extends well beyond the implementation and maintenance of policies and controls. Good behaviours and decision-making by an organisation's people are also the products of the culture an organisation lives. Increasingly, boards are viewed as having ultimate responsibility for the oversight of the culture within their organisations. As a result, good corporate governance includes an unqualified expectation that organisations actively monitor their culture, maintain a continuous feedback loop from staff to leadership and take steps to address any observations that may suggest a misalignment exists between culture, behaviours and the organisation's stated purpose and values.

We promote a culture of openness that encourages people to engage in constructive discussions and share problems, knowledge and experience. We do this in a number of ways, including but not limited to:

Firm wide	Audit specific
<ul style="list-style-type: none"> ▶ Quarterly Leadership Evaluation and Development (LEAD) feedback cycles introduced in the current year ▶ EY Voice - a dedicated forum of elected representatives across EY that listens to the collective voice of the business and how people are feeling ▶ Surveys ▶ Whistleblowing hotline ▶ Values based awards for individuals, as well as teams 	<ul style="list-style-type: none"> ▶ Implementing Purpose Led Outcome-oriented Thinking (PLOT) across our audit practice - an approach launched in 2016 and which forms the basis of our EY Expert Model ▶ Teams supported by the Engagement Quality Control Reviewer (EQCR) and the Audit Quality Support Team (AQST) ▶ Publishing stories of the Audit Culture Coins recipients (discussed below) ▶ Quality summits and training academies, along with webinars, during which we share experiences of quality reviews and best practice examples ▶ Team Planning Events (TPEs) for audit teams during which managers and senior managers solicit the views of junior team members.

Although much is said about the development of technology in auditing, and the importance of auditing standards which effectively drive the auditors' methodology, the human factor is perhaps the most critical component of any audit firm.

Technical skills and competencies of auditors, including professional scepticism, are all underpinned by the values and behaviours of those individuals - leaders and team members alike. For this reason we place a lot of emphasis on the importance of culture, in our firm more generally and most particularly in our audit practice.

We undertook a cultural assessment of EY UK in 2017. In performing this work, we applied the model that we use to assess the cultures of our clients' businesses. Our methodology included a review of both structured and unstructured qualitative and quantitative data, and applied a programme of advanced data analytics and statistical modelling. Key findings were published in the EY UK 2017 Transparency Report.

Our understanding of our culture has also been enhanced by the observations made as part of the 2018 FRC Audit Culture Thematic Review performed across eight large audit firms. The review covered important areas such as tone from the top, culture design and implementation, as well as other areas that help audit firms to promote, assess and monitor their audit culture.

The FRC noted that firms are investing considerable time and effort in their firm-wide culture, providing examples on how firms relate their purpose, values and encouraged behaviours to day-to-day activities. The FRC indicated a number of areas where the audit firms could better promote and embed an appropriate culture; we have developed actions in response to the recommendations and will agree them with the FRC.

We are pleased with this report. Most of the best practices identified by the FRC across the firms reviewed are present at EY. In particular, we are pleased that the FRC chose our Audit Culture Coins programme as a case study in its report.

Tone at the top - culture

Case Study: Audit Quality Culture Coins Reward Programme

Our Audit Culture Coins is a recognition scheme that focuses on non-monetary reward for those who embody the organisation's values and commitment to audit quality.

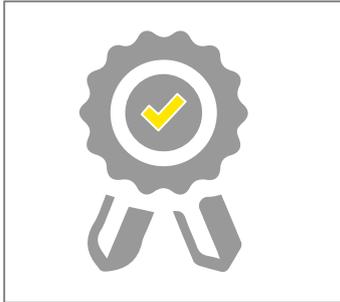
The scheme started in 2016, when more than 30 audit partners were named coin sponsors across all EY offices. They were asked to nominate colleagues to receive the coin - a gift that recognises personal contribution to audit quality and living our audit quality values. The coin recipient is then given a second coin to 'gift' to another colleague in the subsequent quarter. We publish the stories of all coin receivers in a quarterly newsletter to all auditors. In this way we provide others with examples of 'what great looks like' and we affirm the benefits of 'living the EY values'. Although the award and stories are personal, the social recognition that the scheme provides helps to promote a sense of camaraderie and a collective celebration success.

Our organisation encourages nominations for people at all levels. **114** people were recognised for their exceptional audit quality stories in FY18.

Having used FY18 to introduce and promote programmes designed to increase cultural health, and following the success of our 2017 EY cultural assessment in the UK, we are planning to undertake another cultural assessment by the end of 2019. The bi-annual nature of the assessment will provide a lens as to the impact of the various programmes we promoted in FY18, as well as providing insights into how our culture has evolved more generally. We expect that the results of the 2019 assessment will be available to be reported in our 2019 EY UK Transparency Report.

Quality

The whole firm, not just the audit practice, appreciates the importance of our role as auditors. Our audit ethos is embedded throughout our organisation. We are committed to serving the public interest and the need to maintain our independence and objectivity.



Our annual audit quality survey results show that **98%** of our audit people believe that they delivered, supported or contributed towards the delivery of quality audits during FY18 and **90%** believe EY places sufficient emphasis on audit quality. We are proud of these results.

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

Although we believe we have delivered improvements in audit quality, we know that we have not achieved the consistency we wanted, given the drop in our most recent regulatory results following three years of consecutive increases in quality ratings. In the most recent inspection by the FRC, although 82% of our FTSE 350 audits were graded as requiring no more than limited improvement (just eight percent points below the FRC 90% target), overall only 67% of all EY UK's audits inspected were graded as requiring no more than limited improvements, compared to 88% in the prior year. On the following pages we set out a detailed commentary on these results and our response. We also discuss our investment and approach to audit quality, how we are enhancing our UK Sustainable Audit Quality (SAQ) programme and consider audit quality from the viewpoint of key stakeholders: investors, audit committees, companies, regulators and our people.

We take results from audit quality reviews seriously and ensure we maintain a fair balance between rewarding high audit quality and sanctioning underperformance in this area.

Every audit partner and associate partner, who sign audit opinions, are subject to a performance review conducted by an Audit Quality Panel. The performance review considers a number of factors, including grades from the external and internal quality inspections. The panel ensures that both good and unsatisfactory audit quality inspections are fairly reflected in the performance review of the individuals.

Furthermore, our performance review system includes quality grades for staff. For levels above manager the inspection review results have a direct impact on the audit quality grading. Quality grades are linked to individuals' compensation. In addition, we have various non-monetary recognition schemes in place to reward and promote a culture of high audit quality, such as the Audit Culture Coins described earlier.

On the following pages we set out:

- ▶ Our SAQ programme and the activities of the Audit Quality Board (AQB)
- ▶ The results of external inspections of EY UK's audits conducted by the FRC's Audit Quality Review Team (AQRT), the ICAEW's (Institute of Chartered Accountants in England and Wales) Quality Assurance Department (QAD) and the US Public Company Accounting and Oversight Board (PCAOB)
- ▶ The results of our internal Audit Quality Review (AQR) process
- ▶ RCA of our internal and external audit inspection findings
- ▶ Information on skills and specialists
- ▶ The results of our Audit Quality Survey

Quality - SAQ

The UK Sustainable Audit Quality programme (SAQ) and the Audit Quality Board (AQB)

EY has made a significant global investment in audit quality and developed a comprehensive SAQ programme. The UK programme, now in its fifth year, is part of this initiative and partly originated from our disappointment in relation to the results of our FRC review published in May 2014.

In 2014 we carried out RCA on the results and invested significant time and effort to understand where we had gone wrong and what we needed to do to deliver audit quality at the level our stakeholders wanted on a consistent basis.

In response, we established the AQB as a permanent aspect of our governance structure, reporting directly to the Board of EY UK (the Board). The role of the AQB is to oversee all matters relating to audit quality and set the agenda for the SAQ programme.

In the early phases of the programme we held off-site strategy away days for the AQB. We involved psychologists to ascertain what good looked like, analysed feedback from our people and leavers and used surveys and focus groups to determine the areas where we needed to take action.

This resulted in us developing a programme based around 10 workstreams each led by a partner. We benefited from \$400m investment in technology in the global EY organisation, in particular in a new audit tool, EY Canvas, and in EY Helix, a suite of data analytics tools.

We also established a programme office and a regular reporting regime to the AQB to ensure actions were identified and followed through. The first FRC results for audits completed after we had set up the programme were those reported in May 2016, when we were delighted that 85% of our audits were graded as requiring no more than limited improvements.

During 2016 we commenced our work with cognitive psychologists. The feedback from our RCA in that year was that we needed to enhance coaching to improve audit quality further. We already had a coaching network and various initiatives in this area so we wanted to try a different approach. We knew that our people were, and are, highly motivated and want to deliver excellence and produce high quality audits. Many existing initiatives focused on what we didn't do well and were trying to address the problems and behaviours causing them. We decided to look at coaching differently. We spent many hours in workshops identifying our best teams: teams that had developed people and were recognised as teams people wanted to work in. The psychologists interviewed each individual team member in these teams for a couple of hours. From this rich material they developed a model of what people do when they deliver at their best - the EY Expert Model. Since then, we have been using this model, which has been a major focus area for us into FY18, alongside our work on project management (discussed later in this section).

Every year we organise a SAQ strategy day. At the most recent meeting, we reflected on the disappointment we felt in relation to our 2018 FRC results and on the intense scrutiny our profession is under. With this backdrop we decided that going into FY19 we needed to 'Reset and start again'. This means a further step change and additional investment in our SAQ programme.

Key to the success of our SAQ programme has been the continuous commitment of leadership to the investment in and delivery of the programme.

Case Study: Audit Quality Summits

Each year EY UK hosts Audit Quality Summits that bring together over 400 partners, associate partners, directors and senior managers. The summits provide a launch platform for new initiatives aimed at improving audit quality. We also hear from regulators and other stakeholders. Our most recent summit had the theme 'Reset and start again' in response to the decline in our most recent FRC inspection results and reflecting the challenges facing the audit profession.

As part of the Audit Quality Summits, we hosted a series of plenary debates that included hearing directly from audit committee chairs, investors and the FRC. Our EY UK Independent Non-Executives (INEs) also attended these events.

Quality - SAQ

Activities of the AQB

The AQB meets monthly and also holds an annual strategy session.

The chair of the AQB prepares a report on the AQB's work, which is presented to the INEs at INE Oversight Committee (IOC) meetings. Rosemary Martin and Sir Peter Westmacott attended AQB meetings in FY18. The INEs are invited to attend the meetings in order to observe the work of the AQB.

The AQB receives regular updates on the SAQ programme, client pursuit approvals and audit transformation activities. The AQB also reviews a dashboard with Audit Quality Indicators (AQI) such as: results of internal and external quality reviews, partner and associate partner quality ratings, headcount, attrition rates, staff illness, audit unstaffed hours, audit hours on public interest entity (PIE) clients, and charged hours exceptions. Different leaders from the business present to the AQB on the dashboard or specific elements being measured, and the AQB raises matters to be followed up from its review.

During FY18 the AQB considered and agreed actions on a wide range of other topics including culture, performance and reward and the audit of taxation. The AQB periodically invites members of selected audit teams to present to them.

At EY we keep auditors accountable for delivering high-quality audits. Every year the AQB reviews the results of the external and internal audit quality inspection reviews. The AQB is informed about and also contributes to defining the rewards and sanctions process to address the outcomes of the reviews.

For FY19 the AQB has approved an enhancement to the SAQ programme and has established the priorities for the audit practice. These will help us to respond to the areas where we have not done as well as we should as well as helping us achieve the FRC's target of 90% of FTSE 350 audits requiring no more than limited improvements.

The top four priorities are to:

- 1 Promote desired behaviours with our EY Expert Model
- 2 Enhance our Audit Quality Support Team
- 3 Establish an Audit Risk Sub-Committee
- 4 Reinforce focus on project management

Quality - SAQ

1 Promoting desired behaviours

During the last year we have continued to rollout the EY Expert Model which is based on the behaviours of our highest performing teams, as assessed by external cognitive psychologists. We have seen enthusiastic adoption of the model across the audit practice, and received positive feedback on the audit quality benefits from a number of early adopters who have undergone either internal or external quality inspections. We are currently enhancing the model to make more prominent the link between the societal purpose of our profession, the engagement's objectives, team members' day to day work and their career aspirations. For FY19 we are prioritising the extent and consistency of the model adoption, further embedding desirable behaviours into business-as-usual activity across all of our audit teams.

Case Study: Applying the EY Expert Model on a FTSE 250 audit

The model involves discussing audit areas, including business understanding, risks and developments, with the entire team. This ensures that all team members are fully up to date and know how each part of the work links to the overall audit. In this instance there was a great deal of change at the client and this sharing was critical, including with teams working on international components of the audit.

The team highlighted the benefit of significant and timely partner involvement at the earliest stages of the audit. The coaching aspect was also important with a continual focus on team members gaining new experiences and making sure, via regular coaching, that they were always clear about the specifics of their own work and how it fitted in to the whole process.

The team members really welcomed this way of working. Not only did their knowledge and skills develop, but they also felt satisfaction at being part of a team delivering a high quality audit. The coherence of the team and the audit was commented upon positively during the FRC's inspection of that audit.

2 Audit Quality Support Team (AQST)

Our AQST of experienced auditors was established to perform in-depth, independent, in-flight reviews of 40 to 50 audits each audit cycle. The AQST provides challenge and guidance to the engagement teams, as part of either a wide or narrow review. The AQST reviewer works with the team and reports findings to the team and EQCR during the reviews. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST also provides input to our learning and development programmes to benefit the rest of the audit practice, including identifying common themes and examples of good practice. The work of the AQST is overseen by the AQB who monitor progress and results at their monthly meetings.

For FY19 we are committed to increasing the AQST to help a larger number of audit teams to improve our audit quality. We will increase the investment in the team, including involving partners with significant experience of being an EQCR and who have acted as an expert witness in investigations into audit failure, broadening the composition of the team of reviewers. We will also increase the level of cooperation with the specialised team developed globally to support such audit reviews.

Quality - SAQ

3

Audit Risk Sub-Committee

In the coming year EY UK will establish an Audit Risk Sub-Committee of the AQB. It is intended that the committee will expand our broader risk-scanning process to ensure that we are appropriately identifying our high risk clients and sectors. The committee will consider the adequacy of our response to higher risk audit engagements, including requesting that certain teams present to the committee on their work.

4

Project management

In FY17 we piloted the EY Global Milestones programme, primarily on large and complex clients. The programme is intended to promote desired behaviours by encouraging early planning and timely partner involvement.

Our RCA re-emphasised the importance and impact of early planning and timely executive involvement in our audits. Feedback from our audit teams and the outcome of internal reviews have further reinforced our view that consistent implementation of milestones will make a major contribution to enhancing audit quality. The programme helps our people to improve their project management skills, while the milestones functionality embedded in our audit software enables audit teams to set deadlines at a 'task level' and track progress against those deadlines. Other benefits include spreading the workload, clarity over task completion and improved on-the-job coaching through timely review and feedback.

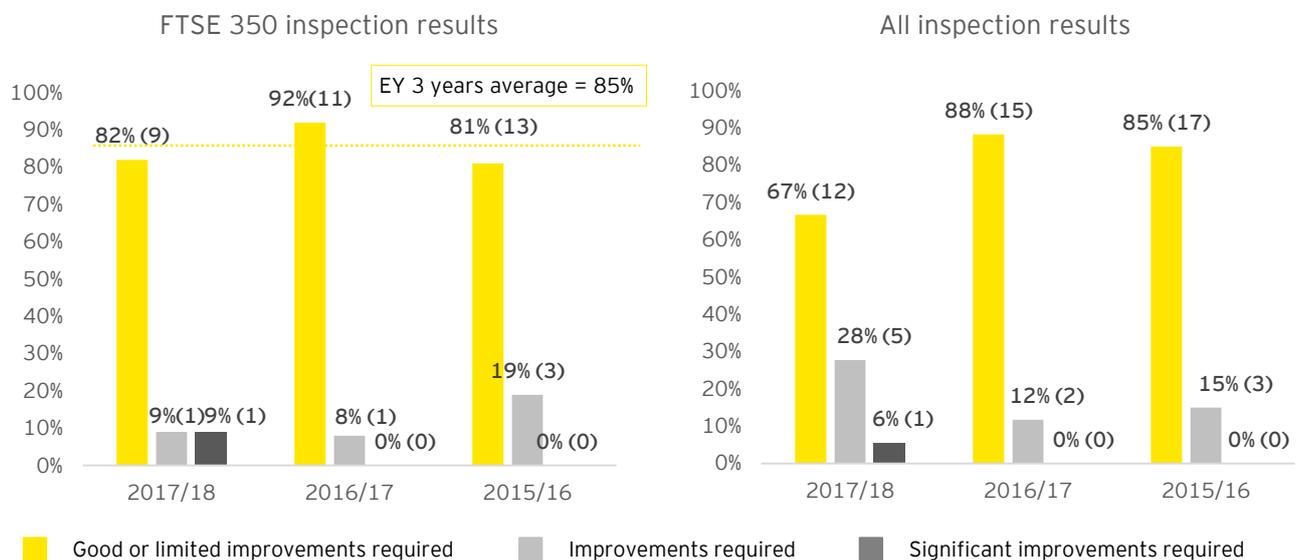
Quality - inspecting our audits

EY UK is subject to external inspection by the FRC's Audit Quality Review Team (AQRT), the ICAEW's QAD and the US Public Company Accounting and Oversight Board (PCAOB). We comment below on the status and results of each regulator's review of our work in turn.

Financial Reporting Council

The public inspection report rates audits in three categories as follows: 'good or limited improvements required', 'improvements required' or 'significant improvements required'.

The FRC published its report on its latest review of EY UK in June 2018:



Results presented in percentage terms; absolute number of engagements reviewed presented in brackets

Following the FRC's latest review, 67% (prior year 88%) of EY audits inspected were graded as requiring no more than limited improvements. For our FTSE 350 audits, 82% (prior year 92%) of those inspected were graded as requiring no more than limited improvements. Although our 2018 results are lower than we achieved last year, they still provide a strong base from which to achieve the FRC's target that 90% of FTSE 350 audits require no more than limited improvements by 2019, to which we remain committed.

The higher quality of audit engagements inspected by the AQRT in the last three years reflects the sustained investment made by the firm and our people since 2014. However, for the first time in three years, we had an audit graded as requiring significant improvements. We have taken this very seriously and have conducted RCA; work has been undertaken to address the issues identified.

We are disappointed by our results this year. We believe that most of the specific findings driving the decrease (set out on the following pages) are matters which we have addressed with new processes, guidance and training as set out in the FRC report and summarised on the following pages. Nevertheless we recognise that a further step change is required to deliver consistent high quality. We therefore had 'Reset and start again' as the theme for our recent Audit Quality Summits. We are enhancing our SAQ programme to ensure we address any other issues identified and keep pace with the increasing expectations of audit quality.

Quality - inspecting our audits

In its report, the FRC noted the following initiatives as having contributed to the overall quality of audits reviewed:

- ▶ Continued development and enhancement of the firm's Audit Quality programme
- ▶ Roll out of the findings of a project led by external psychologists
- ▶ Continued enhancement of the AQST
- ▶ Focus on improving project management

The AQRT highlights the following areas of good practice:

Individual audit reviews	EY UK audit practice procedures
<ul style="list-style-type: none"> ▶ Group audit teams' oversight of, and involvement with, component auditors, particularly on some first year audits ▶ Use of, and co-ordination with, specialists and experts, including coordination and oversight in areas such as goodwill and investments and involvement of industry experts going beyond what the FRC normally sees in these industries ▶ Clear explanations of the audit judgements and conclusions in areas of significant risk capturing how management has been challenged and how the audit team has applied professional scepticism ▶ Use of data analytics in the audit of revenue, an area where the firm has provided further support and training to help audit teams 	<ul style="list-style-type: none"> ▶ Ethics and independence procedures and the response to the revised Ethical Standards requirements ▶ A central independence team that reviews all acceptance and continuance assessments ▶ The firm's completion of a comprehensive central review to assess all current non-audit services being provided to PIE clients ahead of the transition date ▶ The new EY acceptance and continuance system (PACE) which operates across all service lines and includes compliance requirements of the Ethical Standards and International Ethics Standards Board for Accountants (IESBA) Ethical Standards

We carried out RCA and have implemented improvement plans on the areas that the AQRT highlights as requiring action. These are discussed below.

Area

Increase the extent of challenge and assessment of management's key assumptions and inputs in relation to conduct provisions in financial services entities.

Our response

At the time the report was issued we had already been engaging with the FRC in the area of bank audits. We developed a detailed questionnaire covering a number of aspects of these audits. Individual audit team responses were reviewed by the audit quality team who challenged whether the approach was appropriate.

For FY19 audits, the AQST and audit teams will continue to work together to confirm the appropriate level of specialist involvement in auditing loan loss provisions and conduct provisions, depending on the circumstances of each audit. We shared the FRC's emerging findings with all audit partners, EQCRs, technical and IT partners and associate partners involved in the bank audits, as well as with the wider Banking and Capital Markets audit practice. As part of the communications our conduct specialists presented on the key areas of focus in relation to conduct provisions.

Quality - inspecting our audits

Area

Strengthen the audit of collective loan loss provisions in financial services entities.

Our response

We completed the actions referred to in our response on the finding on conduct provisions noted above, which also applied to the audit of collective loans provisions. The audit quality team reviewed the bank audit teams' responses to the questions around collective loss provisions in the questionnaire, following up with individual teams for clarification or further explanations and challenging the approach where appropriate. We communicated the key themes and messages relevant to collective loan loss provisions to our bank audit teams. That team received a detailed briefing from our quality leadership on the matters raised by the FRC. In addition, our AQST has audit of collective loan provisions as an area of focus for FY19 again, having received a detailed briefing from our quality leadership. Also, we will provide training to our specialists and audit teams to improve integration of the work of specialists in the audit.

Area

Improve the audit of company pension scheme assets.

Our response

We issued new guidance clarifying the requirements and considerations relevant to the audit of pension scheme assets, including examples to aid application of the guidance. The guidance included a revision of the approach to determining sample sizes. This was supported by training that was delivered as part of the mandatory autumn training programme in FY18.

Our AQST reviewers were specifically briefed to review the audit of pension asset balances on audits to ensure the updated guidance was applied. We will continue to focus on this through review and coaching by our AQST and through our audit training in FY19.

Quality - inspecting our audits

Area

Enhance the reports from the firm's internal actuarial experts on company pension scheme liabilities.

Our response

We issued reminders to audit teams to ensure reporting from internal actuarial experts includes evidence of appropriate challenge of assumptions and changes in assumptions. We developed an enhanced actuarial experts' standard reporting template which, was available for use in audits of December 2017 year-end financial statements.

We incorporated in our FY18 audit training detailed reminders on the responsibilities of the auditor when using the work of an expert to avoid overreliance, which was a theme identified in our RCA.

We will also continue to focus on this area through the review and coaching provided by our AQST to ensure that the new detailed reporting is used and to ensure all relevant considerations are being recorded.

Area

Amend the firm's policy and guidance on hospitality in relation to allowable thresholds and implement monitoring of what is a permissible non-audit tax service.

Our response

We revised threshold levels for gifts and hospitality and we have amended the guidance in this area. We have amended the firm's engagement acceptance process to enable the central independence team to monitor the permissibility of non-audit tax services for UK-based EU PIE audit clients.

Regulatory actions

Our firm is regulated and subject to professional disciplinary action in cases of potential misconduct.

As announced in the EY UK 2017 Transparency Report, the FRC's investigation into the audit of Tech Data Limited (formerly known as Computer 2000 Distribution Limited) for the year ended 31 January 2012 was concluded by way of a settlement in October 2017, the terms of which involved both the firm and the former partner receiving a reprimand, and the payment of fines of £1.8m and £59,000 respectively.

The FRC discloses on its website a list of investigations that have been publicly announced. We are positive, but not complacent, about the fact that, as at 29 October 2018, EY UK has not had fines by the FRC on audit work completed in the last five years, nor have any of our partners been sanctioned in respect of that period.

Quality - inspecting our audits

FRC inspections of public sector appointments

The Public Sector Audit Appointments Limited (PSAA) commissions inspections of firms conducting local audits by the FRC's AQRT. The AQRT inspected three financial statements opinions and one Value For Money (VFM) arrangement conclusion file from EY's 2016/17 PSAA work, and provided an updated commentary on the applicability of firm-wide procedures to our audits. Having considered the review points raised by the AQRT, the PSAA assessed one of the financial statements audits as 'good', one as 'acceptable with limited improvements required', and one as 'significant improvements required'. The VFM arrangements conclusion work was assessed as 'good'.

Our own internal review had already identified that significant improvements were required in the audit subsequently reviewed and graded as such by the AQRT. We carried out RCA on this audit and agreed actions with the audit team, and these actions were monitored through the next audit. The findings were used to inform wider training, which has been delivered.

FRC thematic reviews

The FRC supplements its routine monitoring programme with a series of thematic reviews of certain aspects of corporate reports and audits where there is particular shareholder interest and scope for improvement and learning from good practice.

The FRC issued a thematic review report on Audit Materiality in December 2017 and one on Audit Culture in May 2018. We analysed these reports and have considered both good practice and areas for improvement. We were pleased to recognise some of our own areas of good practice in these thematic reviews. We have incorporated developments into our FY19 action plan for the SAQ programme for areas where the thematic reviews helped us identify areas for improvement.

We are aware that the following thematic reviews will be reported on or completed in the coming year:

- ▶ Transparency Reporting: A comparative analysis of transparency reports of firms with PIE audits
- ▶ Audit Quality Indicators (AQIs): An assessment of the development and use of AQIs by UK audit firms, which will draw heavily on international best practice.

The FRC will also complete its review of 'The Auditors Work on the Front Half of the Annual Report'. This review, which was included in the 2017/18 thematic inspection programme, is being undertaken over an extended period, to enable the impact of recent relevant changes to auditing standards to be fully assessed.

We will review the reports once released and consider any actions we should take. We find these thematic reports helpful in identifying areas of good practice as well as opportunities to improve.

Financial services sector

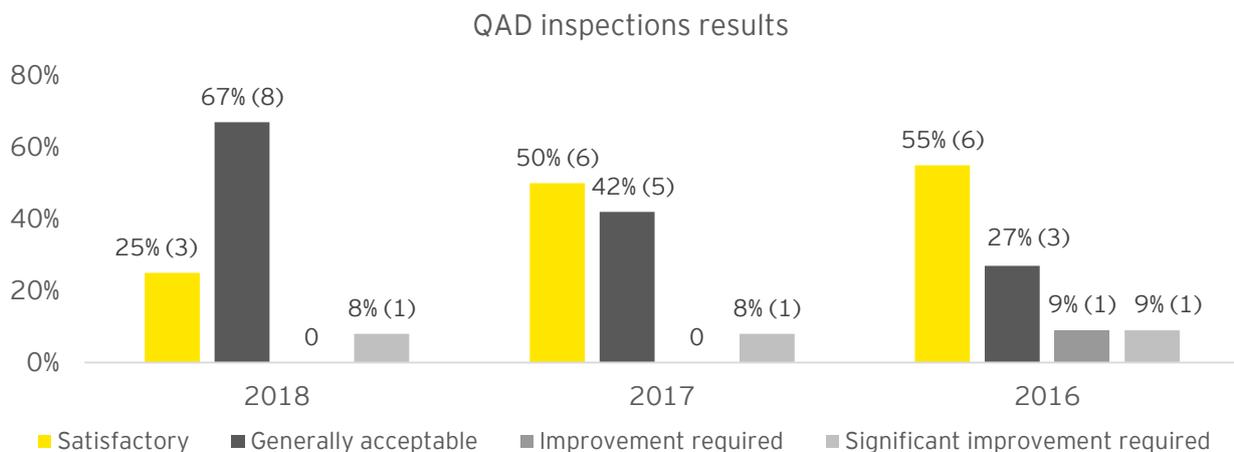
The FRC and the financial services regulators, the Financial Conduct Authority and Prudential Regulation Authority (PRA), are showing particular interest in audit quality in the financial services sector. We maintain an active dialogue and relationship with all three regulators. This is particularly important given their interest in major new accounting standards such as IFRS 9, as well as the specific requirement for written reporting to the PRA on some of our banking audits.

Quality - inspecting our audits

ICAEW's Quality Assurance Department (QAD) findings

The QAD conducts monitoring visits to all firms registered for audit with the ICAEW. Their monitoring visits contribute to the ICAEW's objective of maintaining the highest standards among member firms. EY is in the population of firms that the QAD visits on an annual basis, but for which the FRC has lead regulatory responsibility. The last QAD inspection took place in 2017 and its report was issued in the spring of 2018. The QAD noted: 'Audit work was of a good standard in most areas and largely comparable to the quality of audit work we reviewed at our last visit.'

The results of the QAD inspections are set out below:



Results presented in percentage terms; absolute number of engagements reviewed presented in brackets

Eleven of the 12 files subject to standard-scope review were either satisfactory or generally acceptable. However, one engagement was rated 'significant improvement required'. The finding that drove this conclusion identified that the audit team had not adequately challenged the basis for continuing to recognise an intangible fixed asset, which should have been fully amortised in a prior year.

The QAD also undertook a follow-up review of one of the engagements it had reviewed in the previous year, concluding that the engagement was satisfactory.

RCA has been completed on the one engagement rated 'as significant improvements required.' In addition the RCA team is looking at a further sample of files considered 'generally acceptable' to identify what further lessons can be learned.

Public Company Accounting Oversight Board (PCAOB)

EY UK is inspected every three years by the PCAOB and an inspection commenced during May 2017. The PCAOB chose three engagements to review, completed its field work and we are awaiting the final findings report. In addition to the public report, the PCAOB also provides a private report to the firm setting out any deficiencies in the wider quality control processes operated. This report is only made public if the PCAOB believes that these deficiencies have not been appropriately addressed in the year following the issuing of the report.

Should the report be made public, we will address the relevant findings in next year's transparency report.

Quality - inspecting our audits

Our internal Audit Quality Review (AQR) process

Each year we undertake a review of a sample of our audit engagements through our internal AQR process. The review is conducted in the summer months and inspects audits performed in the previous year. So audits reviewed in the summer of 2018 are primarily from audits of December 2017 accounts, although we also seek to design our sample to cover a range of audits, not just those with December year ends.

The review is performed by EY UK professionals from offices other than those in which the audit in question was undertaken, as well as a significant proportion of reviewers drawn from other EY member firms. The reviews are subject to oversight from senior partners of EY member firms, which further supports the rigour, integrity and consistency of the process.

The review process is intended to cover every Responsible Individual (RI) – partners and associate partners authorised to sign audit reports – at least every three years, and every FTSE 350 audit every six years. Other audits are selected for review to cover a cross-section of the audit practice. However, the selection is weighted towards those engagements with higher risk factors. In the current year we reviewed 108 engagements.

During 2016 we discussed with the FRC the results of its thematic review of audit quality monitoring. In the light of those discussions, we continued to seek to improve the quality of the AQR process in FY18 through:

- ▶ Providing further guidance and training to reviewers on how points identified in the reviews should be followed up, what constitutes appropriate mitigation of a finding and how that should be verified, to ensure that final conclusions appropriately reflect and are supported by findings
- ▶ Further pilots of focused reviews on 31 engagements during the FY18 AQR cycle (16 in 2017 and four in 2016)
- ▶ Reviewing a sample of UK components when group audits are reviewed

We continue to assess the effectiveness of our process and will look to make further improvements as appropriate. The FRC is currently performing a review of the AQR process and we will look to implement any further recommendations that are made.

We evaluate the results of our review on a three-point scale:

1 = **no or minor findings**

2 = **findings that were more than minor but less than material**

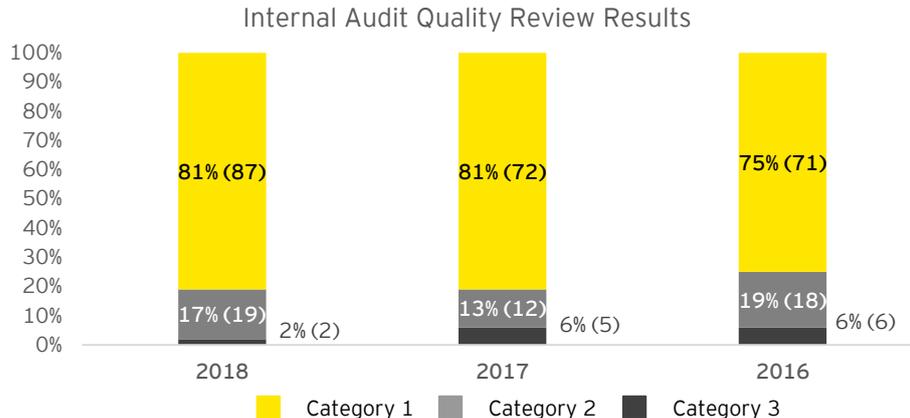
3 = **material findings**

For audits with material findings arising from our internal reviews, EY UK develops and implements a remedial action plan. A quality improvement plan is also developed for EY UK, which draws on RCA that we complete. We communicate lessons learned from the reviews to our audit practice and include them in future training. The results are also built into the work of our SAQ programme, discussed previously. AQR results play an important part in our assessment of partner and staff quality, which is in turn a key input to colleagues' promotions and rewards, as described on page 21.

As well as reviewing individual audit engagements, our AQR process also involves a review of our cross-firm processes and controls in a number of areas: client acceptance and continuance; consultations and pre-issuance reviews; people processes (recruitment, assignment of staff, learning and performance evaluation); and compliance with the ICAEW Audit Regulations. Changes in our processes, procedures or systems are considered in the light of findings from this review.

Quality - inspecting our audits

Over the last three years, we reviewed 47 % of our RIs in FY18, 37% of our RIs in FY17 and 42% in FY16 with the following results:

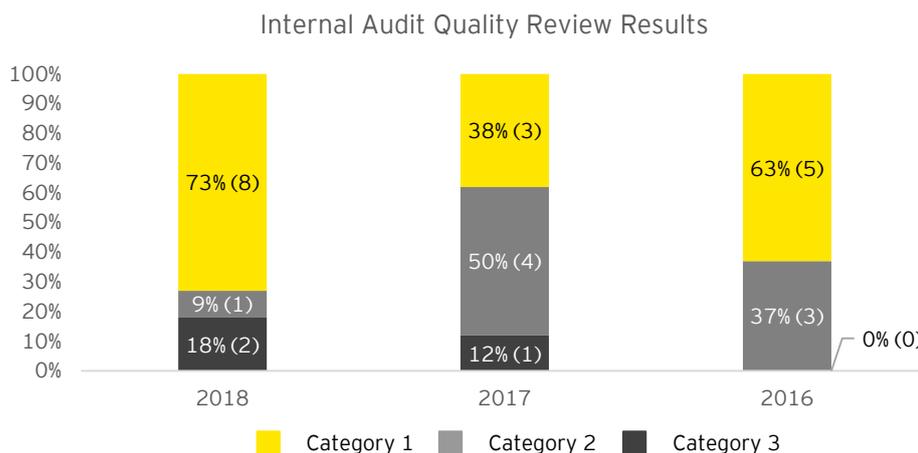


Results presented in percentage terms; absolute number of engagements reviewed presented in brackets

The percentage of engagements rated with no or minor findings has remained consistent year on year, but we continue to target a further increase in future years. We are pleased with the reduction in category 3-rated engagements identified in the FY18 AQR season. However we are undertaking RCA of the two engagements rated as category 3 and a sample of other audits reviewed to identify actions we can take to improve audit quality across our practice.

In addition to the corporate AQR process, we also undertake reviews of our public sector audit engagements performed under either the PSAA or Audit Scotland regimes. These reviews are undertaken using the same process as the corporate AQR, but were performed in the winter of 2017/2018 for audit clients with year-ends primarily in spring 2017.

The results are provided to PSAA and included in its assessment of the quality of our work in this sector. Audit Scotland requires one engagement to be reviewed each year and the result is reported to the organisation as part of its regime requirements. The results of all recent reviews are as follows:



Results presented in percentage terms; absolute number of engagements reviewed presented in brackets

We are pleased with the substantial increase in the proportion of category 1-rated engagements. However, we are disappointed that two (18%) of the engagements reviewed were rated 3. One of these was subsequently reviewed by the FRC as previously noted. A number of actions have been taken on both the specific engagements and across the public sector group to address the issues identified. Overall, although the internal review process has indicated a continuing high level of engagements meeting our audit quality expectations, our audit quality ambition is to reduce further the number of engagements rated 2 or 3 as we learn lessons from our RCA. We investigate the root causes of the findings identified by our AQR process; the FY18 AQR results will be included in our EY UK 2019 Transparency Report.

Quality - RCA

Root Cause Analysis (RCA)

Detailed RCA of our internal and external audit inspection findings continues to be an important part of our SAQ programme. RCA is carried out on audits where key findings have been identified, as well as on engagements deemed as being of a particularly high standard. We also carry out RCA on selected prior year adjustments and for non-personal independence breaches.

The RCA is performed by an experienced team of audit professionals using the following approach and methodology for all investigations:

- ▶ Tracing the findings that gave rise to any finding back to the relevant activity and gathering information on what happened
- ▶ Performing desktop analysis of findings and the related audit documentation
- ▶ Carrying out in-depth interviews with key members of the audit team, including the partner, senior manager, the Engagement Quality Control Review partner, members of the wider audit team and specialists (where relevant)
- ▶ Aggregating engagement-level root causes and identifying common themes

Number of inspections subject to RCA



- includes prior year audit adjustments, office wide reviews and non-personal independence breaches

Case Study: RCA - What leads to high-quality audits?

As part of our RCA we investigated what drove the success of a regional office that obtained the highest possible rating for all recent internal audit quality reviews. We identified a strong audit quality culture supported by a number of office-level initiatives:

- ▶ Well embedded EY Expert Model helped clarify the expectations of the audit
- ▶ Involvement of partners and associate partners in the regular Assurance employee meetings
- ▶ Personal development days when all auditors meet to discuss performance and developmental feedback, and attend small training sessions on current, relevant audit and accounting matters
- ▶ Ad hoc 20-minute interactive web training sessions called 'bite size quality sessions'
- ▶ 'Pass the baton' - an initiative where colleagues explain the expectations of moving up to the next career level to the peer group immediately below them

These initiatives combined to improve the engagement and retention of team members, supporting the delivery of high-quality audits.

Quality - RCA

The findings from RCA are reported to internal and external stakeholders, including the AQB, FRC and ICAEW. An action plan is developed in response to the RCA findings and monitored by the AQB.

The findings reported following the 2017/18 RCA were:

Factors key to good quality results	Root causes of weaker quality results
Implementation of the EY Expert Model	Audit work and basis for related conclusions not explained adequately on the file
A high degree of partner involvement	Overreliance on work of specialists supporting the engagement team
Support provided by our AQST	Insufficient application of professional scepticism
A more consistent use of new technology and enablers	In the case of pension scheme assets, insufficient focus on an area that was not a significant risk

Quality - skills and specialists

Specialist involvement

On our audit engagements we work closely with our specialists from other service lines and we believe that by leveraging their expertise, we enhance our ability to deliver high-quality audits.

Specialists' work can make up a quarter of an audit. For instance, on one large bank audit we involved specialists such as: IT, Tax, Financial Accounting, Risk (including credit, conduct, capital, regulations), Valuation and Business Modelling (forecasts and pensions), Actuaries, Data Analytics, Fraud (including Anti-Money Laundering).

All our specialists are subject to a mandatory audit training curriculum rolled out annually. We are committed to continuing to ensure effective integration of specialists on our audits. During FY18 and in the summer of 2018 we held training for auditors on coordination with and reliance on specialists. Such training included a classroom session and a webcast for the audit practice and reemphasised the importance of exercising professional scepticism when relying on specialists' work. Furthermore, specialists facilitated training sessions for auditors on certain topics, such as conduct provisions.

Group audits

Our audit methodology sets out clear guidance on how we conduct group audits. The group engagement partner is responsible for the direction, supervision and performance of the group audit engagement. We have a range of programmes, templates and guidance that have been designed to help execute these responsibilities and document how we have done so. This covers using both firms within our EY network or other audit firms. We are pleased that the FRC has included within its public report, in both of the last two years, areas of good practice noted in the work reviewed in relation to group audit team oversight.

Training

Our investment in training continues to support our audit quality ambitions and once again this year we made a significant investment in our training curriculum. All partners and staff are set minimum continuing professional development (CPD) requirements (discussed further on page 108) and those individuals involved in audits regulated by the PCAOB undertake specific training covering the relevant audit and accounting standards. As discussed further below, our people believe our training programme is enabling them to deliver high-quality audits. In the last three calendar years, we have delivered the following mandatory structured training hours, principally relating to audit and financial reporting:

	FY18	FY17	FY16
Senior 2	95	83	76
Senior 3	50	56	69
Manager	54	66	72
Senior manager	41	47	48
Director/Partner	41	47	48

The training curricula are designed each year to reflect the current needs of the business.

The increase in training hours at Senior 2 includes an additional day of training on new audit technologies and a shift in training hours from Senior 3 to Senior 2.

Consequently, the decrease at Senior 3 is due to a realignment of core curriculum learning across the Senior ranks so this year group now has fewer mandated learning hours.

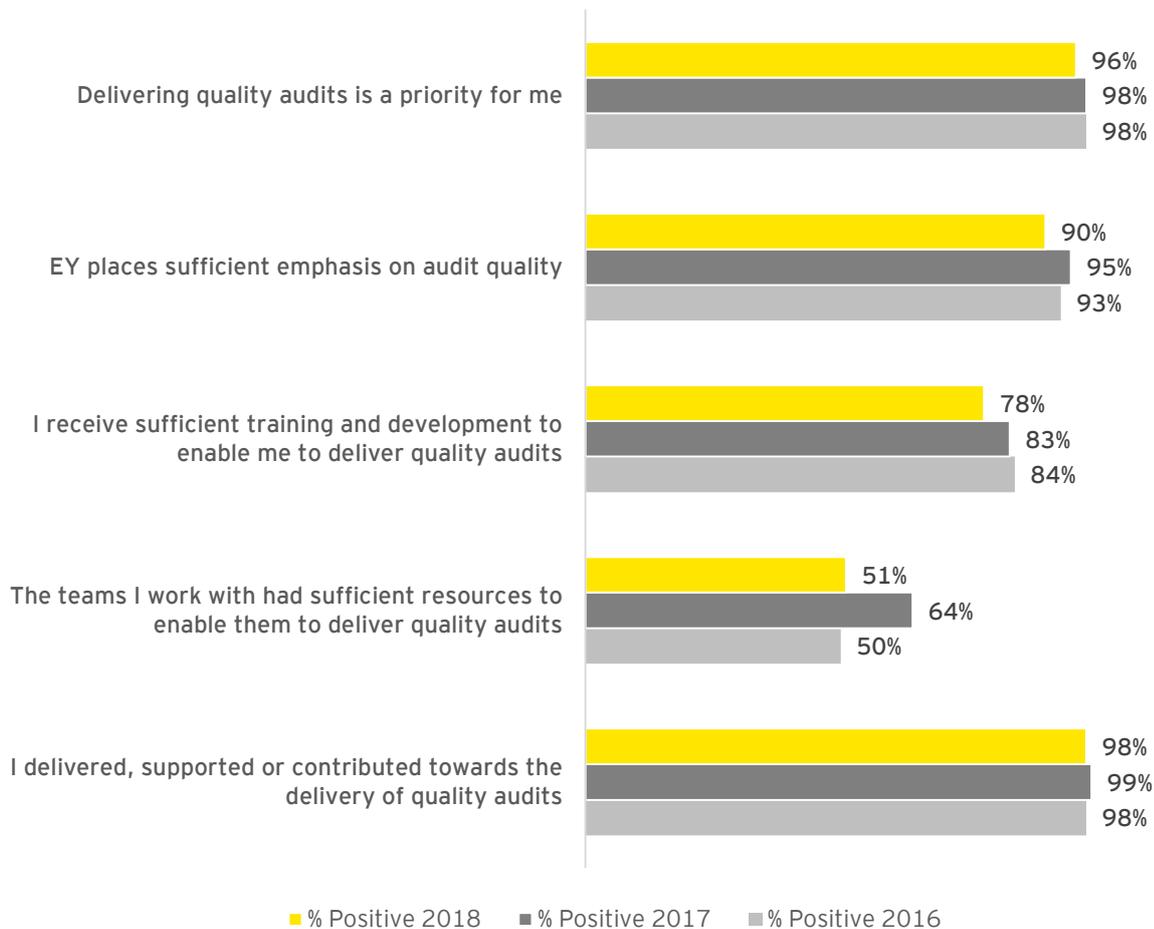
The decrease at Manager, Senior Manager and Director/Partner is largely due to a reduced need for training on audit tools that are now fully embedded (e.g., our audit firm software - EY Canvas) and fewer updates to accounting standards, not already covered in previous training.

Quality - our people's view

What our people tell us

Our success in meeting our stated audit quality ambitions is dependent on the individuals delivering our audit engagements. It is therefore critical that we listen to our people and provide the support they need to achieve sustainable audit quality. We conduct an annual Audit Quality Survey, which focuses on audit quality and provides valuable feedback from our audit engagement teams.

The relevant audit quality indicators (AQIs) from the survey are as follows:



We are pleased that once again a very large majority of our people report that delivering quality audits is a priority for them, that EY places sufficient emphasis on audit quality and that they delivered or contributed to delivering high-quality audits during FY18.

In current year we included the question, 'I understand my role as an auditor in providing independent assurance, supporting strong capital markets and protecting the public interest'. We are very pleased that our annual audit quality survey results show a **97%** positive response to this question. We believe this is a reflection of our strong audit culture, which is embedded in everything we do, and the increasing focus we have been placing on purpose and the societal importance of the role we perform.

Quality - our people's view

We are disappointed to see a decrease in positive responses to the question asking our people if their teams had sufficient resources to enable them to deliver those quality audits.

We have seen improvements on this question in both of the last two years. We have analysed this response and identified some variation in the pressures felt at different levels and in some geographical areas. Some offices have felt more pressure due to resourcing constraints, whether due to higher than expected attrition, growth or challenges in the recruitment market. However, the patterns identified have confirmed that we must do more targeted work.

In response to this matter, the priorities of the SAQ programme will include monitoring the resourcing position at a disaggregated level, monthly reporting to the AQB, and determining ways of sharing resources to address any areas of need. We will also continue to focus on providing audit teams with access to tools such as robots and data analytics to help them deliver high-quality audits efficiently. We are continuing to implement the EY Expert Model, enhancing the AQST and focusing further on project management to help teams deliver their audits.

We noted a slight decline in positive responses to the sufficiency of training and development, although the result is still at a high level. We have continued to invest in training and development through dedicated Audit Quality Summits and targeted summer training, to provide our people the skills they need to deliver quality audits. Increasingly we are training people on new tools and technologies. As people switch to using analytics and robots, the feedback they give is that they need more practical hands-on training in order to feel comfortable. We believe this may have impacted the responses received. As we carry out office visits and focus groups this year, we will talk to people to understand if there is anything more we need to do in this area.

Technology in today's audit

Developments to our audit platform

This year saw the introduction of the client portal as the latest add-on feature to our global audit platform EY Canvas. This allows engagement teams to exchange information securely, monitor requests and manage tasks in an efficient manner directly with our clients.

Since its introduction we have enrolled over **740 EY UK clients** onto the EY Canvas Client Portal, covering almost **1,500** individual engagements.

Our client response has been overwhelmingly positive. From the outset, clients recognised the benefits of the EY Canvas Client Portal, including the enhanced data security it provides by automatically uploading their information onto the platform, creating confidence that their data has been safely delivered directly to EY engagement teams. The greater efficiency of exchanging requests and information in this way has saved time for all those involved. Furthermore, the new on-demand visibility of the status of audit requests has improved collaboration and is driving fast adoption of the client portal.

Data analytics

Our use of data analytics in the audit continues to expand. Our approach is to embed the use of data analytics procedures into the audit across our client's business cycle leveraging our investments in the EY Helix technologies and our data analytic specialists along with structured guidance to ensure consistency in application. We are pleased that the FRC has noted our use of data analytics in the audit of revenue as an example of good practice.

We continue to support our people in appropriate use of data analytics through training and coaching to enable them to extract value from this approach both in terms of high-quality audit evidence and valuable client insight.

The number of audits using data analytics doubled in the last year. In the coming year, we will continue to focus on the 'digital audit', to further embed the use of data analytics and other technologies throughout the audit. This will be supported with appropriate training for our people.

Case Study: Revenue data analytics

In its 2017/2018 inspection report, the FRC noted our use of revenue data analytics and the informative audit committee reporting in this area as good practice.

By analysing journal entries posted throughout the year, our standard revenue analytics programme helps teams understand the correlation between different types of transactions and revenue, receivables and cash collections to validate expected trends or identify unexpected trends for further investigation.

This and other analyser tools enable audit teams to document the background, risks and procedures performed and conclusions, while describing the detailed analytics performed in a clear way that is easy for a reviewer to understand. Teams are enhancing audit committee reporting with insights from the data analytics that merit clients' attention.

The scope of data analytics we are now applying extends beyond a sole focus on financial data. Through the convergence of our Assurance disciplines, the analytical techniques developed in our Forensics & Integrity Services are now being used on our audit engagements, enabling our professionals to consider a broader range of non-financial risks in their day-to-day work.

As an example, when scoping our financial audits, the EY Risk Scan analytics triangulate leading indicators of risk (including fraud, forensics and culture) by integrating data from a multitude of internal and external sources with traditional financial data. This provides our teams with the benefit of greater insight into risk factors when deciding how to scope, plan and allocate resources for their audit engagements.

Technology in today's audit

Robotic Process Automation (RPA)

This year saw the deployment of Robotic Process Automation (RPA) into our Assurance business for specific standardised processes. Audit teams are now accustomed to using RPA 'bots' to help with a number of these processes, ranging from simple administrative tasks through to more complex activities such as analysing bank statements and selecting audit samples.

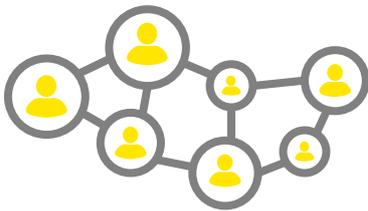
Our focus now is on embedding robotics into our analytics-led audit approach, using bots to execute the routine parts of the process (such as work paper production, sample selection and client requests etc.). This frees up auditor time, allowing our practitioners to focus more effectively on areas where judgement is required (such as understanding the outliers, validating the process and corroborating the picture with third-party evidence). This is helping to deliver higher consistency and quality, improved efficiency and more fulfilling careers for our people.

Digital Degree Apprenticeships

EY UK is investing in Digital Degree Apprenticeships to increase our pipeline of talent capable of responding to our clients' digital and technology needs across core parts of our business. We understand the necessity of investing now in skills for the future.

The apprenticeship combines full-time paid work and part-time university study to offer candidates the opportunity to gain a full Bachelor's or Master's degree, while benefiting from practical on-the-job training.

Apprentices will spend 80% of their time on the job within their service line contributing to client engagements, and 20% of their time away from client work so they can study towards the Digital Degree. Up to 10% of our student intake will be recruited under this scheme to provide a source of skilled, digitally literate talent.



In FY19 we will have **13 digital apprentices** joining Assurance, and we expect to see this number double in the following year and continue to grow significantly.

Over time we will see their unique skillset continue to grow and develop, helping us in our assurance transformation activities.

The future of assurance

Investing for the future

Across EY globally there are plans for the investment of US\$1bn in new technology solutions, client services, innovation and the EY ecosystem over the next two financial years, commencing from July 2018. This move is part of an ongoing strategy to provide clients and people with innovative offerings using the latest disruptive technologies.

The new US\$1bn funding is in addition to the existing, significant annual technology investment. The investment will be used to create new technology-based services and solutions in areas such as financial services, cyber, risk management, managed services and software services, as well as digital tax and audit services.

Mark Weinberger, EY Global Chairman and CEO, says:

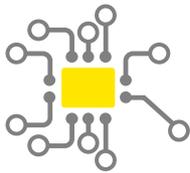
“In this transformative age, businesses and governments are under significant pressure to not only keep pace, but get ahead of the vast disruption and technological change. We see enormous opportunities in helping clients address these challenges and stay ahead of the technology curve. With this investment and expanded technology leadership team, EY will help businesses navigate industry disruption to realise their growth potential.”

Big Data and AI

Global investment in and deployment of emerging technologies such as RPA and blockchain continue to disrupt entire industries, creating new markets and business models. Big Data is the backbone of this disruption. Driven by the convergence of social, mobile, cloud and the Internet of Things, the volume of data is growing exponentially.

EY UK is now actively exploiting Big Data by gathering and aggregating vast amounts of internal and external data points as part of the delivery of our Assurance services. At the same time we are starting to assist our clients in their efforts to manage the potential risks of Big Data, such as loss of privacy and cybersecurity.

The number of AI tools actively used on our Assurance engagements, including audit, is increasing.



Last year we audited **500 client financial models** (built in Excel) using our new AI-based system, which uses **384 data points** to assess each cell for potential errors.

A number of other AI-enabled tools are also on the path to formal certification for use on our audit engagements. Deploying AI-enabled tools reduces the risk of human error, increases the consistency of execution of work and frees people up to focus on areas of higher risk and judgement, leading to improved audit quality.

The future of assurance

Case Study: British Science Association Huxley Summit

The Huxley Summit is a high profile thought leadership event run by the British Science Association. EY UK sponsored the 2017 Huxley Summit and supported the debate on how organisations can build trust through the way they deal with data and how greater transparency will help fuel more innovation. EY UK carried out qualitative research and quantitative analysis on data ethics and governance. In our efforts to fulfil the EY purpose of Building a Better Working World, we set out to understand whether the issues being highlighted by the academic and science communities are resonating and being reflected in the actions of corporates.

Our research included an independent survey of approximately 200 leading companies, one-to-one interviews with business leaders and an examination of prior EY research on the topic to supplement the survey results. Our findings covered:

- ▶ attitudes to trust
- ▶ the drive for data value and opportunity
- ▶ the role of regulation
- ▶ what can be done to balance fair use, trust and acceptance with commercial gain

In a world that is increasingly driven by data and technology, reputations are harder to protect and societal trust in business is becoming harder to maintain. We hope our research can help the capital markets and wider society work together to address an issue that could potentially damage trust in the market.

In recognition of our contribution to advancing the public debate on trust, EY UK has again been invited to be the keynote speaker at the Huxley Summit 2018 on the topic of Artificial Intelligence.

Measuring the immeasurable

Societal trust in business is arguably at an all-time low and, in a world increasingly driven by data and technology, reputations and brands are harder to protect. In striving to fulfil EY's purpose of Building a Better Working World, we are committed to finding solutions to address issues that potentially damage trust.

Together with the Coalition for Inclusive Capitalism, we are working with more than 30 global companies across the entire investment value chain to redefine how we measure and report on corporate value, encouraging companies to measure and report on long-term value creation.

We are also focusing our attention on cultural assessments and measurement. Over the past year we have made significant strides in further embedding cultural assessments into our suite of non-audit Assurance services. This has enhanced the quality and scope of the oversight we provide to our clients, extending it into areas once considered so intangible as to be immeasurable. Our work in this area reinforces our understanding of the role of people at the heart of business, and consequently the importance of including an objective and evidence-based measurement of culture as part of the Assurance service offering.

Other initiatives include the EY Trust Analytics platform, enabled by Big Data and AI. We are starting to provide clients with a consistent and objective measure of the level of trust they have with external stakeholders. This can be used, for example, as an indicator of corporate performance by helping to forecast potential customer churn or revenue loss.

The future of assurance

EY Badges

In FY18 EY Badges was launched, a programme that helps our people earn digital credentials by developing future-focused skills and gain experiences that can shape their career. We consider this investment vitally important, given the rapidly changing world we work in, and it demonstrates our continued commitment to supporting the development of our people. EY Badges also help our people to differentiate themselves in the market. We are the first professional services organisation to offer digital badges globally.

There are four levels of badge distinction (bronze, silver, gold and platinum), with defined criteria to be met in learning, experiences and contributions to earn each badge.



The badges are classified under the overarching domains of Data Analytics and Leading Technologies and cover areas such as information strategy, data architecture, automation and blockchain. Our people can celebrate their earned badges online, through social media, and on their personal profile or CV to showcase their newly acquired skills.

Case Study: Data Ninjas

The Data Ninjas Programme was developed as a learning and development scheme designed to help colleagues learn more about new technologies and the skills required to manage new ways of working with data.

The scheme provides a common purpose and structure for learning these new skills for a wide group of colleagues. The sense of community it has created has enabled colleagues to learn from each other and showcase their work to an audience who can provide feedback in a safe and constructive environment. This has not only enhanced their own personal development, it has also enabled them to present findings to clients in a more impactful and meaningful way.

Stakeholder engagement

EY UK places a high degree of focus on proactive stakeholder engagement. With topics such as audit quality, competition and choice, and the perception of conflicts of interest at the top of the agenda, it is vital that we at EY UK are able to have an open and frank discussion with stakeholders. We believe this not only helps to increase trust and transparency, but also offers an important opportunity to understand their concerns and reach closer alignment in expectations. In turn this helps us to improve our accountability and decision making, and better fulfil our public interest responsibilities.

Investors

Having a strong relationship with investors is important to EY UK, as investors are the ultimate audit client. This year our stakeholder engagement programme also focused on widening our investor audience to include representatives from across the investment chain. Through our biannual Dialogue with Investors event, the INEs and senior EY leaders hosted a dinner discussion and a breakfast roundtable. In total, EY UK successfully welcomed over 35 investors representing £5.28 trillion in assets under management. The attendees, who ranged from institutional investors to charities, came and spoke to our INEs about the issues that most concern them. The topics discussed included corporate governance, corporate reporting, and the management of conflicts of interest and independence. Our biannual Dialogue with Investors event also helps to equip investors with the information they need to engage with company boards on reporting and auditing matters.

Given that the Audit Firm Governance Code (AFGC) is principally for investors, we at EY UK are constantly looking for innovative ways to build and broaden a stronger relationship with the investor community. In FY18 as a new addition to our stakeholder engagement programme, EY UK also engaged with investors through podcast interviews, where the investors talked about key regulatory and public policy topics that are of keen interest to them. Topics covered included Brexit, modern slavery, financial reporting and gender pay gap reporting.

EY UK also holds a strategic collaboration with the Investor Forum, an investor-led organisation whose members are asset managers or owners, including pension funds, life assurers and sovereign wealth funds.

Case Study: Investor Forum

On 25 April 2018, the Investor Forum convened 40 members of the investment community to discuss the topic of collective engagement. EY UK joined a panel alongside investors to talk about engagement and share insights on the Embankment Project, a project we continue to work on through our partnership with the Coalition for Inclusive Capitalism which seeks to develop a new framework to measure how businesses can deliver value over the long term.



During the discussion investors highlighted that companies could do much more to disclose non-financial information in a way that investors can find what they need, and that focuses on what's important to the end users reading their reports, as it is often the case that sustainability information is published at a different time to financial results. Insights like this demonstrate the value of investor engagement. Companies need to engage with investors, in order to understand firstly what information is important to them and secondly how best they can communicate it. The discussion also highlighted that companies should consider how an evolution in the focus of client mandates and a much broader consideration of value are beginning to impact the nature of investment decisions; it is these considerations that motivate the Embankment Project.

Stakeholder engagement

In addition to engagement with Institutional Investors, EY UK also engages constructively with board members on current trends and issues facing UK business. This year, we have also sought to further develop the platform to which we can facilitate peer to peer engagement.

EY UK Centre for Board Matters (EY UK CBM)

We refreshed the EY Independent Director programme in the second half of FY18 and it has been re-branded as the EY UK Centre for Board Matters (UK CBM). With this re-brand comes a much greater focus on engaging FTSE 350 non-executive directors and audit committee members by delivering timely insights on the current issues and trends UK businesses face. Each quarter we focus on a theme with a range of on-demand content and a series of invitation-only events. The main focus for the programme during the latter half of FY18 was to inform members of the new programme structure and to initiate the webcast and Board Matters podcast series. Members from our Non-Executive Director (NED) community can access this theme-based content on our website - <http://www.ey.com/uk/boardmatters>.

We have also recorded a webcast on General Data Protection Regulation with SAP, an EY alliance partner, which is continuing to inform audiences of the implications now that the regulation is law.

Our annual summer reception took place on 5 June 2018 at Tate Modern, where we hosted 197 delegates. Our annual winter reception was hosted by ITV's Political Editor, Robert Peston, who gave guests a unique insight into the changing political landscape. Following another successful event hosted in October, Are you ready for the robot revolution?, Richard Anning of the ICAEW was inspired to write a blog on the topic, attracting over 2,000 views by October 2018. The UK CBM has an ongoing partnership with Criticaleye, the peer-to-peer board community, and we are looking forward to building on the success of 2017's NED Retreat, which we will be sponsoring again in 2018.

Total number of
NEDs in attendance
at FY18 events:

434

During FY19 we will work to develop the initial success of the UK CBM and engage FTSE 350 NEDs by creating unique and relevant content.

Audit committees

Globally, EY collaborates with the consultancy firm Tapestry Networks to engage with the chairs of audit committees. Members of Tapestry's audit committee network are all senior leaders from more than 300 public companies and a wide variety of public institutions. EY UK will continue to engage with this network to help ensure we stay up to date with the key topics and themes of interest to audit committee chairs.

Case Study: European Audit Committee Leadership Summit

In April 2018, members of the Audit Committee Leadership Network in North America and the European Audit Committee Leadership Network met in London for the 13th annual Audit Committee Leadership Summit, where EY presented. During the summit, members discussed lessons learned from cyber breach responses, digital transformation and strategy, and audit committee effectiveness.

Section 3

Our people



Diversity and inclusiveness

Our approach to talent is a key part of driving our success as a business. We focus on building the highest performing teams and enhancing the experiences of our people at all stages of the employee lifecycle, holding true to our ambition that whenever people join, however long they stay, the exceptional EY experience lasts a lifetime.

In this section we cover several areas of which we are particularly proud that demonstrate the innovative and approach we take. We strive to drive positive change, a diverse and inclusive culture, and industry-leading career development opportunities for our people.

Leveraging the power of difference

We are operating in an increasingly fast-paced and constantly evolving sector where the ongoing success of our business depends on our ability to be flexible and innovative, to provide the very best solutions for our clients. This can only be achieved if we can recognise and harness the most diverse range of ideas, experience and skills.

Being an inclusive employer is a fundamental part of our business strategy, led from the top of the EY organisation.

Through our diversity and inclusiveness (D&I) strategy we foster an environment where different perspectives and experiences are valued and rewarded. We are committed to helping diverse talent thrive, whether through our support for working families or targeted action to level the playing field for ethnic minorities and women.

A differential focus on ethnicity and gender

We are equipping all of our people to lead inclusively through a programme that increases our people's ability to interrupt insider/outsider dynamics, identify default behaviours and set personal strategies to improve their interactions with colleagues and clients and unconscious bias - including the ability to talk fluently about ethnicity and gender diversity.

3,000 of our people have completed this training so far, with the programme equipping participants to create a greater sense of belonging for all of our people.

Government-backed reports such as the Parker Review and the McGregor Smith report provide a call to arms. We believe that UK PLC needs to widen its focus on race and ethnicity to help create more diverse and competitive businesses. To this end we fully support Sir John Parker's call for "beyond one by '21" and Baroness McGregor-Smith's view that "the time for talking is over, now is the time to act".

Our work on ethnicity and gender diversity includes targeted development programmes such as Career Watch, a sponsorship programme for female and ethnic minority managers. Our refreshed Future Leaders programme is targeted at high potential ethnic minority senior managers and their senior allies, who learn together about race in the workplace and the culture required to increase the diversity of our top talent.

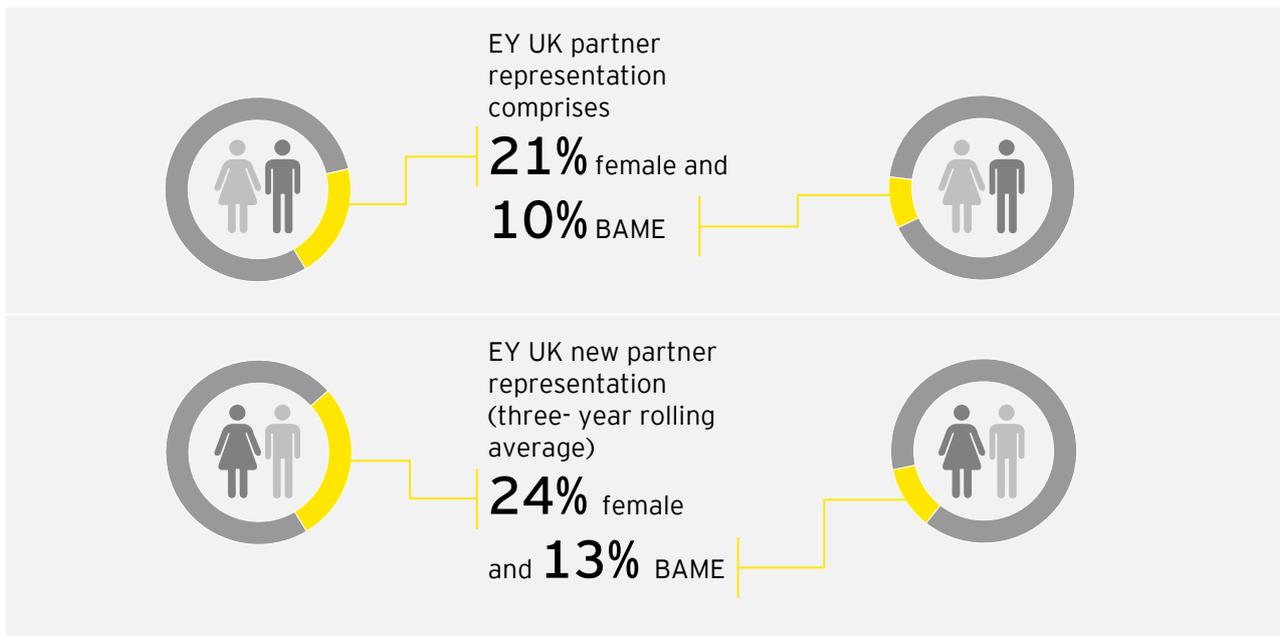
Diversity and inclusiveness

Holding ourselves to account

At EY UK we aim to go beyond what is required and are proud signatories of HM Treasury's Women in Finance Charter. Following our involvement in the Parker Review and Baroness Ruby McGregor-Smith's report on race, we have also become an early signatory of Business In The Community's Race at Work Charter.

We continue to monitor rigorously our performance as an inclusive employer, setting ourselves clear diversity targets across all our people processes. EY UK Chairman Steve Varley and EY UK FSO (Financial Services Office) Managing Partner Omar Ali meet the EY UK senior business leaders regularly to review progress on our D&I targets.

In-line with our commitment to increasing the proportion of ethnic minorities and women in our leadership, EY UK aims to have at least **10%** black, Asian and minority ethnic (BAME) and **30%** female representation in our new partner intake, measured over a rolling three-year period. In FY18, those figures stand at **13%** and **24%** respectively.



A commitment to increased transparency in pay gap reporting

In accordance with UK law, we are required to report each year on our gender pay gap, based on methodology provided by the UK Government. At EY UK we made the decision to go beyond what is expected of us under the reporting requirements. In line with our focus on race and gender, we voluntarily published our ethnicity pay gap. These figures were published in our EY UK 2017 Transparency Report.

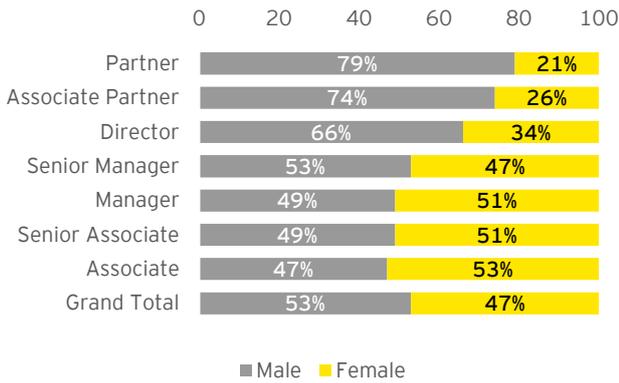
Since that publication, following the spirit of the legislation rather than simply the letter of the law, in March 2018 we became the first of the Big Four firms to voluntarily publish our partner pay gap (for ethnicity and gender).

This year, as our partner pay data is not available at the same time as our employee pay data, we will be publishing both figures collectively in November 2018.

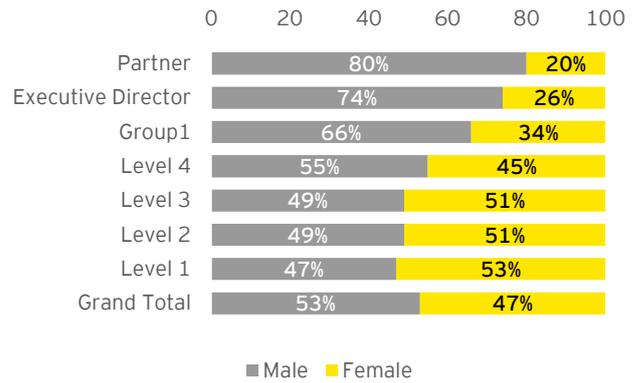
Diversity and inclusiveness

The representation of EY UK population by grade and by ethnicity and gender

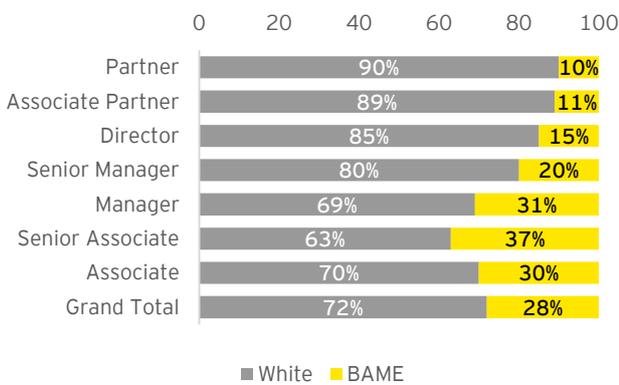
Gender Representation FY18



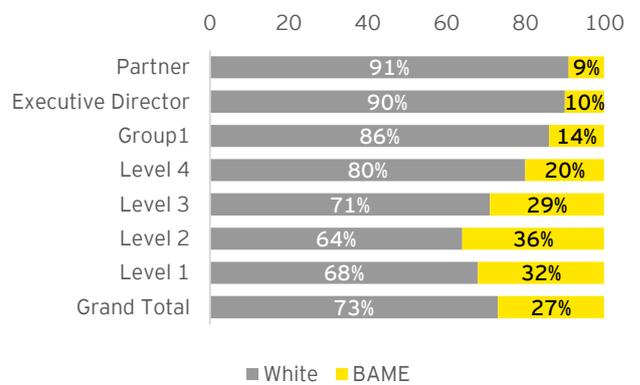
Gender Representation FY17



Ethnicity Representation FY18



Ethnicity Representation FY17



Diversity and inclusiveness

Broadening access to work

In 2015 we removed the academic screening criteria for our student recruitment, which helped increase the diversity of our entry-level programmes.

Apprenticeships

In a desire to create exceptional development experiences and build our workforce of the future, in FY18 EY UK announced the introduction of a master's degree equivalent apprenticeship in Accountancy & Taxation, open to those who have just finished school, graduates or those looking for a change in career. Since then, new apprenticeship programmes have been introduced in Digital Innovation (Software Engineers and Data Analysts), Business Administration, Risk Compliance and Chartered Manager.

These programmes are available across EY UK, creating an attractive alternative to university for talented individuals wanting to join a global organisation and continue to learn and develop new skills.



Of the **583** apprentices joining EY UK in September 2019, **422 (72%)** are aligned to our Assurance service line. **37%** of them are female.

Smart Futures

Through the EY Foundation, an independent charity set up by EY in 2014, we support initiatives to help widen access to work and our profession. The Smart Futures programme gives 16-17 year olds from low income households paid work experience, mentoring and intensive training in core employment skills that would otherwise be out of reach.

This year the 10-month programme has supported over 290 young people from 180+ schools and colleges across the UK, transforming participants' options and ambitions.



78% of **Smart Futures** participants from the top 40% most deprived postcodes

Smart Futures works with a range of employers, including 36 businesses across the legal, government, banking, retail and construction sectors. Evaluation shows a 70% increase in students like Prabjhot <https://www.youtube.com/watch?v=hfPASKD7hT0> who now feel more confident about finding a job, with 53% reporting three or more encounters with employers or employees, and 99% achieving a Level 2 Chartered Management Institute qualification to strengthen their employability prospects.

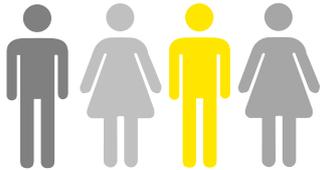
Support to those returning to work

Another way we widen access to work and, specifically, our profession, is by supporting those returning to work after career breaks of between two and 10 years. EY Reconnect is a 12-week programme offering a structured route back into the workplace, covering induction, coaching and mentoring.

Diversity and inclusiveness

Mental health @ EY

Mental health problems are becoming more widespread in our society, yet they often remain hidden. People from all walks of life are affected, and the causes and consequences can be complex.



1 in 4 adults will experience a mental health condition during their lifetime; **1 in 6 people** experience a mental health problem at work.

At EY UK we are focusing on raising awareness and improving understanding and support for those with mental health issues:

- ▶ Our employee-led Mental Health Network organises a buddy scheme, described as 'transformational and vital', that enables peer learning and support.
- ▶ Our psychological care pathway provides clear guidance on available support and how to access it, including occupational health, health insurance, an employee assistance programme and workplace adjustments.
- ▶ A fast-track psychiatric referral process allows people experiencing acute symptoms to be referred directly to a therapist paid by our insurer.



Mental Health First Aid **course**
completed by 600+ current
partners and employees

Case Study: Thrive

Our health knowledge programme, Thrive, features a rolling quarterly theme that has focused on Empowerment in FY18. We joined forces with Mental Health First Aid England to deliver a webinar discussing how to manage anxiety in the workplace, recognising symptoms in themselves and others, and focusing on what individuals can control rather than worrying about what they cannot control.

Over **1,300** people attended our webinars during the focus on anxiety.

Building fulfilling careers

One of the key observations from our 2017 EY Cultural Assessment was that many of our people are looking for greater fulfilment from their careers. Over the past year we have worked to meet that expectation through a variety of actions, including audit innovation, where we have made a significant effort around launching bots and increasing automation, as discussed earlier. We are also making better use of offshore Global Delivery Services and the EY Audit Centre of Excellence in Belfast. These steps were aimed at freeing up time for our people to spend on more fulfilling work.

Through our assurance transformation activities we have also introduced numerous other initiatives to increase the level of engagement and fulfilment our people experience and help respond to a concern that a culture of long hours may pose a risk to sustainable audit quality.

Increasing engagement around transformation

We want our people to share in our excitement around our transformation activities, so it is important that they feel they have the permission to be innovative and work in new ways. It is equally important that our people feel ownership of the transformation changes in their local offices.

In autumn 2017, the Assurance leadership team visited each of our regional offices for a series of 'Town Hall' meetings, where they engaged with all of our people on different aspects of assurance transformation, and what they should expect over the coming months. We have distilled the feedback gathered during these meetings and other forums into themes to help us focus on what matters to our people.

People sprints

We held workshops on improving work/life balance, productivity and recognition, while also trialling new ideas to test over a short 'sprint' period.

Data was gathered around the success of these sprints, which enabled local offices to decide whether to continue or refine their ideas before sprinting again. By doing this, teams were able to introduce changes into the business quickly and in a controlled way, refining them to arrive at a fit-for-purpose finished product more quickly than by using traditional methods.

Our people have really enjoyed this new agile way of working. When empowered to do so, they have demonstrated their creativity and desire to embrace new working patterns and new and innovative ways to recognise success.

Case Study: People sprint in Bristol

In our Bristol office we undertook an experiment on working patterns to try and improve people's work/life balance by working in a more dynamic way. This experiment introduced the concept of 'core hours' where, for a two-week period, all audit teams committed to being together between the core hours of 10:00 to 15:00. Outside these hours it was up to each individual to decide how they used their time to achieve what they needed to in that week. This was not a change to their contractual hours, but introduced more flexibility around when those hours were worked, allowing people to avoid travelling at peak periods of the day and to manage their working day around their personal commitments.

The results of our experiment showed a marked improvement in people's views on their own work/life balance, as well as a significant increase in the quality and frequency of coaching people received because coaching took place when the team was together.

The results were most pronounced in the more junior population, who felt empowered to try new patterns of working. The experiment worked best when there were clear expectations set of what each individual was going to deliver in the time period, they were held accountable to these, and there were regular and clear communications between the team members throughout.

Building fulfilling careers

LEAD: a transformational approach to career, development and performance

As we transform our business, one of our top priorities is an increased focus on our people and advancing their careers. The May 2018 Global People Pulse results for the UK show a marked improvement in our people receiving timely feedback and having more meaningful career conversations:

Item	% Favourable FY18	Change from FY17
I have meaningful conversations with my counsellor regarding my career development	74%	+5
My manager(s) provides me with timely feedback	74%	+13

A significant contributor to this result was the introduction of LEAD (Leadership Evaluation and Development). LEAD was launched globally in September 2017, and replaced the Performance Management and Development Process, which was a more traditional appraisal system based on ratings and a forced distribution curve.

LEAD focuses on the need to change the conversation with our people from looking backwards at performance twice a year to looking ahead with more frequent conversations. The aim is not just to talk to our people about their performance, but also to help them understand where they want to go and how they can grow in that direction.

Critical to LEAD are quarterly feedback cycles with a focus on obtaining ongoing feedback and discussing activities for the coming quarter with a counsellor. Connect Groups, where counsellors meet to discuss how they can support their counselees, were introduced and facilitated by Connect Group Leaders - senior people leaders in the business.

Our vision for LEAD is to:

- ▶ Empower people to contribute more directly to the development and recognition of their colleagues
- ▶ Build leadership skills through frequent coaching and feedback
- ▶ Support counsellors and counselees having more balanced and better conversations on career, development and performance

Reward

The objective of our Remuneration Committee is for all our people to be rewarded fairly and competitively. Pay bands are reviewed annually and pay increases usually have two components: base pay increase and variable pay that depends on the firm's performance. Over the last 12 months RemCo has been leading a review of the variable pay element of our total reward package to ensure that the scheme is better understood and aligns with LEAD. Feedback from our people, gathered through our Global People Survey, Cultural Survey and numerous working groups involving participants from all ranks, service lines, markets and geographic locations, has driven the key components of the variable pay refresh.

The refreshed variable pay proposition seeks to provide more transparency over the offerings, how they pay out and how an individual can seek to access the variable pay pots in each part of our business each year. The refreshed variable pay element of our total reward package was deployed in FY18 in some parts of our business and will subsequently be adopted firm wide in FY19.

Building fulfilling careers

Flexible working

Flexible working at EY UK means working more effectively through greater choice in how, when and where our people work. We support both informal (day-to-day) and formal (long-term) flexible working, subject to meeting the needs of our clients, our work and our teams. Our approach centres around six key behaviours, with flexible working integrated into our culture and investment in technology that enables easy collaboration no matter where people happen to be.

Our six key behaviours are:

1. Focus on outputs
2. Set boundaries
3. Communicate effectively
4. Embrace diversity
5. Work intelligently
6. Trust your team

GigNow

We also support a more flexible approach to working for EY with GigNow - an advanced technology platform that connects people seeking short-term contracting engagements or greater flexibility with relevant opportunities at EY UK.

The GigNow technology platform is built using agile methodologies that allow flexibility and frequent updates to meet EY member firms' needs now and in the future. With GigNow, EY is hoping to scale its member firms' talent base more quickly and easily in response to capacity and skills needed and plan for the evolution of our workforce. The platform will also help to drive innovation through diverse teams, as it will allow women (who are particularly likely to take time off for family reasons) to benefit from the flexible gig working models.

The platform also provides a single location for EY alumni to find new contractor opportunities for themselves and to refer high-quality contractor talent.



We on-boarded **71 contractors** in FY18 within EY UK Assurance.

You can find out more on the GigNow site <https://www.gignow.com/>

EY@Work

EY@Work is the evolution of our workplace that promotes a trust-based flexible environment providing efficient workspaces and technology that enables individuals to work fluidly in and out the office. This includes the creation of calm rooms for meetings or individual time, walking treadmills and 'well-points' that provide health statistics.

Section 4

Results



Business performance

EY UK continues to invest in audit quality, technology and its regional business.

This year EY UK grew its business with more than 14,500 people across 23 offices in the UK, and a network of 150 countries and 260,000 people around the world. This investment helped EY UK to serve 23,000 UK clients, both large and small, supporting economic growth across the country and *Building a Better Working World*.

Business performance

EY UK achieved UK fee income growth of 2.7% in the financial year ending 30 June 2018, growing from £2.35b to £2.41b with a five year compound annual growth rate of 7%. Tax grew by 7.3%, Advisory grew by 3.8% and Transaction Advisory Services was up by 1.5%. Assurance growth fell slightly by -1.7% whilst Audit grew by 4%. Financial Services, the UK's largest sector, grew by more than 7% this year.

2018 financial highlights

- UK fee income growth of 2.7% in the financial year ending 30 June 2018 from £2.35bn to £2.41bn
- Five year compound annual growth rate of 7%
- Distributable profits before tax increased by 1.7% from £464m in 2017 to £472m in 2018
- Total tax contribution for 2018 is more than £900m
- Average distributable profit per Partner increased by 2.4% to £693,000, compared to £677,000 in 2017
- Tax grew by 7.3% to £680m
- Advisory grew by 3.8% to £653m
- Transaction Advisory Services grew by 1.5% to £402m
- Assurance growth fell slightly by -1.7% to £677m, audit grew by 4% to £458m.
- Financial Services grew more than 7%, buoyed by strong performances in Advisory, Transaction Advisory Services, and more than 15% growth in Capital Markets and Life & Pensions.
- Globally, EY reported annual revenues of US\$34.8bn for its financial year ending 30 June 2018. This represents a 7.4% increase in revenues in local currency and 11% in US dollars (versus 2017)

2018 non-financial highlights

- 71 new equity Partners
- 43% of recruits this year were female and 30% BME
- Of the 4,500 people promoted 45% were women and 25% BME
- 585 people qualified with EY in 2018 (ICAS and ICAEW)
- 1,247 students, incl. 268 apprenticeships joined EY - 41% female and 36% BME
- EY was the first to publish UK pay gap figures incorporating its UK partners and we went over and above the current regulations by publishing our ethnicity pay gap;
 - Gender pay gap figures for employees in October 2017: median 14.8% and mean 19.7%
 - Gender pay gap figures for all employees and Partners in March 2018: median 19.5% and mean 38.1%
 - Gender pay gap among the UK partnership in March 2018: median 10.0% and mean 14.6%
 - Ethnicity pay gap figures for all employees and Partners in March 2018: median 15.1% and mean 38.1%, based on regular earnings.
 - Ethnicity pay gap among the UK partnership in March 2018: median 19.8% and mean 14.6%

For further information relating to our EY UK Business Performance, please contact Vicky Conybeer, EY Media Relations, on 07870 635 196 or Loree Gourley in the Regulatory & Public Policy Team, on 07717 388 926.

Financial information

Revenue represents combined, not consolidated, revenues and includes expenses billed to clients and revenues related to billings to other EY Global (EYG) member firms. Revenue amounts disclosed in this report include revenues from both audit and non-audit clients.

Revenue is presented in accordance with Article 13, The Transparency Report, Statutory Audit Regulation (Regulation (EU) No 537/2014) and includes:

1. Revenues from the statutory audit of annual and consolidated financial statements of Public Interest Entities (PIEs)
2. Revenues from the statutory audit of annual and consolidated financial statements for entities belonging to a group of undertakings whose parent undertaking is a PIE
3. Revenues from the statutory audit of annual and consolidated financial statements of other entities
4. Revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm
5. Revenues from non-audit services to other entities

Service	FY18		FY17	
	Revenue	Percent	Revenue	Percent
Statutory audits and directly related services for PIEs	111	5%	102	4%
Statutory audits and directly related services for entities whose parent is a PIE	58	2%	51	2%
Other audit services and directly related services for non-PIEs	289	12%	289	13%
Total audit revenues	458	19%	442	19%
Non-audit services provided to audit clients	255	11%	229	10%
Total revenues from audit clients	713	30%	671	29%
Non-audit services provided to other entities	1,699	70%	1,677	71%
Total revenue	2,412	100%	2,348	100%
UK Audit Profit	60		56	

The Local Audit Transparency Instrument requires disclosure of the turnover in the financial period of the local auditor in relation to performing local audit work as defined by the instrument. For EY UK LLP, this revenue totals £22m (PY: £16m).

Section 5

Risks



Managing risk

In today's environment – characterised by continuing globalisation and the rapid movement of capital – the quality of our audit services has never been more important.

EY UK's reputation for providing high-quality professional audit services independently, objectively and ethically is fundamental to our success as independent auditors. We therefore continue to invest heavily not only in developing and maintaining our audit methodology, tools and other resources needed to support quality service delivery, but also in initiatives that promote enhanced objectivity, independence and professional scepticism. These are fundamental attributes of a high-quality audit.

The Audit Firm Governance Code (AFGC) issued by the Financial Reporting Council (FRC) and developed jointly with the Institute of Chartered Accountants in England and Wales, requires the firm to conduct, at least annually, a review of the effectiveness of its system of internal control. Following the issue of a revised 2016 code by the FRC, which is applicable to us from July 2017 (i.e., for FY18), we have continued to review the governance processes over our system of internal control for compliance with the 2016 code, so that it continues to be both effective and robust.

The Board of EY UK (the Board) has overall responsibility for risk management and internal control over the entire business of EY UK. In discharging this responsibility, the Board periodically, and at least annually, conducts a review of the effectiveness of the firm's system of internal control.

Partners are responsible for implementing and maintaining the necessary control systems. In maintaining a sound system of internal control and risk management and in reviewing its effectiveness, we have used the framework set out in the FRC's 2014 Guidance on Risk Management, Internal Controls and Related Financial and Business Reporting. This internal control system is designed to manage, rather than eliminate, the risk of failure to achieve the objectives of the firm, and can only provide reasonable and not absolute assurance against material misstatement or loss.

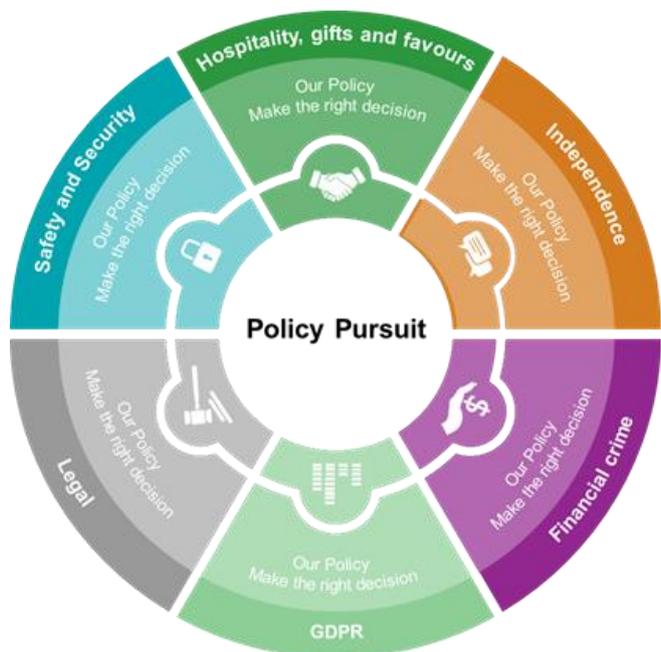
Case Study: Policy Pursuit game

This interactive risk management game supplemented formal training guidance. It was designed to help our people better understand our risk management policies and to make the right decisions to protect the firm and our clients.

The game had six different wedges – each one represented a different risk management topic: hospitality, gifts and favours; independence; financial crime; the General Data Protection Regulation (GDPR); legal; and safety and security. Wedges were released every two months with a lot of publicity (including an email from the Risk Management Managing Partner) and were supplemented by three different posters and plasma screen adverts.

Policy Pursuit provided an explanation and link to the policy, an interactive activity to learn the key points and a short multiple choice quiz. There were prizes, which encouraged participation.

We achieved a high level of engagement in the business, with 48,256 hits to Policy Pursuit over the year. Policy Pursuit proved to be a fun and engaging way to reinforce our risk management policies.



Managing risk

Risk Oversight Committee (ROC)

Our UK ROC is now well established and has been in place for two years, with a primary mandate to support the Board in its assessment and management of risk. The ROC meets regularly with a standing agenda covering both risk and assurance activity. This year the committee has focused on evolving the rigour with which the firm's principal risks are identified, assessed, managed and monitored at a service line and functional level. As in every year, the ROC has continued to drive ongoing enhancements to our internal control governance processes to deliver continuous improvement.

Highlights of the committee's activity this year include:

- ▶ Facilitating a series of workshops to understand and calibrate maturity of service line and function risk management activities
- ▶ Appointing a partner from our Financial Services Advisory practice to lead the development of a more advanced Risk Management Framework through the establishment of a central Risk Function and consistent embedding activities
- ▶ Agreeing the internal audit plan and considering as appropriate the terms of reference and reporting of specific audits
- ▶ Hearing presentations from selected service line and functional leaders on their own risks and risk management activities
- ▶ Revisiting the assessment of the impact of selected principal risks on the viability of the EY UK business model, future performance, solvency and liquidity

Independence

EY UK invested heavily in the ongoing enhancement of understanding and compliance with ethical and regulatory matters, engaging closely with the regulators and Independent Non-Executives (INEs). The firm's Independence and Ethics Partner is also a member of the FRC's Technical Advisory Group, developing a close understanding of the position of our regulators and helping develop interpretations of the regulatory restrictions and guidance for the profession.



During the reporting year, over **14,000** staff undertook mandatory computer-based training courses on independence, anti-money laundering, health and safety, anti-bribery and data privacy – a commitment of over **50,000** hours.

Managing risk

Managing potential and actual conflicts of interest

The size of EY UK and the range of services it provides means that the firm may on occasion be acting for two different parties in such a way that conflicts constitute a potential threat to EY's objectivity, integrity, confidentiality or reputation in providing services to clients. The significance of the threat will vary widely depending on the circumstances. The conflicts check process is integral to our client and engagement acceptance procedures and fundamental to managing risk and complying with our ethical obligations.

Conflicts can arise in client engagements, as well as any situation in which we enter into business relationships, including procurement, acquisitions and alliances. Professional standards require us to take reasonable steps to identify circumstances that could pose a conflict, and apply appropriate safeguards to eliminate threats or reduce them to an acceptable level.

The Objective, Reasonable and Informed Third Party (ORITP) test

The revised FRC Ethical Standard introduced the concept of an ORITP. We seek to consider all ethical and conflict issues through the eyes of an ORITP.

Ever greater prominence is being given to the ORITP test, which examines relationships and perceived conflicts, even though the subject matter itself may not present a traditional conflict. We also consider the AFGC, which states that 'a firm should comply with professional standards and applicable legal and regulatory requirements. Operations should be conducted in a way that promotes audit quality and the reputation of the firm. The INEs should be involved in the oversight of operations.'

Global policy on conflicts

As a member of Ernst & Young Global Ltd. (EYG) we apply EYG's global policy on conflicts. The policy, formulated on the principles of international and local professional rules on ethics, forms the framework for the client and engagement acceptance and continuance process as far as it relates to conflicts of interests.

The global EY approach to conflicts identification and management reflects both the importance of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics, the requirements of the FRC's Ethical Standard and nature of EY and EY clients. The Global Conflicts Leader is a global partner with extensive experience in transactions advisory services and is supported by the Global Conflicts Executive.

There are EY centres of excellence with teams of experienced individuals around the world. EY UK remains actively involved in developing the global policy and Guidebook and in ensuring the quality of conflicts identification and management.

Any significant conflicts involving EY UK clients will be escalated to the EY UK Ethics Partner and the EY UK Head of Risk Management, who will involve relevant service line leaders and service line quality leaders. These individuals sit on, or have direct access to, the Board and the INEs.

Engagement acceptance and considering conflict issues

Before a new engagement code can be opened, client engagement teams are required to complete engagement acceptance procedures, which include a conflict check, when required, to identify any circumstances or known facts that might create a conflict of interest.

There are certain services and situations where conflict checks are always required. Client engagement teams are required to remain alert to potential conflicts of interest that might arise during the engagement and to carry out secondary conflict checks, where necessary.

When an actual or potential conflict of interest is identified, engagement teams are instructed to apply safeguards to eliminate the threat or reduce it to an acceptable level or to withdraw from the engagement.

If the required safeguards cannot be established, the engagement team is directed to cease the activity that is causing the conflict. There are certain engagements that could result in an unmanageable conflict of interest with an audit client counterparty and would therefore be declined by the firm.

Managing risk

Conflicts Panel (CP)

In order to reflect the heightened public interest in perceived or actual conflict situations, EY UK has created a CP to act as the conscience for the firm and provide informed views on conflicts-related matters facing the firm through the lens of the ORITP.

The CP enhances and complements the existing process for addressing conflicts matters and also addresses high-profile matters that affect the reputation of EY UK, including:

- ▶ Making decisions on the firm's response to conflict or perceived conflict situations
- ▶ Forming views on significant conflict matters
- ▶ Providing guidance around the firm's conflicts policies and procedures
- ▶ Engaging with other member firms and EYG to ensure that conflicts are managed in a way acceptable to UK standards

Other policy updates

EY member firms are committed to complying with all laws and regulations. EY risk management policies are regularly reviewed and updated. In FY18:

- ▶ EY established a privacy compliance structure based on its Binding Corporate Rules (BCRs) and Global Data Privacy Policy (GDPP), which apply to all member firms. These core global policies were strengthened for the General Data Protection Regulation (GDPR) and in addition, a UK Data Protection Code of Conduct has been updated. A mandatory training webcast was issued along with other training and communications. Finally, a set of GDPR-compliant BCRs for processors was approved by the Information Commissioner in May 2018.
- ▶ EY UK refreshed our financial crime and anti-money laundering policy and procedures in response to the Money Laundering Regulations 2017 and the Criminal Finances Act 2017. Our client acceptance procedures and documentation have been strengthened and we launched a mandatory training webcast along with other guidance and training videos.

Ethics and whistleblowing

The EY Global Code of Conduct provides an ethical framework on which EY member firms and EY people base their decisions and actions. All EY UK joiners watch a video on living the Code of Conduct in practice and confirm that they will comply with the code. Additionally, all EY people confirm annually that they have been, and will continue to be, in compliance with the code. An Ethics Hotline is available for any EY person to report conduct that they consider is not in accordance with the code.

In FY18, EY launched a new global policy, reporting non-compliance with laws, regulations and EY's Code of Conduct (NOCLAR). The policy responds to a new standard issued by IESBA that sets out a framework to guide actions of professional accountants in deciding how best to act in the public interest when they become aware of actual or suspected non-compliance with laws and regulations. The new policy also reinforces the general principles of our Global Code of Conduct by rejecting unethical or illegal business practices, supporting compliance with laws, regulations and standards, and upholding our commitment to ethical behaviour and quality. NOCLAR clarifies our people's responsibility to speak up.

At EY UK, we have measures in place for people to make a whistleblowing report in confidence and anonymously. In FY18, the UK whistleblowing guidance was updated to include:

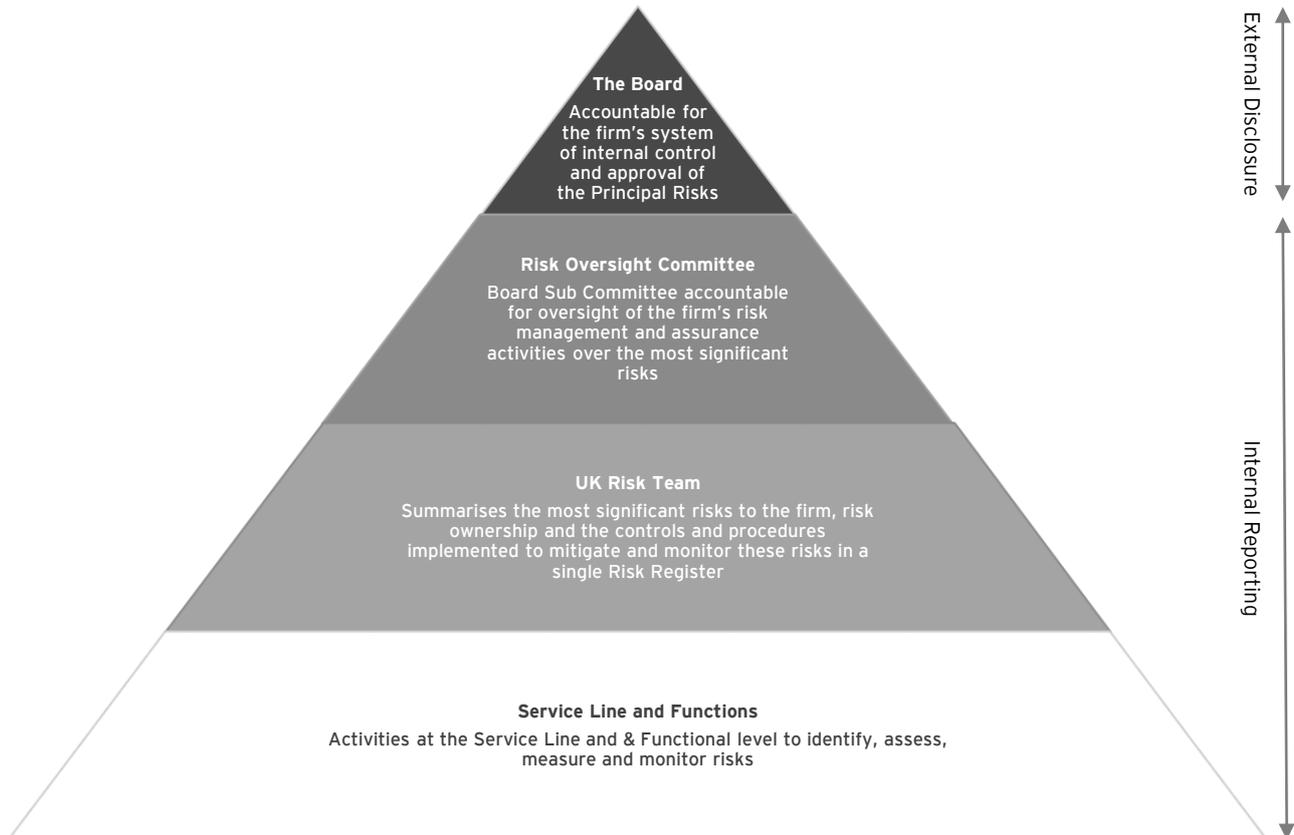
- ▶ Guidance on what constitutes a whistleblowing complaint
- ▶ Information on how to handle a whistleblowing report if one is made to a partner or member of staff rather than via the hotline
- ▶ EY procedures on responding to whistleblowing reports

Each year, a communication is issued to remind all partners and staff that they have a personal responsibility to report all instances of non-compliant and unethical behaviour, without fear of reprisal.

Enterprise risks

The environment we operate in presents a number of risks and uncertainties. Effective risk management is critical to the delivery of our purpose and ambition. EY UK operates a robust risk management process to identify, assess, measure and monitor the risks it faces.

Our approach to Risk Management



The Board has overall accountability for our system of internal control and for agreeing the principal risks we face as an organisation. To support Board members in their activities, the ROC meets on a monthly basis to review the Risk Register, consider UK-wide risk and assurance activities and hear from service lines and functions as to their own risk management activities. Periodic deep dives on specific principal risks are conducted throughout the year with presentations to the Board and the Independent Oversight Committee where appropriate. The ROC also considers emerging risks as part of its normal activities.

The Risk Register is formally reviewed on an annual basis with risk owners required to certify that the register is a complete record of the most significant risks under their control, that their evaluation is reasonable and that controls are operating as designed.

As a globally integrated organisation, some of our principal risks are managed by functions outside of the UK. Where this is the case we periodically seek to understand the design and operation of these controls to assure ourselves of their effectiveness.

For those risks under our direct management, an annual internal audit programme is delivered by professionals from within the firm's Advisory service line. This programme covers all 'critical' risks at least annually, with the objective of assuring all other principal risks over a three-year period. In FY18 the internal audit programme included reviews of major programme delivery milestones, gender pay gap reporting and service quality procedures.

In FY18 the internal audit programme included reviews of major programme delivery milestones:

- ▶ Gender pay gap reporting
- ▶ Service quality procedures
- ▶ Reviews of major programme delivery milestones

Enterprise risks

The ROC approves the annual internal audit plan, confirms the terms of reference for each internal audit report and reviews the final reports including appropriateness of management actions.

In FY18, we carried out a robust assessment of the principal risks facing the firm, including those that would threaten the firm's business model, future performance, solvency or liquidity. This included consideration of the sustainability of the audit practice within the UK.

How our principal risks impact our ambition

It is important we keep in mind our purpose and ambition when identifying our principal risks. This helps us not only to ensure we are not only monitoring the right risks, but are also able to identify emerging risks as they occur.

Our purpose	Building a Better Working World	
Our ambition	Best brand	Most favoured employer
	Best in audit quality	#1 or #2 in our chosen markets
	Positive and strong stakeholder relationships	Leading growth with competitive earnings to attract the right talent
Principal risks impacting our ambition	Service / audit quality Regulatory and public policy Data breach Independence Cyber risk Business conduct Major programme failure	Disruptive competition and technology Macroeconomic and political Service Scope and innovation Talent management Contagion

It also helps us continually to refine the risk descriptions to ensure that controls and procedures to manage and monitor risks continue to be adequate. In line with the fast-paced business environment we operate in, we have considered our principal risks and made some changes, as set out below:

Changes to risk descriptions	
FY18 risk description	FY17 risk description
Regulatory and public policy	Regulatory change
Data breach	Data breach
Disruptive competition and technology	Disruption
Audit quality/service quality	Service failure resulting from quality, compliance or other service issues
Macroeconomic and political risk	Brexit
Service scope and innovation	Market deterioration and pressure for lower pricing
Independence	–
Contagion	–
Talent management	Failure to attract, retain and manage talent
Cyber risk	Cyber risk
Major programme failure	Major programme failure
Business conduct	–

Enterprise risks - descriptions

We believe this list provides a comprehensive summary of the most significant risks we face. A more detailed explanation of these risks is shown below.

FY18 Risk	Description	Activities to manage and monitor risks
Audit quality	<p>Delivery of poor quality audits leads to:</p> <ul style="list-style-type: none"> ▶ Restriction on audit practice due to regulatory intervention ▶ Material fines and sanctions ▶ Loss of market share due to loss of audit committee and investor confidence 	<p>Comprehensive and well-established internal quality and compliance procedures and support teams to address the risks of audit quality failure, including:</p> <ul style="list-style-type: none"> ▶ Staff and partner recruitment, development and assignment procedures ▶ Client and engagement acceptance and continuance ▶ Global audit methodology and risk management policies accessed through an online portal ▶ Quality review procedures over service delivery. Root cause analysis (RCA) of deficiencies identified and lessons learned implemented ▶ Fraud awareness training and requirements on responding to identified fraud ▶ Regular monitoring of client circumstances to respond to increased audit risk where relevant ▶ Hot reviews over selected files prior to audit opinion ▶ Access to specialist staff within the wider firm ▶ Ethics hotline available to staff ▶ Sustainable Audit Quality programme
Regulatory and public policy	<p>The current regulatory and public policy landscape can result in regulatory requirements and other policy maker actions increasing or changing frequently as well as becoming conflicting or difficult to interpret and apply.</p> <p>This may lead to the risk that challenges and opportunities in respect of areas such as professional standards, legal requirement and public policy advocacy are not understood and therefore not properly addressed.</p>	<p>The EY UK Regulatory & Public Policy team is responsible for monitoring regulatory and policy developments impacting the UK firm. This insight, combined with feedback from our regulators, INEs, EY Global Public Policy Committee and the UK Professional Practice team, is used in the continual update of service line methodologies, processes and training programmes.</p>

Enterprise risks - descriptions

FY18 Risk	Description	Activities to manage and monitor risks
Data breach	<p>Data protection and information security controls are breached resulting in compromised client or EY proprietary data and information:</p> <ul style="list-style-type: none"> ▶ Inadvertent disclosure ▶ Client and regulator expectations ▶ Non-compliance with data protection or privacy laws, regulations and contractual terms 	<p>Comprehensive and well-established internal quality management procedures consistent with industry standards, best practice and legal requirements to address the risks of data breach, including:</p> <ul style="list-style-type: none"> ▶ Information governance policies and supporting guidance ▶ Regular training and reminders for staff on the importance of data protection, including what to do in the event of data loss and an annual declaration that they have read and understood requirements ▶ Enhanced procedures in recruitment, induction and leaver processes ▶ IT Asset Encryption ▶ Periodic testing of controls and levels of staff awareness ▶ Continued investment in cybersecurity controls ▶ Newly proposed sanctions for negligent data loss
Disruptive competition and technology	<p>Disruptive competition, including emerging market players or non-traditional competitors, service automation, revenue models and fee structures, impacts our ability to achieve our strategic objectives:</p> <ul style="list-style-type: none"> ▶ Automation of audit or tax processes ▶ Technology disintermediating established businesses or operating models ▶ Pace and nature of technology innovation ▶ Availability of investment capital ▶ New business models 	<p>Activities for managing this strategic risk are predominantly embedded in service lines and functional activity and include:</p> <ul style="list-style-type: none"> ▶ Continued strengthening of and investment in our UK digital strategy ▶ Investment in assets, technology and alliances to provide the insights, skills and platforms needed to respond to disruptive trends ▶ Ongoing development of service line teams to consider and react to market trends in respect of service offerings and ways of working, including the creation of a cross service line Chief Information Officer (CIO) network
Cyber risk	<p>Breach of cybersecurity controls resulting in compromised client or EY proprietary data and information or sustained loss of key operational systems:</p> <ul style="list-style-type: none"> ▶ Cyber attacks ▶ Improper use of technology solutions in service delivery ▶ Malicious individuals ▶ Client and regulator expectations 	<ul style="list-style-type: none"> ▶ Global active cyber defence programme ▶ Ongoing investment in leading cybersecurity software and processes ▶ Dedicated team of internal and external cybersecurity experts who actively hunt, monitor and defend our systems ▶ Regular training and reminders to staff to remain vigilant for potential cyber attacks

Enterprise risks - descriptions

FY18 Risk	Description	Activities to manage and monitor risks
Service quality	<p>Failure to maintain acceptable levels of service quality, including delivery against client expectations, professional standards and regulatory requirements resulting in regulatory intervention (for regulated work) and / or sanctions due to quality and other disciplinary matters.</p>	<p>Comprehensive and well-established internal quality and compliance procedures to address the risks of service failure, including:</p> <ul style="list-style-type: none"> ▶ Staff recruitment and development procedures ▶ Client and engagement acceptance and continuance ▶ Service line-specific policies designed to assist client teams in understanding and managing the risk of poor quality or non-compliant service delivery (e.g. breach of independence) ▶ Quality review procedures over service delivery and continued enhancement of delivery tools ▶ Fraud training programmes ▶ Controls to monitor margin ▶ Ongoing monitoring of client circumstances to manage the risk of unexpected client failure ▶ Annual certification by staff on independence rules (quarterly for partners) ▶ Easy-to-access portals containing the information staff need to conduct their work to the required standards
Information technology	<p>Poor management of information technology resources, considering IT strategy, demand management, asset portfolio, program portfolio, service operations and execution of IT programmes, leading to an inability to deliver effectively on strategic objectives:</p> <ul style="list-style-type: none"> ▶ Execution of IT reorganisation ▶ Programme accountability and governance ▶ Large platform and system change execution ▶ Interdependencies among major programmes ▶ Development lifecycle methodology for IT programmes ▶ Ability to operate changes on an ongoing basis 	<p>Well-established policies and procedures with regard to IT governance and service delivery including:</p> <ul style="list-style-type: none"> ▶ Global IT governance structure in place ▶ Close partnering relationships between IT providers and business ▶ Annual budget and prioritisation set with cross-functional and service line leadership input ▶ Network and application performance targets of 99%+ uptime with monitoring and resolution activities in place ▶ Enhancements made to global business continuity programmes

Enterprise risks - descriptions

FY18 Risk	Description	Activities to manage and monitor risks
Service scope and innovation	<p>Unacceptable or prohibited service scope and innovation, including service enhancement or modification, scope expansion, client and market demand and trends, or strategy portfolio optimisation:</p> <ul style="list-style-type: none"> ▶ Emerging client needs ▶ Innovation and development of new services or business models ▶ Sector/geographic alignment of solutions ▶ Service approval processes ▶ Service methodology and standards ▶ Service development cost, quality, and competencies 	<ul style="list-style-type: none"> ▶ Service scope is defined and managed through a global tool, Service Offering reference Tool (SORT), which provides information and guidance about all global core and local services ▶ Global approval process for new services, set out in the Scope of Services Global Policy along with an arbitration process. This ensures that the same service is not approved and published in SORT for more than one service line ▶ Service lines have developed their own innovation networks and innovation management tools, with knowledge shared through the service line CIO community ▶ Service line and Functional Governance Committees established to review new business models, services and ways of working
Talent management	<p>Failure to manage our talent pool adequately, including talent planning, recruitment, retention, performance management, development and training:</p> <ul style="list-style-type: none"> ▶ Engagement level of people in support of strategy ▶ Recruitment of talent with necessary skills ▶ Senior staff skills development for new offerings and pipeline growth ▶ Infrastructure required to meet service line and market needs ▶ Retention of high-performing talent ▶ Alumni relations 	<p>Processes and procedures are in operation at a firm and service line level to manage the recruitment, retention and management of staff. These include:</p> <ul style="list-style-type: none"> ▶ Strengthened induction and post-induction programmes at staff and partner level ▶ Regular leadership communications covering strategy and performance ▶ Multi-year talent programmes, including diversity and inclusiveness initiatives ▶ Simplified annual performance management processes ▶ Annual benchmarking of total reward by grade, location and competency groups ▶ Annual employee survey with formulation of action plans <p>In FY18 investment has been made into a simplified feedback system which has in turn delivered an improved quarterly performance process. The same platform is now being used to deliver enhanced learning and development opportunities for staff.</p>
Contagion	<p>Financial (or reputational) contagion spreading to EY UK as a result of service failure, compliance breach or regulatory change either within EY UK or from other EY member firms.</p>	<p>Ongoing monitoring and engagement between the firm's legal and Professional Practice Directorate teams to understand the implications of activities in other EY member firms and their regulatory environments.</p>

Enterprise risks - descriptions

FY18 Risk	Description	Activities to manage and monitor risks
Business conduct	Failure to comply with our code of conduct, leading to negative reputational impact, financial penalties, or regulatory sanctions	<p>Well established procedures include:</p> <ul style="list-style-type: none"> ▶ Strengthened induction and post-induction programmes at staff and partner level to reinforce expectations and requirements ▶ Formal Code of Conduct which staff are required to certify their understanding of annually ▶ Code of Conduct Committee made up of senior partners to consider potential breaches ▶ Mandatory systems and processes for client and engagement acceptance and continuance as well as evaluation of business relationships to enforce compliance ▶ Regular reminders at a firm and service line level of the Code of Conduct and its requirements
Independence	Inability to maintain independence resulting in severe financial penalties, reputational damage, regulatory sanction, and/or loss of audits	<p>Processes and procedures are in operation at a firm and service line level to manage the risk of an independence breach. These include:</p> <ul style="list-style-type: none"> ▶ Independence policy ▶ Independence training ▶ Annual independence declaration ▶ Audit client and engagement acceptance checks ▶ Engagement acceptance of non-audit services ▶ Business relationships policy ▶ Business relationships evaluation tool ▶ Directorship evaluation tool ▶ Global conflicts policies and procedures ▶ Ring-fencing of teams ▶ Global tools to manage the permissibility of non-audit services on audit clients ▶ Firm-wide tool to assist in managing personal independence commitments

Enterprise risks - descriptions

FY18 Risk	Description	Activities to manage and monitor risks
Major programme failure	Failure to effectively implement internal programmes leading to significant operational disruptions	We have continued in FY18 with a business transformation programme, including major global system implementation for which a UK Steering Committee has been established and running since inception. The Steer Co reports regularly to the Board, and our Internal Audit function has delivered a number of reviews of programme governance, design of key controls and risk to delivery. The US implementation remains ahead of the UK, providing some risk mitigation around the solution, and an increased time gap to resolve any system issues before UK go-live date.
Macroeconomic and political risk	<p>Macroeconomic and political uncertainties, including geopolitical, economic and financial shifts and nationalistic behaviours, impacting our ability to achieve our strategic objectives:</p> <ul style="list-style-type: none"> ▶ Timely identification and response to changes ▶ Emerging events ▶ GDP growth/decline, inflation/deflation, interest rate changes and commodity prices ▶ Market disintegration ▶ Systemic unemployment or under-employment 	<p>Service line management teams monitor the impact of macro-economic and political uncertainties to consider and adjust for impacts on the design and delivery of services, availability of talent, and market and pricing implications.</p> <p>A Brexit Steering Committee is well established with a mandate to consider the impact of Brexit arrangements on EY UK, its staff and clients. A sub-set of the steering group, made up of senior partners and key support functions, operates as a rapid response team, enabling quick decisions on key issues as a response to significant change.</p>

Strengthening our risk management activities

The competitive, regulatory and financial environment we operate in is increasingly complex with a rapid pace of change. Our strategic direction and the evolution of our services is taking us into new and unfamiliar territory, whether it be changing delivery models, new ways of resourcing, greater focus on alliances, technology change or the growth of asset-based consulting. Public perception and regulatory scrutiny is also creating new demands for us to publicly demonstrate how we are managing risk and safeguarding EY UK, our clients and our wider stakeholders.

The emerging risks these changes present require us to be more focused and better equipped to respond. Robust, well-resourced risk and internal audit teams will be a cornerstone of this response.

The Board has approved a programme to invest in additional resources - people, enhanced processes and supporting tools - to evolve the central Risk Team and enhance our Internal Audit capability to deliver broader, more comprehensive assurance. The programme will commence in FY19.

Compliance statement

Statement on the effectiveness of the firm's system of internal control

As part of its annual procedures and in compliance with the Audit Firm Governance Code, the Board confirms that it has performed a review of the effectiveness of the system of internal control, including consideration of the process undertaken to update the Risk Register for principal risks, controls and monitoring mechanisms.

In summary, this involved:

- ▶ Conducting a survey of the risks the firm faces with a broader population of partners
- ▶ Holding discussions with senior members of the firm's management to whom principal risks are assigned
- ▶ Considering the output of the firm's monitoring over compliance activities
- ▶ Reviewing the work of Internal Audit
- ▶ Considering the reports and findings from regulatory reviews
- ▶ Reviewing the conclusions of our external auditors, including comments in relation to the control environment
- ▶ Obtaining written certifications from Risk Owners for the principal risks under their control
- ▶ Reviewing the Risk Register for completeness utilising the output of discussions across the firm's services lines and functions on risks and control activities, with the Risk Oversight Committee meeting to challenge and approve the updated Risk Register

In the course of this review of effectiveness of internal control, we have not identified any significant weaknesses but have identified actions that we believe will strengthen controls to manage and mitigate principal risks. On the basis of reviews carried out, the Board is satisfied that the firm's systems of internal control are operating effectively.

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

In accordance with Article 13(2) (d) of the EU Audit Regulation and the Schedule to The Local Auditors (Transparency) Instrument 2015, and based on the practice review carried out in FY18, we confirm that we are satisfied that our internal quality controls and systems are, in general, robust and operate effectively and allow us to readily identify any areas of potential improvement or refinement. We continually seek to improve all aspects of our business and we use the findings of the practice review, other internal reviews and external regulatory reviews to enhance our processes.

Section 6

Governance



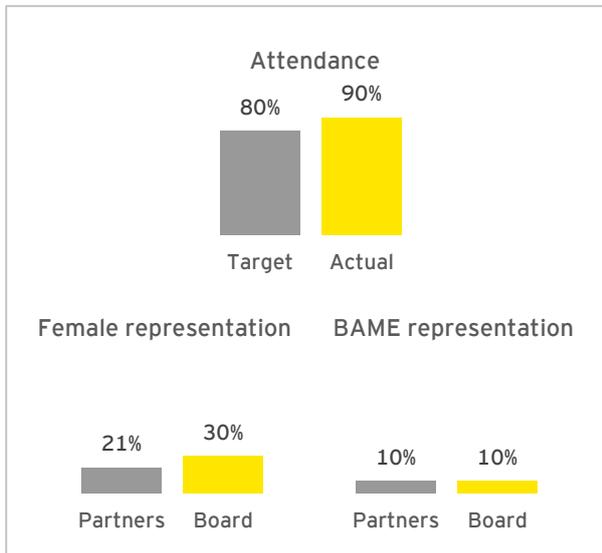
EY UK key performance indicators (KPIs) on firm governance

The 2016 Audit Firm Governance Code (AFGC) requires that firms determine governance KPIs and report against them. In FY17 the Board of EY UK (the Board) considered, proposed and following discussion, agreed KPIs on firm governance. Below we set out how we have achieved these KPIs in the current year.

KPI	FY18 achievement of KPI
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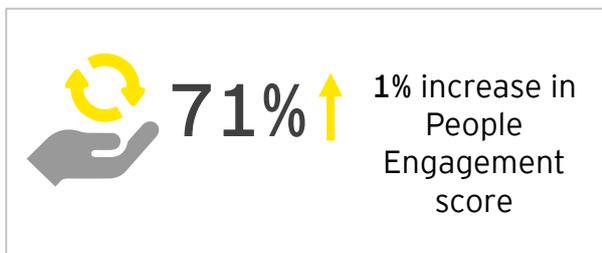
Leadership – the Board should meet at least four times per annum. The gender and black, Asian and minority ethnic (BAME) diversity of the Board should reflect that of the partnership. There should be a minimum attendance target of 80%, over a rolling 12-month period, for the Board meetings.

The Board met four times during the year. There were additional ad hoc meetings as and when required, and various decisions were also made via electronic fora. Of the 10 Board members, seven were male (of which one is a BAME) and three were female. Collectively, the Board had an attendance rate of 90%. Individual attendance rates for Board members and further details are set out in this section.



Values – As part of the firm’s culture assessment, the firm should hold an annual People Survey, with the Board acting upon the cultural aspects of the findings. On at least a biannual basis, the Board should receive reports on the UK’s compliance with the Global Code of Conduct.

A comprehensive global people survey was conducted in the prior year, with an abbreviated survey being conducted in the current year. The actions taken during the year to respond to the findings of the survey are discussed throughout this report. The Board received reporting on the UK’s compliance with the Global Code of Conduct.



EY UK key performance indicators (KPIs) on firm governance

KPI	FY18 achievement of KPI												
<p>Independent Non-Executives (INEs) – There should be at least three UK INEs, and the INE Oversight Committee (IOC) should meet at least four times per annum.</p> <p>On an annual basis, the Board must satisfy itself that the INEs remain independent from EY UK.</p>	<p>As set out in this section, there were three UK INEs during the year and the Board is satisfied that they were independent.</p> <p>The IOC met four times during the year.</p>												
<p>Operations – The Audit Quality Board (AQB) should meet at least six times per annum to oversee the focus on sustainable audit quality.</p> <p>With respect to risk management, the Risk Oversight Committee (ROC) should meet at least six times per annum, with the goal of no material failings or weaknesses in the firm’s internal controls.</p>	<p>The AQB met ten times during the year. The AQB’s role in overseeing the focus on sustainable audit quality is set out in Section 2 Trust in audit/Quality - SAQ.</p> <p>The ROC met ten times during the year. The activities undertaken by the ROC along with commentary on the firm’s internal controls are set out in Section 5 Risks.</p>												
<div style="display: flex; justify-content: space-around;"> <div data-bbox="178 994 469 1352"> <p style="text-align: center;">AQB meetings</p> <table border="1"> <tr> <th>Category</th> <th>Value</th> </tr> <tr> <td>Target</td> <td>6</td> </tr> <tr> <td>Actual</td> <td>10</td> </tr> </table> </div> <div data-bbox="488 994 778 1352"> <p style="text-align: center;">ROC meetings</p> <table border="1"> <tr> <th>Category</th> <th>Value</th> </tr> <tr> <td>Target</td> <td>6</td> </tr> <tr> <td>Actual</td> <td>9</td> </tr> </table> </div> </div>	Category	Value	Target	6	Actual	10	Category	Value	Target	6	Actual	9	
Category	Value												
Target	6												
Actual	10												
Category	Value												
Target	6												
Actual	9												
<p>Reporting – The Board should review the annual Transparency Report to satisfy itself that it is fair, balanced and understandable, and complies with the AFGC, or explains otherwise.</p>	<p>The Board reviewed the Transparency Report on 16 October and satisfied itself that it is fair, balanced and understandable, and complies with the AFGC.</p>												
<p>Dialogue – The Board should satisfy itself, on at least an annual basis, that a formal programme of investor dialogue is occurring.</p>	<p>The Board is satisfied that, as set out in Section 2 Trust in audit/Stakeholder engagement, a formal programme of investor dialogue is taking place.</p>												

Legal structure

EY is the global organisation of member firms of Ernst & Young Global Limited. It includes Ernst & Young Europe LLP (EY Europe), which is authorised by the Institute of Chartered Accountants in England and Wales (ICAEW), and has voting control of EY UK. As a normal condition of authorisation, all partners of EY Europe (i.e., not just those who are UK based or who are accountants or auditors) became affiliated members of the ICAEW. This means that they are all subject to, among other things, the ICAEW's ethical and professional standards.

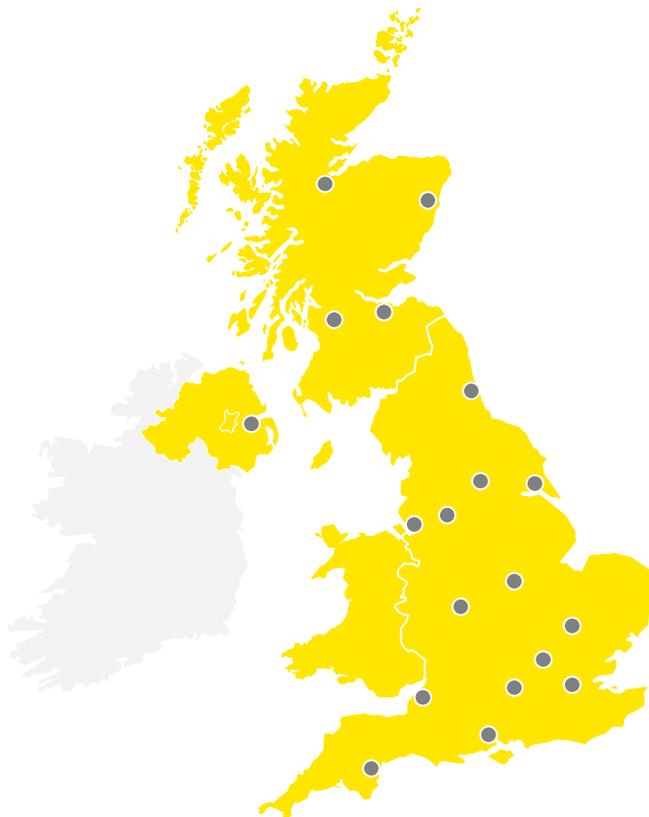
Under this model, the Board and management team is subject to oversight by EY Europe and to the governance agreements established by Ernst & Young EMEIA Limited and Ernst & Young Global Limited. The EY UK leadership team is subject to regular review of its actions and its performance across all areas of business activity. EY UK's management participates in a number of international EY fora, which enables it to share best practice with peers, along with other approaches and different techniques for running EY UK sustainably.

Although decision making is local, the regular review process provides another level of informed challenge to proposed decisions and plans. Additional detail on our UK governance is given below.

Details of entities related to EY UK can be found in its statutory financial statements.

At 1 July 2018, **EY UK had 719 partners**, compared to 698 in the prior year, and operated from **20 offices across the UK** as well as in Jersey and Guernsey.

With EY locations in:



- Aberdeen
- Belfast
- Birmingham
- Bristol
- Cambridge
- Edinburgh
- Exeter
- Glasgow
- Hull
- Inverness
- Leeds
- Liverpool
- London (More London Place & Churchill Place)
- Luton
- Manchester
- Newcastle-Upon-Tyne
- Nottingham
- Reading
- Southampton

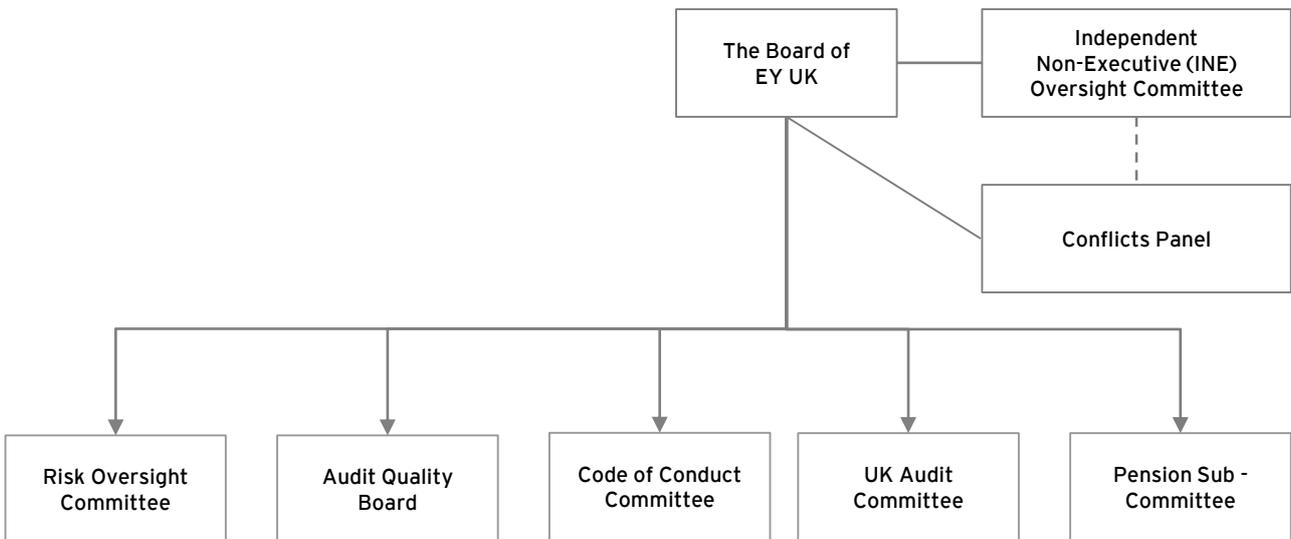
Appendix 2 describes our legal structure, ownership and governance, as well as the EY network arrangements, in greater detail.

The firm's governance and management bodies that are relevant to the purpose of the AFGC include the Board and a number of supporting committees, as explained further on. All members of the governance structure are provided with information in a timely manner before committee meetings and in a form and of a quality appropriate to enable them to discharge their duties. In respect of the Board, ROC, IOC and AQB, this function is performed by the Company Secretary.

The board of EY UK

The Board of EY UK (the Board)

The Board is appointed by the Europe Operating Executive of EY Europe and the UK Country Managing Partner (CMP), who has full authority to deal with the firm’s general and operational management. The CMP is appointed by the Europe Managing Partner of EY Europe, who has the right to remove the CMP, with the consent of the Europe Operating Executive, having consulted with the Board and appropriate partners



The CMP of EY UK is Steve Varley. The role of the CMP includes:

- ▶ Representing EY UK
- ▶ Providing leadership for the partners and employees of EY UK
- ▶ Acting as the interface with regulators and governmental authorities

The CMP leads the Board, which is responsible for the commercial, financial and reputational standing of the firm as a whole, implementing the admission of new members, liaising with members, approving the financial statements and other matters delegated to it from time to time by the Europe Operating Executive.

The Board met on four occasions during FY18 and, in addition, routinely conducts business through electronic fora. Board members serve for a period appropriate to their experience and their other roles and responsibilities.

The standing agenda of the Board considers the following issues to help ensure that the purpose of the AFGC is achieved:

- ▶ Firm’s commercial, financial and reputational interests
- ▶ Alignment of the firm’s values
- ▶ Risks and regulatory matters
- ▶ Audit independence
- ▶ Audit matters more generally

The board of EY UK

Composition of the Board

Board members	Title	Length of appointment to nearest year
Steve Varley (Chair)	EY UK LLP Chairman	7 years
Omar Ali	Managing Partner, UK Financial Services	3 years
Ian Baggs	Managing Partner, Assurance, UK Financial Services	3 years
Hywel Ball	Managing Partner, Assurance, UK & Ireland and UK Head of Audit	7 years
Lisa Cameron	General Counsel and Managing Partner, Risk Management	8 years
Alisdair Mann	Chief Operating Officer for the Financial Services Business	8 years
Eamonn McGrath	UK Head of Regulatory & Public Policy	3 years
Debbie O'Hanlon	Managing Partner, National Markets	2 years
Robert Overend	UK Country Professional Practice Director and UK Audit Compliance Principle	8 years
Lynn Rattigan	UK Chief Operating Officer	3 years

Biographical details of each of the Board members are included at Appendix 1. Records of attendance at the Board meetings in FY18 are given at the end of this section.

Changes to the Board since the year end

Alisdair Mann stepped down from the Board, after eight years as a member, following his appointment, at the beginning of last year, as Global Vice Chair, Treasury and Managed Services Leader Financial Services Office (FSO).

Sue Dawe has replaced Alisdair, joining the Board, effective 1 September 2018. Sue brings 25 years of experience within the financial services sector. She joined EY in 1988, became a partner in 2009, and was appointed Head of the Financial Services practice in Scotland in 2016. Her previous roles include Global co-leader of Wealth and Asset Management (WAM) Assurance and Head of UK WAM Audit.

Christabel Cowling has also joined the Board on 1 September 2018. Christabel brings extensive experience in the areas of auditing multinational listed groups under international financial reporting standards (IFRS) and of reporting accountant work for corporate transactions. Christabel has strong technical experience including IFRS, US generally accepted accounting principles (GAAP), US Sarbanes-Oxley requirements, corporate governance and advising on financial reporting issues. She has strong technical capabilities and experience of reporting to boards and audit committees.

We are pleased to note that, with the appointment of Sue and Christabel, and with Eamonn McGrath due to retire on 31 December 2018, the gender balance of the Board will be 50/50.

The board of EY UK



Debbie O'Hanlon Omar Ali Ian Baggs Eamonn McGrath Alisdair Mann Robert Overend Lisa Cameron
Lynn Rattigan Steve Varley Hywel Ball

The Independent Non-Executive Committee

The Independent Non-Executive Oversight Committee (IOC)

The IOC's role is collectively to enhance EY UK's performance in meeting the purpose of the AFGC, focusing on (but not being limited to) oversight of its policies and processes for meeting the principal AFGC objectives. The INEs' duties, which are exercised through the IOC, are as follows:

- ▶ Promoting audit quality
- ▶ Helping the firm secure its reputation more broadly, including in its non-audit business
- ▶ Reducing the risk of firm failure

The membership of the IOC is as follows:

IOC members	Title	Length of appointment to nearest year
David Thorburn* (Chair)	Independent Non-Executive, Chairman of the IOC	1 year
Rosemary Martin	Independent Non-Executive	1 year
Sir Peter Westmacott	Independent Non-Executive	1 year

* David Thorburn has been in post as an INE since 1 June 2016, prior to the IOC being established

Biographical details of the INEs are included at Appendix 1. Details of the attendance of the INEs at the Board meetings are given at the end of this section. Attendance of the UK INEs at the Board meetings ensures that the INEs have visibility of the entirety of the business of EY UK. The appointment of three UK INEs and the position of the UK INEs within the governance structure of EY UK meet the requirements of the AFGC. For information on the work of the INEs, see the report from the Chair of the IOC in Section 1.

Appointment and termination of INEs

INEs are appointed by the Board for an initial term of three fiscal years. With the approval of the Board, an INE may be invited to serve for a maximum of one additional term of three fiscal years. Rights and responsibilities of the INEs are set out in a Letter of Appointment and Service.

The appointment may be terminated by either the INE or EY UK giving six months' written notice. In the event of a fundamental disagreement that cannot be resolved, the appointment may be terminated immediately under the dispute resolution provisions. In addition, immediate termination may be required where a conflict occurs with other roles that the INE holds, an example being where an audit client acquires an entity in which the INE also holds an appointment.

Fundamental disagreements

In the event that there is a fundamental disagreement between an INE and members of the Board of EY UK and/or its governance structures, the INE shall set out the nature and status of the disagreement, in writing, to the Chair of the Board (copied to the members, including the other party in disagreement), together with any other details such as a need for further information, the respective positions of the parties and any preferred criteria for resolving the disagreement. The Chair shall respond to the INE in writing by setting out any proposed timescale and method for resolving the disagreement.

At the conclusion of the proposed time, the INE and the other party in disagreement shall indicate to the Chair whether or not the disagreement has been resolved. In the event that the disagreement has not been resolved, both the INE and the other party in disagreement must indicate whether a further intercession by the Chair is desired. In the event that no such indication is made and the disagreement persists or, if the nature of the disagreement relates directly to the Chair, the INE or the firm may terminate the INE appointment.

The Independent Non-Executive Committee

Since the year end, the following INEs have retired:

Name	Retired	Comment
Rosemary Martin	3 August 2018	EY has been appointed auditor to a material affiliate of Vodafone. This created a conflict with Rosemary's role at Vodafone and therefore she resigned her EY appointment post year end.

Independence of INEs

Prior to appointment, INEs are interviewed by the Independence Partner and briefed on the ongoing independence requirements and any firm issues. The INEs are required to confirm their independence from the firm and its audit clients in accordance with the firm's policy, which was formulated from consideration of the FRC's Ethical Standard, AFGC and the UK Corporate Governance Code. This policy requires, among other things, that EY is prohibited from having any direct or material indirect business relationship with the INE (other than the contract covering the INE services) or any audit client entities for which the INE is an officer, director or substantial stockholder except in circumstances where EY is considered to be a consumer in the ordinary course of business. In this respect the INEs are not permitted to also hold an appointment as an officer, director or substantial stockholder of an audit client of an EY firm. The Board satisfies itself of the independence of the INEs by a review of their other appointments on acceptance of new audit clients. In addition, the INEs confirm their independence in accordance with the EY requirements both on appointment and annually thereafter.

EY support

INEs are entitled to request all relevant information about EY UK's affairs, including access to relevant partners, as is reasonably necessary to discharge their duties. EY UK provides INEs with full administrative support in performing their duties and access to advice from professional advisers at EY UK's expense (subject to consultation with the Chair to establish and approve the appropriate means of obtaining this professional advice). The INEs have the benefit of a policy of directors' and officers' insurance in respect of their roles.

Additionally, EY UK's Independence and Ethics Partner is an integral part of the quarterly IOC agenda, offering the INEs regular updates on EY UK's compliance activities and current issues.

INE remuneration

EY UK INEs are paid a fixed annual income, based on an agreed number of days' service per annum, which has been benchmarked with FTSE 100 non-executive director roles.

The salaries of the INEs in respect of their UK roles are:

- ▶ David Thorburn: £90,000 (as IOC Chair)
- ▶ Rosemary Martin: £75,000
- ▶ Sir Peter Westmacott: £75,000

Sir Peter receives an additional £25,000 for advice to the Board on international geo-political and governmental issues. David Thorburn also receives an additional sum for his INE role on the Global Governance Council.

INEs' activities

For the work of the INEs, see the report from the Chair of the IOC earlier in this volume

Other governance & management bodies

Risk Oversight Committee (ROC)

For the role of the ROC, please refer to Section 5, Risks.

ROC members are appointed by the Board, and will serve for a period appropriate to their experience and other roles and responsibilities.

ROC members	Title	Length of appointment to nearest year
Lisa Cameron (Chair)	General Counsel and Managing Partner, Risk Management	2 years
Chris Bowles	Partner in Financial Services	1 year
John Cole	EY UK Risk Partner	2 years
Christabel Cowling	Chief Operating Officer of the EY UK Assurance Business and Audit Partner	2 years
Eamonn McGrath	EY UK Head of Regulatory & Public Policy and Audit Partner	2 years

John Cole retired from the firm on 1 July 2018.

Audit Quality Board (AQB)

For the role of the AQB, please refer to Section 2, Trust in audit.

The EY UK Head of Audit will act as AQB Chair. The AQB Chair will select other AQB members based on their roles and expertise, with their period of appointment reflecting this.

AQB members	Title	Length of appointment to nearest year
Hywel Ball (Chair)	Managing Partner Assurance EY UK & Ireland and EY UK Head of Audit	3 years
Bob Forsyth	EY UK Audit Quality Leader	3 years
Ian Baggs	Managing Partner, Assurance, EY UK Financial Services	3 years
Justine Belton	EY UK&I Implementation and Enablement Leader	3 years
Colin Brown	Audit Leader for National Markets	2 years
Javier Faiz	Banking & Capital Markets -Partner	3 years
John Headley	Partner in Financial Services Insurance	3 years
Michael-John Albert	Financial Services Audit Quality Leader	3 years
Peter Mclver	London Audit Practice Leader	1 year
Robert Overend	EY UK Country Professional Practice Director and EY UK Audit Compliance Principal	3 years

Andrew Walton joined the AQB on 6 September 2018, with Peter Mclver stepping down on the same date.

Other governance & management bodies

Code of Conduct Committee (CCC)

The CCC acts on behalf of all EY UK partners in helping to ensure that partners adhere to the EY Global Code of Conduct. They meet at least four times a year. The Ethics Partner, Maurice Moses, is Secretary to this Committee and attends each meeting.

Each service line proposes a representative (with relevant experience and holding non-management positions) whose appointments are then approved by the Board. Appointees serve for a period of three years, and their appointment can be extended by a further three years.

CCC members	Service line	Length of appointment to nearest year
Sarah Williams (Chair)	Assurance FSO	3 years
Rute Aparicio	TAS FSO	3 years
Kate Bamford	PAS	1 year
Colin Dempster	TAS EY UK&I	3 years
Dave Hales	Assurance EY UK&I	3 years
George Hardy	Tax FSO	3 years
John Liver	Advisory FSO	3 years
James Meader	Advisory EY UK&I	1 year
Tim West	Tax EY UK&I	1 year

Conflicts Panel (CP)

The CP was created in June 2018 and acts to enhance and complement our firm's current process for addressing conflicts of interest as well as high profile matters. The CP consists of senior leaders who add further challenge to engagement acceptance and provide informed views through the lens of an Objective, Reasonable and Informed Third Party. As it has only recently been formed, it has so far met on only one occasion in the year to 30 June 2018.

The CP is chaired by the Regional Conflicts Leader - Maurice Moses, who is also EY UK's Ethics Partner. The CP has access to a pool of members drawn from UK LLP leadership, including from:

- ▶ The Board
- ▶ The UK&I Regional Leadership Team (UK members only)
- ▶ The UK financial services leadership team

Other governance & management bodies

UK Audit Committee (UKAC)

The UKAC reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. It is also responsible for making recommendations in relation to the appointment of the external auditor and for approving the remuneration and terms of engagement of the external auditor. The UKAC monitors the integrity of the financial statements of the firm, reviews significant financial reporting judgements and recommends the approval of the financial statements to the Board.

UKAC members

Douglas Nisbet (Chair)

Lloyd Brown

Chris Voogd

Stuart Wilson

In respect of FY18 the UKAC met twice and:

- ▶ Approved the appointment and fees of the external auditor
- ▶ Approved the audit plan, considering the risks identified by the external auditors
- ▶ Reviewed the audit results as reported by the external auditor
- ▶ Reviewed and recommended the approval of the financial statements to the Board

UKAC members are appointed by the Board, and will serve for a period appropriate to their experience and their other roles and responsibilities.

Pension Sub-committee (PSC)

The PSC acts as a consultative body when there are strategic pension decisions that may have significant financial or reputational implications for EY UK.

PSC members are appointed by the Board. At least three members will be members of the Board, with the others being selected based on relevant experience. Members will serve for a period appropriate to their experience and their other roles and responsibilities.

PSC members

Lynn Rattigan (Chair)

Angela Dawes

Taylor Dewar

Alisdair Mann

Eamonn McGrath

Julianna Oladipo (Secretary)

Lesley Davie (Interim Secretary)

With Alisdair stepping down from the Board, a replacement member of the Board will be appointed to the PSC shortly.

Meetings attendance

	Board	IOC	ROC	AQB	CCC	UKAC	PSC	CP
Number of meetings in FY18	4*	4**	10	10	6	2	6	1
Number of meetings attended								
Steve Varley	4							
Hywel Ball	4			9				
Lisa Cameron	4		9					1
Alisdair Mann	3						5	1
Robert Overend	4			10				1
Lynn Rattigan	4						6	
Eamonn McGrath	3		10				6	
Omar Ali	3							
Ian Baggs	3			9				
Debbie O'Hanlon	4							1
David Thorburn	4	4						
Rosemary Martin	4	4						
Sir Peter Westmacott	4	4						
Christabel Cowling			8					
John Cole			6					
Chris Bowles			10					
Michael-John Albert				10				
Bob Forsyth				8				
Justine Belton				10				
Javier Faiz				7				
John Headley				9				
Colin Brown				9				
Peter Mclver				10				
Iain Wilkie					3			
Dave Hales					5			
Sarah Williams					6			
Alison Christian					1			
George Hardy					4			
Colin Dempster					4			
Rute Aparicio					4			
Fiona Sheridan					3			
Kate Bamford					2			
John Liver					2			

Meetings attendance

	Board	IOC	ROC	AQB	CCC	UKAC	PSC	CP
Number of meetings in FY18	4*	4**	9	10	6	2	6	1
Number of meetings attended								
James Meader					2			
Tim West					4			
Douglas Nisbet						2		
Stuart Wilson						2		
Lloyd Brown						1		
Chris Voogd						1		
Angela Dawes							5	
Taylor Dewar							4	
Julianna Oladipo							4	
Leslie Davie							2	
Maurice Moses								1

* Quarterly meetings are recorded here, but there are additional ad hoc meetings as and when required, and various decisions via electronic fora.

** Due to scheduling requirements, the Q1 FY19 IOC meeting was brought forward to 25 June 2018. To avoid double-counting this meeting, it is not recorded in this Transparency Report, but will be recorded in the FY19 Transparency Report.

Appendix 1



Member biographies - the Board

The board members



Steve Varley - EY UK LLP Chairman - 13 years with EY

Steve is the Chairman of EY UK and is also a member of the EY Europe, Middle East, India and Africa (EMEIA) Area Operating Executive.

Steve joined EY UK in 2005 and has nearly 30 years of client and consulting business experience in various sectors, including pharmaceuticals, oil and gas and public services.

In January 2014, Steve was appointed by the Prime Minister as Business Ambassador for the professional services industry. He is a founding member of the Social Business Trust and a member of its Investment Committee. He is also a member of the 30% Club and an active supporter and speaker on diversity and inclusiveness. He is a member of the International Chamber of Commerce Advisory Board and is on the Board of Loughborough University.



Omar Ali - Managing Partner EY UK Financial Services - 17 years with EY

Omar is Managing Partner of EY UK's Financial Services business. Omar was appointed to this role in October 2015, and now leads a team of 200 partners and more than 4,500 people, with responsibility of for some of the largest EY clients globally.

Omar was previously UK Banking and Capital Markets Leader, a position he held from January 2012. Omar joined EY in 2001, becoming partner in 2006 and he ran the EY UK Financial Services Banking Consulting business from 2008 to 2011.

Omar is also a Board member of TheCityUK, the Department for International Trade's Fintech Trade & Investment Steering Board, and the National Skills Academy for Financial Services. In addition to his leadership responsibilities, Omar continues to focus on his portfolio of clients.



Ian Baggs - Managing Partner, Assurance, EY UK Financial Services - 31 years with EY

Ian has been with EY for over 30 years, making partner in 1997. He leads the EY UK Financial Services Assurance practice, a role he was appointed to in December 2015.

Prior to this Ian held various leadership positions, including EY UK Banking & Capital Markets Leader from 2003 to 2008 and Global Banking & Capital Markets Deputy Leader from 2011 to 2015. He started his career in the Assurance practice and has worked with many of the world's largest global banks and securities firms. He continues to serve both audit and non-audit clients across the banking sector.



Hywel Ball - Managing Partner, Assurance, EY UK & Ireland and EY UK Head of Audit - 35 years with EY

Hywel has been with EY for over 30 years, 20 of those as a partner providing services for clients across a range of sectors, including many FTSE 100 companies. Hywel was EY EMEIA Industry Leader for the Energy and Utilities sector and Managing Partner of EY UK in Scotland. He has in-depth knowledge of regulation and dealing with regulatory change and has wide experience coordinating multinational assignments on large companies, in both an audit and non-audit capacity.

Hywel also is a member of the Audit Committee of the British Museum.

Member biographies - the Board

The board members



Lisa Cameron – General Counsel and Managing Partner, Risk Management – 20 years with EY

Lisa is a dual-qualified lawyer who joined EY in 1998. A litigator by background, as General Counsel, she is responsible for all legal issues affecting EY UK. She and her team advise leadership and partners on matters of contract, regulation, governance, transactions, litigation, employment, and overall practice protection. Additionally, as Managing Partner for Risk Management she is responsible for EY UK's risk management procedures and implementation, including those relating to Independence.



Alisdair Mann – Chief Operating Officer for Financial Services Office (FSO) – 15 years with EY

Alisdair is the Treasury and Managed Services Leader for the EY EMEIA Financial Services Office. Until 30 June 2017 he was COO for EY EMEIA FSO. His role on the Board was to represent the UK FSO market segment. His recent client experience has centred on advising the boards on global financial services organisations on their complex programmes of regulatory change.



Eamonn McGrath – EY UK Head of Regulatory & Public Policy, Audit Partner – 41 years with EY

Eamonn has been an Audit partner with EY UK in London and Manchester for over 25 years. He is an FCA (ICAEW) and has a BA (Hons) in Accounting & Finance from Lancaster University.

His audit background is primarily with plcs, having served clients in the property, engineering, retail and service sectors. He has extensive experience of working with audit committees in the UK, Japan and North America. His experience at board and audit committee level is mainly in relation to corporate governance, risk management and financial reporting. Eamonn is also a member of EY UK's Professional Standards Panel. Eamonn assumed the role of UK Head of Regulatory & Public Policy in July 2015. In this role he oversees relationships with the key regulators.

Eamonn is also the Audit Committee Chairman of the charity Inter Mediate and was previously chairman of governors for a charitable school for 10 years.



Debbie O'Hanlon – Managing Partner, National Markets – 18 years with EY

Debbie leads EY UK's regional business in the UK and is a member of the EY UK&I Leadership Team. An audit partner for 15 years, she has over 30 years' experience in the profession, working with a range of listed, private and public sector businesses across the country.

Debbie has spent a number of years working in the not-for-profit sector, as an advisor and in executive and non-executive positions. She is one of the founding trustees of the EY Foundation.

Member biographies - the Board

The board members



Robert Overend - EY UK Professional Practice Director and EY UK Audit Compliance Principal - 36 years with EY

Robert qualified in 1985, becoming an audit partner in 1995.

He has been a partner in the firm's Accounting Technical Group (Head of Department and member of the firm's Global IFRS Policy Committee 2007-10), and (from 2010) became the firm's Audit Compliance Principal and Professional Practice Director.

In addition, he is a past member of APB's Technical Advisory Group, and member of the Accounting Standards Board.



Lynn Rattigan - Chief Operating Officer - 17 years with EY

Lynn has spent her entire career in professional services. She has been a partner at EY UK since 2001 and has held a number of leadership positions during that time. In January 2015, Lynn joined the EY UK leadership team as the Chief Operating Officer for UK & Ireland.

From a client perspective, Lynn has had an extensive and diverse range of client experiences throughout her career, having worked with a number of FTSE 100 companies and private equity houses, specialising in the delivery of Corporate Finance services.

Member biographies - IOC

The independent non-executive oversight committee (IOC)



Rosemary Martin - INE - appointed on 1 November 2016 (resigned 3 August 2018)

In addition to her role as Group Counsel and Company Secretary to Vodafone, Rosemary is also an advisory board member of the Oxford Internet Institute. Rosemary previously served as CEO of the Practical Law Group having spent 11 years with Reuters Group Plc in various roles, including Group General Counsel and Company Secretary. Before joining Reuters she was a partner with Mayer, Brown, Rowe & Maw. Rosemary was a non-executive director of HSBC Bank Plc (the European arm of HSBC Group) until 2016, a member of the Financial Conduct Authority's Listing Authority Advisory Panel and a member of The Corporate Governance Advisory Committee of the Institute of Chartered Accountants of England and Wales.



David Thorburn – INE – appointed on 1 June 2016 and Chair of the IOC since April 2017

David is a Non-Executive Director and Board Risk Committee Chair of Barclays Bank UK PLC and chairs the Chartered Banker Institute 2025 Foundation.

David is a Chartered Banker, former External Member of the Bank of England's Prudential Regulatory Committee, and former CEO of Clydesdale and Yorkshire Banks. He is also a former Chairman of Confederation of British Industry Scotland, a Past President of The Chartered Institute of Bankers in Scotland, and former Board Director of the British Bankers Association and Scottish Financial Enterprise. He was a founder member of the Professional Standards Board of the Chartered Banker Institute.

David's competencies include accounting, based on his practical experience during his 40 years in banking, with Clydesdale Bank PLC, the Bank of England and Barclays Bank UK PLC.

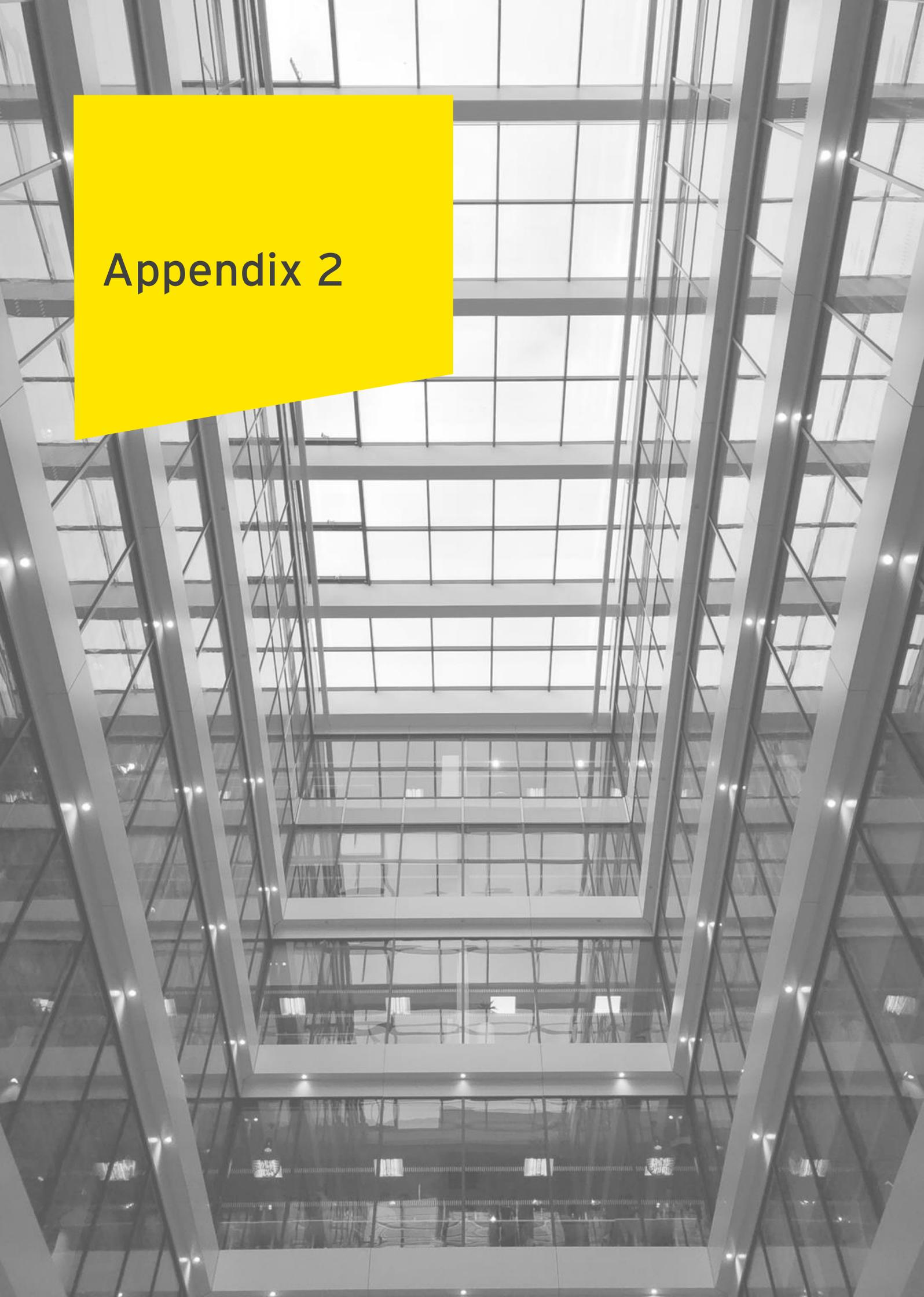


Sir Peter Westmacott - INE - appointed since 1st April 2017

Sir Peter Westmacott was British Ambassador to the United States from January 2012 until he retired from the UK Diplomatic Service in January 2016. He spent a semester at Harvard's Kennedy School of Government as a Resident Fellow.

Sir Peter was British Ambassador to France from 2007-2012 and to Turkey from 2002-2006. His 40-year diplomatic career included four years in Iran before the 1979 Revolution and a secondment to the European Commission in Brussels. He was the Foreign and Commonwealth Office's Director for the Americas from 1997-2000 and Deputy Under Secretary of State from 2000-2001. From 1990-1993, he was Deputy Private Secretary to His Royal Highness The Prince of Wales. He is a Distinguished Ambassadorial Fellow at the Atlantic Council, Deputy Chairman of Tellus Matrix LLP and an Advisory Director of Campbell Lutyens & Co, Glasswall Holdings and Tikehau Capital.

In order to comply with the AFGC independence principle Rosemary Martin resigned from the firm on 3 August 2018 prior to Vodafone Idea Limited, a company in the same group as her employer, merging with Idea Cellular Limited, a company audited by EY.



Appendix 2

About us

Legal structure, ownership and governance

In the UK, Ernst & Young LLP is a limited liability partnership, wholly owned by its members, incorporated in England & Wales and is a member firm of Ernst & Young Global Limited (EYG), a UK company limited by guarantee. In this report, we refer to ourselves as 'EY UK', 'we', 'us' or 'our'. EY refers collectively to the global organisation of the member firms of EYG.

EY UK is part of the EMEIA Area, which comprises EYG member firms in 98 countries in Europe, the Middle East, India and Africa. Within the EMEIA Area, there were 11 Regions and from 1 July 2018 the number has reduced to 10. EY UK is part of the UK & Ireland (UK&I) Region, with the exception of its financial services practice, which is part of the EMEIA Financial Services Office (FSO), which is treated as a separate Region. The UK FSO leader sits on the EMEIA FSO leadership team.

Information on the governance of EY UK, including details on board and committee membership and structure, among other things, is included in Section 6: Governance of this Transparency Report.

The EMEIA Area

EYG member firms are grouped into four geographic Areas: Americas, Asia-Pacific, EMEIA and Japan. The Areas comprise a number of Regions, which consist of member firms or sections of those firms.

Ernst & Young (EMEIA) Limited (EMEIA Limited), an English company limited by guarantee, is the principal coordinating entity for the EYG member firms in the EMEIA Area. EMEIA Limited facilitates the coordination of these firms and cooperation between them, but it does not control them. EMEIA Limited is a member firm of EYG, has no financial operations and does not provide any professional services.

Each Region elects a Regional Partner Forum (RPF), whose representatives advise and act as a sounding board to Regional leadership. The partner elected as Presiding Partner of the RPF also serves as the Region's representative on the Global Governance Council (see the section, Network arrangements).

In Europe, a holding entity, Ernst & Young Europe LLP (EY Europe), was formed in conjunction with EMEIA Limited. EY Europe is an English limited liability partnership, owned by partners of the EYG member firms operating in Europe. It is an audit firm registered with the Institute of Chartered Accountants in England and Wales (ICAEW), but it does not carry out audits or provide any professional services. To the extent permitted by local legal and regulatory requirements, EY Europe has acquired or will acquire voting control of the EYG member firms operating in Europe. EY Europe is a member firm of both EYG and EMEIA Limited.

EY Europe acquired voting control of EY UK as of November 2008.

EY Europe's principal governing bodies are:

Europe Operating Executive

The Europe Operating Executive (EOE) operates as the board of EY Europe. It has authority and accountability for strategy execution and management of EY Europe's operations. The EOE comprises: the Europe Managing Partner; the leaders for Accounts, Talent and Risk Management; the service line leaders for Assurance, Advisory, Transaction Advisory Services and Tax; and all European Regional Managing Partners.

Europe Governance Sub-Committee

EY Europe has set up a Europe Governance Sub-Committee, which includes one representative from each Region in Europe. It serves in an advisory role to the EOE on policies, strategies and other matters, and its approval is required for a number of significant matters, such as the appointment of the Europe Managing Partner, approval of the financial reports of EY Europe and material transactions.

About us

Network arrangements

EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, over 250,000 people in member firms in more than 150 countries share a commitment to building a better working world, united by shared values and an unwavering commitment to quality, integrity and professional scepticism. In today’s global market, the integrated EY approach is particularly important in the delivery of high-quality multinational audits, which can span nearly every country in the world.

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

EYG coordinates the member firms and promotes cooperation among them. EYG does not provide services, but its objectives include the promotion of exceptional high-quality client service by member firms worldwide.

Each member firm is a legally distinct entity. Their obligations and responsibilities as members of EYG are governed by the regulations of EYG and various other agreements.

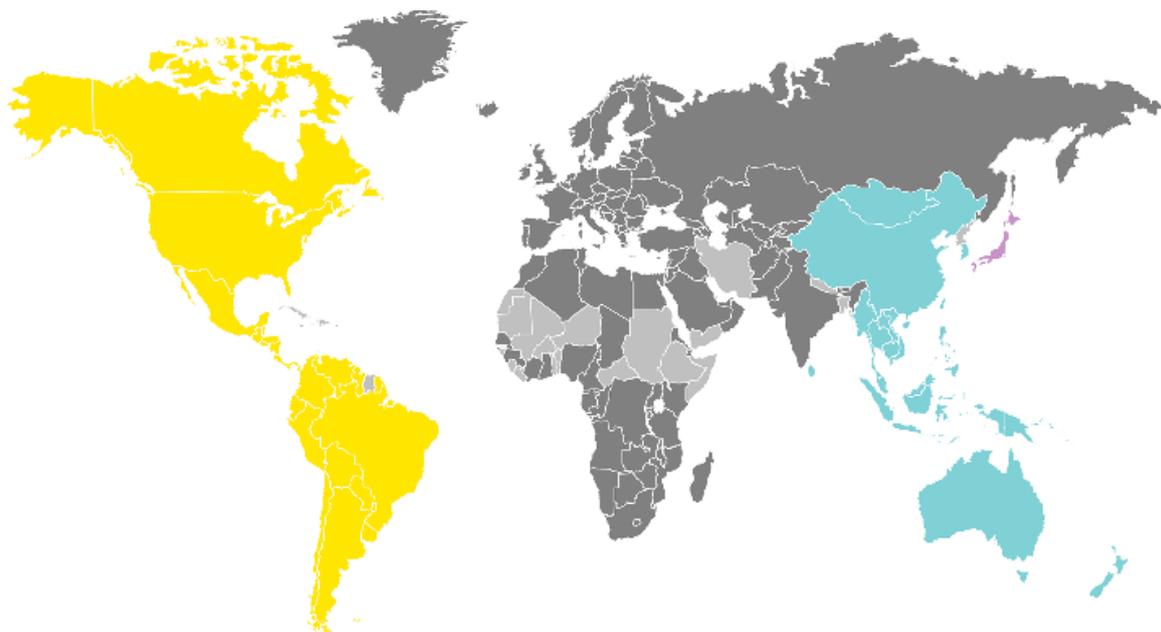
The structure and principal bodies of the global organisation during FY18 are described below. They reflect the principle that EY, as a global organisation, has a common shared strategy.

The Executive includes the Global Executive (GE), its committees and teams, and the leadership of the four Areas. At the same time, the network operates on a Regional level within the Areas. This operating model allows for greater stakeholder focus in the 27 Regions, permitting member firms to build stronger relationships with clients and others in each country, and be more responsive to local needs.

Global Governance Council

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

Americas		EMEA		Asia-Pacific		Japan	
Regions	10	Regions	11	Regions	5	Regions	1
Countries	31	Countries	98	Countries	22	Countries	1



About us

Independent Non-Executives

Up to six Independent Non-Executives (INEs) are appointed from outside EY. The INEs are senior leaders from both the public and private sectors, and reflect diverse geographic and professional backgrounds. They bring to the global organisation, and the GGC, the significant benefit of their varied perspectives and depth of knowledge. The INEs also form a majority of the Public Interest Sub-Committee of the GGC, which addresses public interest matters, including public interest aspects of decision making, issues raised under whistleblowing policies and procedures, perspectives on stakeholder views and engagement in quality and risk management discussions. The INEs are nominated by a dedicated committee.

Global Executive

The Global Executive (GE) brings together EY's leadership functions, services and geographies. It is chaired by the Chairman and CEO of EYG, and includes its Global Managing Partners of Client Service and Business Enablement; the Area Managing Partners; the global functional leadership for Talent and Finance; the leaders of the global service lines – Assurance, Advisory, Tax and Transaction Advisory Services; the Global Leader for Public Policy; and one EYG member firm partner on rotation.

The GE also includes the Chair of the Global Accounts Committee and the Chair of the Emerging Markets Committee, as well as a representative from the Emerging Markets practices.

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

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

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

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

GE committees

Established by the GE and bringing together representatives from the four Areas, the GE committees are responsible for making recommendations to the GE. In addition to the Global Audit Committee, there are committees for Global Markets and Investments, Global Accounts, Emerging Markets, Talent, Risk Management, Assurance, Advisory, Tax, and Transaction Advisory Services.

Global Practice Group

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

About us

EYG member firms

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

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

The EY Global Code of Conduct provides a clear set of principles that guide our actions and our business conduct, and are to be followed by all EY personnel. The EY Global Code of Conduct is issued globally and applies to EY personnel throughout the world. For that reason, the EY Global Code of Conduct does not specifically address the requirements of the UK Audit Firm Governance Code (AFGC). However, the EY Global Code of Conduct has been reviewed against the AFGC and the principles are reflected therein.

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

Member firms are subject to reviews that evaluate their adherence to EYG requirements and policies governing issues such as independence, quality and risk management, audit methodology, and human resources. Member firms unable to meet the quality commitments and other EYG membership requirements may be subject to separation from the EY organisation.

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

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

- ▶ Experience
- ▶ Role and responsibility
- ▶ Long-term potential

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

Commitment to quality

Infrastructure supporting quality

Quality in our service lines

Vision 2020+, which sets out EY's purpose, ambition and strategy, calls for EYG member firms to provide exceptional client service worldwide. This is supported by an unwavering commitment to quality and service that is professionally and globally consistent, and means service that is based on objectivity, professional scepticism, and adherence to EY and professional standards.

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

Vision 2020+ has reinforced the ownership of quality by the service lines, including audit. It has also resulted in increased clarity around the role of risk management in policies and practices that support and improve audit quality.

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

Professional Practice

The Global Vice Chair of Professional Practice, referred to as the Global Professional Practice Director (PPD), is overseen by the Global Vice Chair of Assurance and works to establish global audit quality control policies and procedures. Each of the Area PPDs is overseen by the Global PPD and the related Area Assurance Leader. This helps provide greater assurance as to the objectivity of audit quality and consultation processes.

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

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

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

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

Risk management

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

Member firm partners are appointed to lead risk management initiatives in both the service lines and member firms, supported by other staff and professionals. The Global Risk Management Leader is responsible for establishing globally consistent risk management execution priorities and enterprise-wide risk management. These priorities cascade to member firms, and their execution is monitored through an Enterprise Risk Management programme.

Commitment to quality

Global confidentiality policy

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

- ▶ Social media guidance
- ▶ Information-handling requirements
- ▶ Knowledge-sharing protocols

Cybersecurity

Managing the risk of major and complex cybersecurity attacks is a part of doing business for all organisations. While no systems are immune from the threat of cyberattacks, EY UK is vigilant in the steps taken to secure the environment of EYG member firms and to protect their clients' data. The EY approach to cybersecurity is proactive and includes the implementation of technologies and processes necessary to manage and minimise cybersecurity risks globally. EY information security and data privacy programmes, consistent with industry practices and applicable legal requirements, are designed to protect against unauthorised disclosure of data. There is a dedicated team of internal and external cybersecurity specialists who actively monitor and defend EY systems.

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

Components of the audit quality control programme

In the following sections, we describe the principal components of the EY UK audit quality control programme:

- ▶ Instilled professional values
- ▶ Internal quality control system
- ▶ Client acceptance and continuance
- ▶ Performance of audits
- ▶ Review and consultation
- ▶ Audit partner rotation
- ▶ Audit quality reviews
- ▶ External quality-assurance reviews
- ▶ Compliance with legal requirements

Commitment to quality

Instilled professional values

Sustainable Audit Quality

Quality is the foundation for exceptional client service. It is what we pride ourselves on. It is integral to our work and central to our responsibility to provide confidence to the capital markets. Delivering quality is at the heart of all we do and supports our purpose of building a better working world for our people, our clients and our communities. This is reflected in the Sustainable Audit Quality (SAQ) programme, which is the highest priority for our Assurance practices.

Each member firm that makes up our global structure is committed to providing high-quality audits. In 2015, we launched the SAQ initiative throughout our Assurance practices. SAQ establishes a governance structure and is focused on continuously improving our audit process.

We use the word 'sustainable' in SAQ to demonstrate that this is not a one-off, short-term initiative, but an ongoing process of improvement. EY has had a common audit methodology for some time; now we have a common language and processes regarding audit quality.

There are six components to SAQ: tone at the top, strengthening people capabilities, simplification, audit technology and digital, enablement and quality support, and accountability. SAQ is implemented by each member firm, and is coordinated and overseen globally.

Audit quality and the key elements of SAQ are something every partner, associate partner, director, senior manager, manager and team member must understand and be committed to implementing locally. SAQ is essential to all our goals and ambitions, and each of the Regional and Area leaders is held accountable for those goals.

We have made significant progress through SAQ. EY's internal and external inspection findings globally are showing improvement, and we are producing greater consistency in execution. We have deployed world-class tools that enhance the quality and value of our audits. Our ability to deliver consistency is based in part on the use of EY Canvas, our online audit platform. It better supports audit execution, streamlines communications and enables us to provide a seamless audit.

We recently launched the EY Canvas Client Portal, which adds to the leading-edge tools already offered to our auditors. In addition, we have deployed the 2018 Audit Milestones programme globally, which establishes the use of Milestones on selected public interest entity (PIE) audits as one important step to improving results and sustaining quality across engagements.

There is also a network of Quality Enablement Leaders (QELs) across the practice and an overall Global Audit Quality Committee.

They help us in executing and reviewing root cause analysis (RCA) and understanding the impact our initiatives are having in driving quality outcomes, better behaviours and a continuous improvement mind-set. This infrastructure demonstrates that audit quality is the single most important factor in our decision-making and the key measure on which our professional reputation stands.

Tone at the top

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

The EY approach to business ethics and integrity is contained in the EY Global Code of Conduct and other policies, and is embedded in the EY culture of consultation, training programmes and internal communications. Senior management regularly reinforces the importance of performing quality work, complying with professional standards, adhering to our policies, leading by example and through various communications. Also, EY's quality review programmes assess professional service as a key metric in evaluating and rewarding all professionals.

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

Commitment to quality

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

Code of Conduct

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

- ▶ Working with one another
- ▶ Working with clients and others
- ▶ Acting with professional integrity
- ▶ Maintaining our objectivity and independence
- ▶ Respecting intellectual capital

Through our procedures to monitor compliance with the EY Global Code of Conduct, and through frequent communications, we strive to create an environment that encourages all personnel to act responsibly, including reporting misconduct without fear of retaliation.

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

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

Our values: who we are

People who demonstrate integrity, respect and teaming

People with energy, enthusiasm and the courage to lead

People who build relationships based on doing the right thing

Internal quality control system

Structure

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

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

We recognise that in today's environment - characterised by continuing globalisation and the rapid movement of capital and the impact of technology changes - the quality of our audit services has never been more important. As part of EY Vision 2020+, we continue to invest heavily in developing and maintaining our audit methodology, tools and other resources needed to support quality service.

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

Commitment to quality

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

Effectiveness of the quality control system

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

We also execute the EY Audit Quality Review (AQR) programme to evaluate whether our system of audit quality control has operated effectively so as to provide reasonable assurance that EY UK and our people comply with applicable professional standards, internal policies and regulatory requirements.

The results of the AQR programme and external inspections are evaluated and communicated within EY UK to provide the basis for continual improvement in audit quality, consistent with the highest standards in the profession. The Global Executive is responsible for implementing quality improvement. As such, it reviews the results of our internal AQR programme and external audit firm regulatory reviews, as well as any key actions designed to address areas for improvement.

In the course of this review of effectiveness of internal control, we have not identified any significant weaknesses but have identified actions that we believe will strengthen controls to manage and mitigate principal risks. On the basis of reviews carried out, the Board is satisfied that the firm's systems of internal control are operating effectively.

Client acceptance and continuance

EY policy

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

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

In addition, the EY Global Conflicts of Interest Policy defines global standards for addressing categories of potential conflicts of interest and a process for identifying them. It also includes provisions for managing potential conflicts of interest as quickly and efficiently as possible through the use of appropriate safeguards. Such safeguards range from obtaining a client's consent for EYG member firms to act for two or more clients, to declining an engagement to avoid an identified conflict.

The EY Global Conflicts of Interest Policy and associated guidance were updated in early 2015. The updates take into account the increasing complexity of engagements and client relationships, and the need for speed and accuracy in responding to clients. They also align with the latest International Ethics Standards Board for Accountants (IESBA) standards.

Commitment to quality

Putting policy into practice

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

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

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

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

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

Performance of audits

As part of EY Vision 2020+, EY has invested significantly in improving audit methodologies and tools, with the goal of performing the highest-quality audits in the profession. This investment reflects EY's commitment to building trust and confidence in the capital markets and in economies the world over.

Audit methodology

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

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

EY GAM can be 'profiled' or tailored to present the relevant requirements and guidance, depending on the nature of the entity being audited. For example, there are profiles for listed entities and for those considered non-complex entities. Enhancements to the audit methodology are made regularly to address new standards, emerging auditing issues and matters, implementation experiences, and external and internal inspection results. In 2017, EY GAM was updated to address the requirements of new section 225 of the International Ethics Standards Board for Accountants Code of Ethics (IESBA Code), Responding to Non-Compliance with Laws and Regulations, and the resulting conforming changes to the ISAs. In addition, updated guidance was issued on performing joint audits and audits when the entity uses a service organisation, along with new policies relating to maintaining the audit documentation in electronic form. EY GAM was also enhanced by adding guidance to address common questions from audit teams and issues arising from inspections.

In addition, we monitor current and emerging developments, and issue timely audit planning and other reminders. These reminders emphasise areas noted during inspections as well as other key topics of interest to our local audit regulator(s) and the International Forum of Independent Audit Regulators (IFIAR).

Commitment to quality

Technology

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

EY Canvas, our global audit platform, lies at the heart of the audit and enables us to provide a high-quality audit. EY Canvas is built using HTML5, state-of-the-art technology for web applications. This allows us to provide data security and to evolve our software to respond to changes in the accounting profession and regulatory environment. The predecessor audit support tool, GAMx, was decommissioned in 2018.

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

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

Audit engagement teams use other software applications, forms and templates during various phases of an audit to assist in executing procedures, making and documenting audit conclusions, and performing analysis.

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

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

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

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

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

Formation of audit engagement teams

EY UK policies require an annual review of partner assignments by our Assurance leadership and UK PPD to make sure that the professionals leading listed-company audits possess the appropriate competencies (i.e., the knowledge, skills and abilities) to fulfil their engagement responsibilities, and are in compliance with applicable auditor rotation regulations.

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

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

Commitment to quality

Review and consultation

Reviews of audit work

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

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

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

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

Consultation requirements

EY consultation policies are built upon a culture of collaboration, whereby audit professionals are encouraged to share perspectives on complex accounting, auditing and reporting issues. Consultation requirements and related policies are designed to involve the right resources so that audit teams reach appropriate conclusions.

Consultation is built into the decision-making process; it is not just a process to provide advice.

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

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

Engagement quality reviews

Engagement quality reviews are performed by audit partners in compliance with professional standards for audits of all listed companies and those considered close monitoring. Engagement quality reviewers are experienced professionals with significant subject matter knowledge. They are independent of the engagement team and able to provide objective evaluation of significant accounting, auditing and reporting matters. In no circumstances may the responsibility of the engagement quality reviewer be delegated to another individual.

The engagement quality review spans the entire engagement cycle, including planning, risk assessment, audit strategy and execution. Policies and procedures for the performance and documentation of engagement quality reviews provide specific guidelines on the nature, timing and extent of the procedures to be performed, and the required documentation evidencing their completion. Our UK PPD approves all engagement quality review assignments.

Audit engagement team resolution process for differences of professional opinion

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

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

Commitment to quality

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

Furthermore, if the engagement quality reviewer makes recommendations that the engagement partner does not accept or the matter is not resolved to the reviewer's satisfaction, the auditor's report is not issued until the matter is resolved. EY policies require documentation of disagreements and their resolution.

Audit partner rotation

EY supports mandatory audit partner rotation to help reinforce auditor independence. EY UK complies with the audit partner rotation requirements of the code of the IESBA, and of the FRC's Ethical Standard as well as the US Securities and Exchange Commission (SEC), where required.

EY UK supports audit partner rotation because it provides a fresh perspective and promotes independence from company management, while retaining expertise and knowledge of the business. Audit partner rotation, combined with independence requirements, enhanced systems of internal quality controls and independent audit oversight, helps strengthen independence and objectivity, and is an important safeguard of audit quality.

For PIEs where rotation of the audit partner is not mandated by local independence regulation or is less restrictive than the IESBA or EU 537/2014 requirements, the EY Global Independence Policy requires the lead engagement partner and the engagement quality reviewer to be rotated after seven years. For a new PIE (including a newly listed company) client, the lead engagement partner and the engagement quality reviewer may remain in place for an additional two years before rotating off the team, if they have served the client for six or more years prior to the listing. Following rotation, the partner may not resume the lead or engagement quality review role until at least two years have elapsed.

We employ tools to track partner rotation that enable effective monitoring of compliance with requirements. We have also implemented a process for partner rotation planning and decision making that involves consultation with, and approvals by, our Professional Practice and Independence professionals.

Audit quality reviews

The EY Global AQR programme is the cornerstone of the EY process to monitor audit quality. EY UK executes the Global AQR programme, reports results and develops responsive actions plans. The primary goal of the programme is to determine whether systems of quality controls, including those of EY UK, are appropriately designed and followed in the execution of audit engagements to provide reasonable assurance of compliance with policies and procedures, professional standards, and regulatory requirements. The Global AQR programme complies with guidelines in the International Standard on Quality Control No. 1 (ISQC No. 1), as amended, and is supplemented where necessary to comply with UK professional standards and regulatory requirements. It also aids EY UK's continual efforts to identify areas where we can improve our performance or enhance our policies and procedures.

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

The engagements reviewed each year are selected on a risk-based approach, emphasising audit engagements that are large, complex or of significant public interest. The Global AQR programme includes detailed risk-focused file reviews covering a large sample of listed and non-listed audit engagements to measure compliance with internal policies and procedures, EY GAM requirements, and relevant local professional standards and regulatory requirements. It also includes reviews of a sample of non-audit engagements. These measure compliance with the relevant professional standards and internal policies and procedures that should be applied in executing non-audit services. In addition, practice-level reviews are performed to assess compliance with quality control policies and procedures in the functional areas set out in ISQC No. 1. The Global AQR programme complements external practice monitoring and inspection activities, such as inspection programmes executed by audit regulators.

AQR reviewers and team leaders are selected for their skills and professional competence in accounting and auditing, as well as their industry specialisation; they often work in the Global AQR programme for a number of years and are highly skilled in the execution of the programme. Team leaders and reviewers are assigned to inspections outside of their home location and are independent of the audit teams reviewed.

Commitment to quality

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

External quality assurance review

EY UK's audit practice is subject to annual inspection by the Financial Reporting Council (FRC) and ICAEW's Quality Assurance Department (QAD). It is also inspected by the Public Company Accounting Oversight Board (PCAOB) every three years.

As part of its inspections, the FRC evaluates quality control systems and reviews selected engagements. The last quality assurance inspection by the FRC took place in 2018. The final report on the inspection was issued on 18 June 2018 and is disclosed in Section 2 - Trust in Audit - Quality.

We respect and benefit from the external inspection process. We thoroughly evaluate points raised during the inspection in order to identify areas where we can improve audit quality. Together with the AQR process, external inspections aid us in making our audits and related control processes of the highest quality in the interests of our clients' investors and other stakeholders. Details of review findings publicly available can be found in Section 2 - Trust in Audit - Quality.

Information on the above-mentioned regulator, along with publicly available inspection reports, can be found at <https://www.frc.org.uk>.

Compliance with legal requirements

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

Anti-bribery

The EY Global Anti-bribery Policy provides EY people with direction around certain unethical and illegal activities. It emphasises the obligation to comply with anti-bribery laws and provides greater definition of what constitutes bribery. It also identifies reporting responsibilities when bribery is discovered. In recognition of the growing global impact of bribery and corruption, efforts have been increased to embed anti-bribery measures across EY.

Insider trading

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

Trade sanctions

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

Data privacy

The EY Global Personal Data Privacy Policy sets out the principles to be applied to the use and protection of personal data, including that relating to current, past and prospective personnel, clients, suppliers, and business associates. This policy is consistent with applicable laws and regulations concerning data protection and privacy for maintaining and processing personal data. Furthermore, we have a policy to address our specific UK data privacy requirements and business needs.

Document retention

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

Independence practices

EY Global Independence policies require EY UK and our people to comply with the independence standards applicable to specific engagements, including, for example, the Code of Ethics of the IESBA and the Ethical Standard of the FRC.

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

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

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

EY Global Independence Policy

The EY Global Independence Policy contains the independence requirements for member firms, professionals and other personnel. It is a robust policy predicated on the IESBA Code of Ethics and supplemented by more stringent requirements where prescribed by a given regulator. The policy also contains guidance to help people apply the independence rules. In the UK, the EY Global Independence Policy is supplemented by the requirements of the Ethical Standard of the FRC to form the EY UK Independence Policy, which is readily accessible to EY members and easily searchable on the EY intranet.

Global Independence System (GIS)

The GIS is an intranet-based tool that helps EY professionals identify the listed entities from which independence is required and the independence restrictions that apply. Most often, these are listed audit clients and their affiliates, but they can be other types of attest or assurance clients too.

The tool includes family-tree data relating to affiliates of listed audit clients and is updated by client-serving engagement teams. In the UK all audit clients and their affiliates are required to be recorded in the GIS. The entity data includes notations that indicate the independence rules that apply to each entity, helping our people determine the type of services that can be provided or other interests or relationships that can be entered into.

Global Monitoring System (GMS)

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

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

Independence compliance

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

Independence confirmations

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

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

Independence compliance reviews

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

Independence practices

Personal independence compliance testing

Each year, the EY Global Independence team establishes a programme for testing compliance with personal independence confirmation requirements and with reporting of information into the GMS. For the 2018 testing cycle, EY UK tested more than 496 partners and other personnel.

Non-audit services

We monitor compliance with professional standards governing the provision of non-audit services to audit clients through a variety of mechanisms. These include the use of tools, such as PACE (see page 107) and our Service Offering Reference Tool (see below), and training and required procedures completed during the performance of audits and internal inspection processes. We also have a process in place for the review and approval of certain non-audit services in advance of accepting the engagement.

Global independence learning

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

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

The annual independence learning programme covers independence requirements focusing on recent changes to policy, as well as recurring themes and topics of importance. Timely completion of annual independence learning is required and is monitored closely. EY UK supplements this programme with local content to cover local independence requirements under the Ethical Standard of the FRC that differ from the EY Global Independence Policy.

In addition to the annual learning programme, independence awareness is promoted through a number of events and materials, including new-hire programmes, milestone programmes and core service line curricula.

Service Offering Reference Tool (SORT)

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

Business Relationship Evaluation Tool (BRET)

The BRET process helps to support compliance with independence requirements. Our people are required to use BRET in many circumstances to identify, evaluate and obtain advance approval of a potential business relationship with an audit client.

Audit committees and oversight of independence

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

Continuing education of audit professionals

Professional development

The EY career development framework, EYU, provides our people with opportunities for the right experiences, learning and coaching to help them grow and achieve their potential.

The learning component of EYU is based on an extensive and globally consistent learning curriculum that helps all EY people develop the right technical and personal leadership skills, wherever they are located around the world. The EY audit core curriculum, The Audit Academy, combines interactive classroom-based simulations and 'on-demand' e-learning modules with relevant reinforcement and application support. This high-impact and award-winning learning is supplemented by learning programmes that are developed in response to changes in accounting and reporting standards, independence and professional standards, and emerging practice issues.

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

EY UK requires our audit professionals to obtain at least 20 hours of continuing professional education each year and at least 120 hours over a three-year period. Of these hours, 40% (eight hours each year and 48 hours over a three-year period) must cover technical subjects related to accounting and auditing.

In addition to formal learning, professional development occurs through coaching and experiences our professionals receive on-the-job. Coaching helps to transform knowledge and experience into practices.

Experienced professionals are expected to coach and develop less experienced personnel to create a continual learning environment. We also manage the assignment of our people to particular engagements in a systematic way that helps provide them exposure to a range of experiences as part of their own development.

Knowledge and internal communications

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

- ▶ EY Atlas, which includes local and international accounting and auditing standards, as well as interpretive guidance; replacement for Global Accounting and Auditing Information Tool (GAAIT) since the fiscal year 2017
- ▶ Publications such as International GAAP, IFRS developments and illustrative financial statements
- ▶ Global Accounting and Auditing News, a weekly update covering assurance and independence policies, developments from standard setters and regulators, as well as internal commentary thereon
- ▶ Practice alerts and webcasts covering a range of global and country-specific matters designed for continuous improvement in member firms' Assurance practices

Performance management

LEAD (Leadership Evaluation and Development), our new, forward-looking approach to people's career, development and performance, sees an enhanced focus on continuous feedback resulting in better conversations built around 90-day cycles. Feedback is aggregated and used as an input to compensation and reward programmes.

LEAD is designed to support the growth and development of our people at all stages of their career at EY. An individual's personal dashboard provides an easy-to-interpret snapshot of their performance against the Leadership at EY dimensions, and assesses performance against peers.

LEAD retains components that were also included in our previous Performance Management and Development Process approach. Those were providing our people with clear work expectations and the opportunity to self-assess their performance. During the course of the year, every professional, in conjunction with their counsellor, identifies opportunities for further development.

Partner Remuneration

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

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

EY prohibits evaluating and compensating lead audit engagement partners and other key audit partners on an engagement based on the sale of non-audit services to their audit clients. This reinforces to our partners their professional obligation to maintain our independence and objectivity. For audits conducted in accordance with the requirements of Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014, EY prohibits evaluating and compensating any partner or professional involved in, or able to influence the carrying out of, an engagement based on the sale of non-audit services to their audit clients. This reinforces that professionals are obligated to maintain independence and objectivity.

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

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

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

Our partner pay figures are not available at this time; we will be publishing these in November 2018.

EYG audit member firms

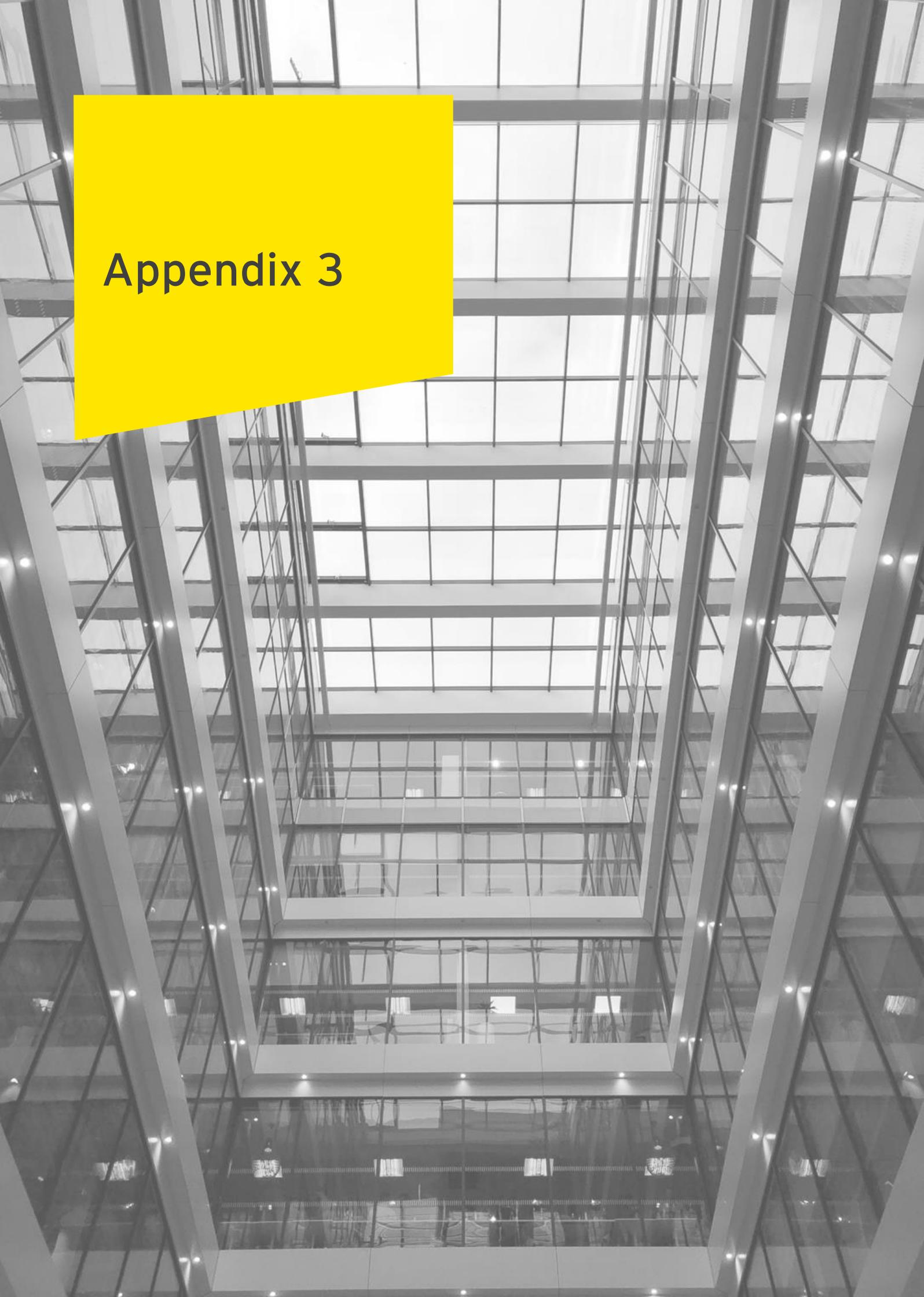
As of 30 June 2018, the following EYG member firms are approved to carry out statutory audits in an EU or EEA member state

Member State	Statutory auditor or audit firm
Austria	Ernst & Young Wirtschaftsprüfungsgesellschaft mbH
Belgium	Ernst & Young Assurance Services BCVBA
	Ernst & Young Bedrijfsrevisoren BCVBA
Bulgaria	Ernst & Young Audit OOD
Croatia	Ernst & Young d.o.o.
Cyprus	Ernst & Young Cyprus Limited
	Ernst & Young
	Ernst & Young CEA (South) Services Ltd
	Ernst & Young CEA (South) Holdings plc
Czech Republic	Ernst & Young Audit, s.r.o.
Denmark	Ernst & Young Godkendt Revisionspartnerselskab
	EY Grønland Statsautoriseret Revisionspartnerselskab
Estonia	Ernst & Young Baltic AS
	Baltic Network OU
Finland	Ernst & Young Oy
	Julkispalvelut EY Oy
France	Artois
	Auditex
	Barbier Frinault & Associates
	Conseil Audit & Synthèse
	Ernst & Young Atlantique
	Ernst & Young Audit
	Ernst & Young et Autres
Picardie et Associates	
Germany	Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft
	Ernst & Young Heilbronner Treuhand GmbH Wirtschaftsprüfungsgesellschaft
	EY Revision und Treuhand GmbH Wirtschaftsprüfungsgesellschaft
	Schitag Schwäbische Treuhand GmbH Wirtschaftsprüfungsgesellschaft
Gibraltar	EY Limited
Greece	Ernst & Young (Hellas) Certified Auditors Accountants SA
Hungary	Ernst & Young Könyvvizsgáló Korlátolt Felelősségű Társaság

EYG audit member firms

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

Total turnover of these EYG member firms resulting from statutory audits of annual and consolidated financial statements was approximately Euros 2.6 billion.



Appendix 3

AFGC 2016 Compliance

In accordance with 'Governance reporting principle E2' in the Audit Firm Governance Code 2016 (the Code), the Board of EY UK Board confirms that EY UK has complied with the provisions of the Code. The following table provides a list of the Code's principles and provisions with a reference next to each requirement to show where, in the EY UK 2018 Transparency Report, we explain how EY UK met each requirement.

Principles and provisions of the 2016 AFGC LEADERSHIP	How EY UK is addressing the principles and provisions
<p>A.1 Owner accountability Principle The management of a firm should be accountable to the firm's owners and no individual should unfettered powers of decision.</p>	<p>Section 6 - Governance</p>
<p>A.1.1 The Firm should establish a board or equivalent governance structure, with matters specifically reserved for its decision, to oversee the activities of the management team.</p>	<p>Section 6 - Governance</p>
<p>A.1.2 The firm should state in its transparency report how its governance structures and management operate, their duties and the types of decisions they take. In doing so the firm should explain how its governance structure provides oversight of both the audit practice and the firm as a whole with a focus on ensuring the Code's purpose is achieved.</p>	<p>Section 2 - Trust in audit Section 5 - Risks Section 6 - Governance</p>
<p>If the management and/or governance of the firm rests at an international level it should specifically set out how management and oversight of audit is undertaken and the Code's purpose achieved in the UK.</p>	<p>Section 6 - Governance Appendix 2 - EY Global Network - About us</p>
<p>A.1.3 The firm should state in its transparency report the names and job titles of all members of the firm's governance structures and its management, how they are elected or appointed and their terms, length of service, meeting attendance in the year, and relevant biographical details.</p>	<p>Section 6 - Governance Appendix 1 - Member biographies</p>
<p>A.1.4 The members of a firm's governance structures and management should be subject to formal, rigorous and ongoing performance evaluation and, at regular intervals, members should be subject to re-election or re-selection.</p>	<p>Appendix 2 - EY Global Network - Partner Remuneration Terms of references document on website</p>
<p>A.2 Management Principle A firm should have effective management which has responsibility and clear authority for running the firm.</p>	<p>Section 6 - Governance</p>
<p>A.2.1 Management should have terms of reference that include clear authority over the whole firm including its non-audit businesses and these should be disclosed on the firm's website.</p>	<p>Terms of references document on website Section 6 - Governance</p>

AFGC 2016 Compliance

Principles and provisions of the 2016 AFGC VALUES	How EY UK is addressing the principles and provisions
<p>B.1 Professionalism principle A firm should perform quality work by exercising judgement and upholding values of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour in a way that properly takes the public interest into consideration and meets auditing and ethical standards.</p>	<p>Section 1 - Leadership messages Section 2 - Trust in audit Appendix 2 - EY Global Network - Commitment to quality</p>
<p>B.1.1 The firm’s governance structures and management should establish and promote throughout the firm an appropriate culture, supportive of the firm’s public interest role and long term sustainability. This should be achieved in particular through the right tone from the top, through the firm’s policies and practices and by management publicly committing themselves and the whole firm to quality work, the public interest and professional judgement and values.</p>	<p>Section 1 - Leadership messages Section 2 - Trust in audit Section 6 - Governance Appendix 2 - EY Global Network - Commitment to quality</p>
<p>B.1.2 Firms should introduce KPIs on the performance of their governance system, and report on performance against these in their transparency reports.</p>	<p>Section 6 - Governance</p>
<p>B.1.3 The firm should have a code of conduct which it discloses on its website and requires everyone in the firm to apply. The Board and independent non-executives should oversee compliance with it.</p>	<p>Section 5 - Risks Section 6 - Governance Appendix 2 - EY Global Network</p> <p>The EY Global Code of Conduct is available from EY Global website (LINK)</p> <p>The independent non-executives oversee compliance with the code of conduct.</p>
<p>B.2 Governance Principle A firm should publicly commit itself to this Audit Firm Governance Code (AFGC).</p>	<p>Context Section 1 - Leadership messages Section 5 - Risks</p>
<p>B.2.1 The firm should incorporate the principles of this Audit Firm Governance Code into an internal code of conduct.</p>	<p>Section 6 - Governance</p>
<p>B.3 Openness principle A firm should maintain a culture of openness which encourages people to consult and share problems, knowledge and experience in order to achieve quality work in a way that properly takes the public interest into consideration.</p>	<p>Section 1 - Leadership messages Section 2 - Trust in audit Section 6 - Governance</p>

AFGC 2016 Compliance

Principles and provisions of the 2016 AFGC INDEPENDENT NON-EXECUTIVES	How EY UK is addressing the principles and provisions
<p>C.1. Involvement of independent non-executives principle</p> <p>A firm should appoint independent non-executives to the governance structure who through their involvement collectively enhance the firm’s performance in meeting the purpose of the Code.</p>	<p>Section 1 - Leadership messages - Report from the Chair of the Independent Non-Executive Oversight Committee</p> <p>Section 6 - Governance</p>
<p>C.1.1 Independent non-executives should number at least three and be in the majority on a body that oversees public interest matters; and/or be members of other relevant governance structures within the firm.</p> <p>They should also meet as a separate group to discuss matters relating to their remit. They should have full visibility of the entirety of the business but should pay particular attention to and report on risks to audit quality and how they are addressed.</p> <p>If a firm considers that having three INEs is inappropriate given its size or number of public company clients, it should explain this in its transparency report and ensure a minimum of two at all times. Where the firm adopts an international approach to its management it should have at least three INEs with specific responsibility and relevant experience to focus on the UK business and to take part in governance arrangements for this market; or explain why it regards a smaller number to be more appropriate, in which event there should be a minimum of two.</p>	<p>Section 1 - Leadership messages - Report from the Chair of the Independent Non-Executive Oversight Committee</p> <p>Section 6 - Governance</p>
<p>C.1.2 The firm should disclose on its website and in its transparency report information about the appointment, retirement and resignation of independent non-executives; their remuneration; their duties and the arrangements by which they discharge those duties; and the obligations of the firm to support them.</p> <p>The firm should report on why it has chosen to position its independent non-executives in the way it has (for example, as members of the main Board or on a public interest committee).</p> <p>The firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes independent non-executives.</p>	<p>Section 1 - Leadership messages - Report from the Chair of the Independent Non-Executive Oversight Committee</p> <p>Section 6 - Governance</p> <p>Terms of references document on website</p>
<p>C.1.3 The independent non-executives should report in the firm’s transparency report on how they have worked to meet the purpose of the Code defined as:</p> <ul style="list-style-type: none"> ▶ Promoting audit quality. ▶ Helping the firm secure its reputation more broadly, including in its non-audit businesses. ▶ Reducing the risk of firm failure. 	<p>Section 1 - Leadership messages - Report from the Chair of the Independent Non-Executive Oversight Committee</p>
<p>C.1.4 Independent non-executives should have regular contact with the Ethics Partner, who should under the ethical standards have a reporting line to them.</p>	<p>Section 6 - Governance</p>

AFGC 2016 Compliance

Principles and provisions of the 2016 AFGC INDEPENDENT NON-EXECUTIVES	How EY UK is addressing the principles and provisions
<p>C.2 Characteristics of independent non-executives principle</p> <p>The independent non-executives’ duty of care is to the firm. They should command the respect of the firm’s owners and collectively enhance shareholder confidence by virtue of their independence, number, stature, experience and expertise.</p> <p>They should have a balance of relevant skills and experience including of audit and a regulated sector.</p> <p>At least one independent non-executive should have competence in accounting and/or auditing, gained for example from a role on an audit committee, in a company’s finance function, as an investor or at an audit firm.</p>	<p>Section 6 - Governance Appendix 1 - Member biographies</p>
<p>C.2.1 The firm should state in its transparency report its criteria for assessing the impact of independent non-executives on the firm’s independence as auditors and their independence from the firm and its owners.</p>	<p>Section 1 - Leadership messages Section 6 - Governance</p>
<p>C.3 Rights and responsibilities of independent non-executives principle</p> <p>Independent non-executives of a firm should have rights consistent with their role including a right of access to relevant information and people to the extent permitted by law or regulation, and a right to report a fundamental disagreement regarding the firm to its owners and, where ultimately this cannot be resolved and the independent non-executive resigns, to report this resignation publicly.</p>	<p>Section 6 - Governance</p>
<p>C.3.1 Each independent non-executive should have a contract for services setting out their rights and duties</p>	<p>Section 6 - Governance</p> <p>Each INE has a contract, which outlines their rights and duties</p>
<p>C.3.2 Independent non-executives should be appointed for specific terms and any term beyond nine years should be subject to particularly rigorous review and explanation.</p>	<p>Section 6 - Governance</p>
<p>C.3.3 The responsibilities of an independent non-executive should include, but not be limited to, oversight of the firm’s policies and processes for:</p> <ul style="list-style-type: none"> ▶ Promoting audit quality. ▶ Helping the firm secure its reputation more broadly, including in its non-audit businesses. ▶ Reducing the risk of firm failure. 	<p>Section 1 - Leadership messages - Report from the Chair of the Independent Non-Executive Oversight Committee Section 6 - Governance</p>
<p>C.3.4 The firm should ensure that appropriate indemnity insurance is in place in respect of legal action against any independent non-executive in respect of their work in that role.</p>	<p>Section 6 - Governance Appropriate indemnity insurance is in place as a part of the INE’s Letter of Appointment and Service.</p>
<p>C.3.5 The firm should provide each independent non-executive with sufficient resources to undertake their duties including having access to independent professional advice at the firm’s expense where an independent non-executive judges such advice necessary to discharge their duties.</p>	<p>Section 6 - Governance</p>
<p>C.3.6 The firm should establish, and disclose on its website, procedures for dealing with any fundamental disagreement that cannot otherwise be resolved between the independent non-executives and members of the firm’s management team and/or governance structures.</p>	<p>Section 6 - Governance</p>

AFGC 2016 Compliance

Principles and provisions of the 2016 AFGC OPERATIONS	How EY UK is addressing the principles and provisions
<p>D.1 Compliance principle</p> <p>A firm should comply with professional standards and applicable legal and regulatory requirements. Operations should be conducted in a way that promotes audit quality and the reputation of the firm. The independent non-executives should be involved in the oversight of operations.</p>	<p>Section 1 - Leadership messages - Report from the Chair of the Independent Non-Executive Oversight Committee</p> <p>Section 2 - Trust in audit</p> <p>Section 5 - Risks</p> <p>Appendix 2 - EY Global Network - Commitment to quality</p>
<p>D.1.1 The firm should establish policies and procedures for complying with applicable legal and regulatory requirements and international and national standards on auditing, quality control and ethics, including auditor independence.</p>	<p>Section 2 - Trust in audit</p> <p>Section 5 - Risks</p> <p>Appendix 2 - EY Global Network - Commitment to quality & Independence practices</p>
<p>D.1.2 The firm should establish policies and procedures for individuals signing group audit reports to comply with applicable standards on auditing dealing with group audits including reliance on other auditors whether from the same network or otherwise.</p>	<p>Section 2 - Trust in audit</p>
<p>D.1.3 The firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest.</p>	<p>Section 5 - Risks</p> <p>Appendix 2 - EY Global Network - Independence practices</p>
<p>D.1.4 The firm should take action to address areas of concern identified by audit regulators in relation to the firm's audit work.</p>	<p>Section 2 - Trust in audit</p>
<p>D.2 Risk management principle</p> <p>A firm should maintain a sound system of internal control and risk management over the operations of the firm as a whole to safeguard the firm and reassure stakeholders.</p>	<p>Section 5 - Risks</p>
<p>D.2.1 The firm should, at least annually, conduct a review of the effectiveness of the firm's system of internal control.</p> <p>Independent non-executives should be involved in the review which should cover all material controls, including financial, operational and compliance controls and risk management systems as well as the promotion of an appropriate culture underpinned by sound values and behaviour within the firm.</p>	<p>Section 1 - Leadership messages</p> <p>Section 5 - Risks</p>
<p>D.2.2 The firm should state in its transparency report that it has performed a review of the effectiveness of the system of internal control, summarise the process it has applied and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review.</p> <p>It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary.</p>	<p>Section 5 - Risks</p>
<p>D.2.3 The firm should carry out a robust assessment of the principal risks facing it, including those that would threaten its business model, future performance, solvency or liquidity. This should reference specifically the sustainability of the audit practice within the UK.</p>	<p>Section 1 - Leadership messages</p> <p>Section 5 - Risks</p>

AFGC 2016 Compliance

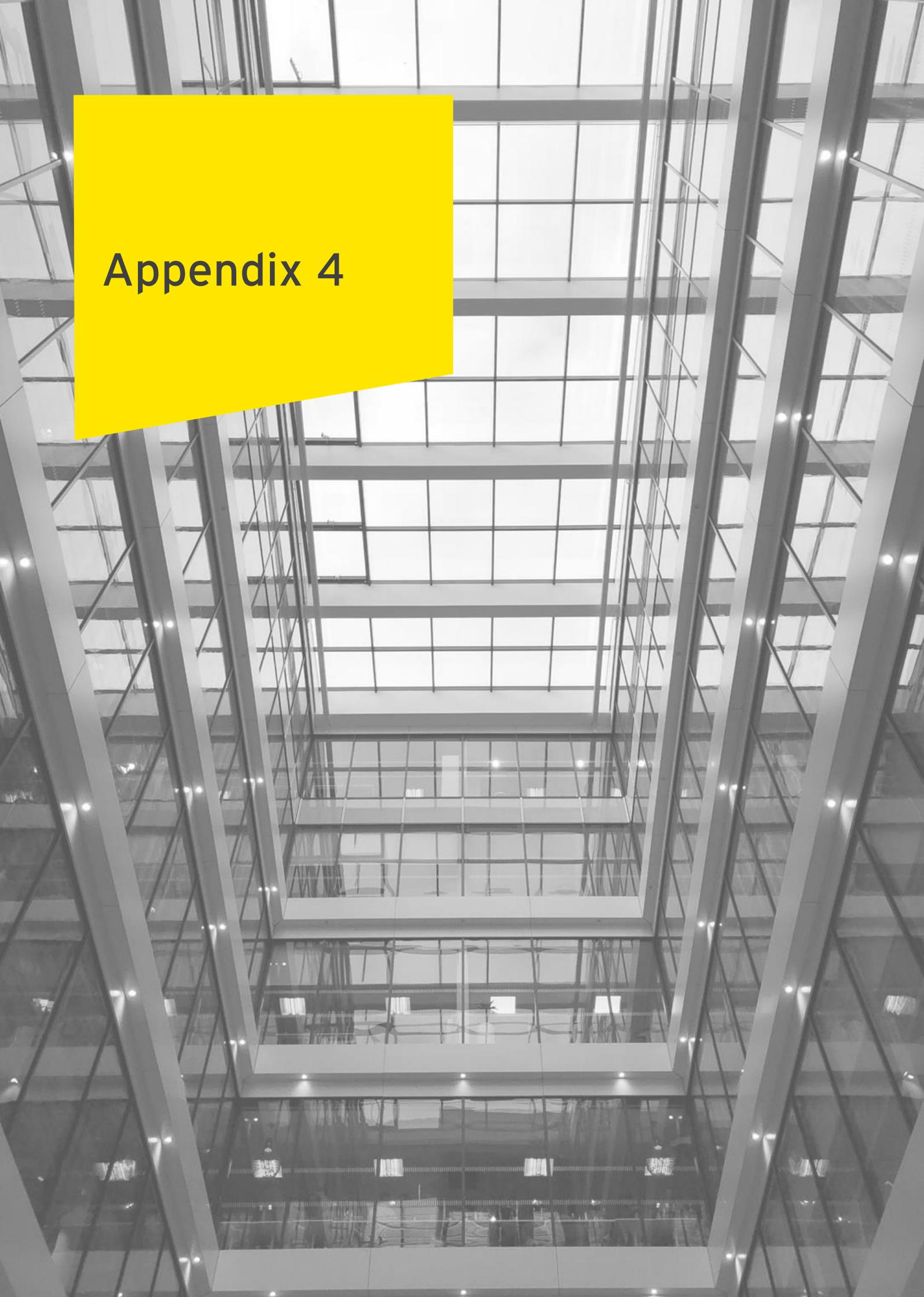
Principles and provisions of the 2016 AFGC OPERATIONS	How EY UK is addressing the principles and provisions
<p>D.3 People management principle A firm should apply policies and procedures for managing people across the whole firm that support its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code.</p>	<p>Section 1 - Leadership messages Section 2 - Trust in audit Section 3 - Our people Appendix 2 - EY Global Network - Continuing education of audit professionals</p>
<p>D.3.1 The firm should disclose on its website how it supports its commitment to the professionalism, openness and risk management principles of the Audit Firm Governance Code through recruitment, development activities, objective setting, performance evaluation, remuneration, progression, and other forms of recognition, representation and involvement.</p>	<p>Section 1 - Leadership messages Section 2 - Trust in audit Section 3 - Our people Appendix 2 - EY Global Network - Continuing education of audit professionals / Partner Remuneration</p>
<p>D.3.2 Independent non-executives should be involved in reviewing people management policies and procedures, including remuneration and incentive structures, to ensure that the public interest is protected.</p>	<p>Review of people management policies and procedures (incl. remuneration and incentive structures) to ensure the public interest is protected is part of the standing agenda of the IOC.</p>
<p>D.4 Whistleblowing principle A firm should establish and apply confidential whistleblowing policies and procedures across the firm which enable people to report, without fear, concerns about the firm’s commitment to quality work and professional judgement and values in a way that properly takes the public interest into consideration.</p>	<p>Section 5 - Risks</p>
<p>The independent non-executives should be satisfied that there is an effective whistleblowing process in place.</p>	<p>Independent non-executives satisfy themselves that the whistleblowing process is effective via attendance at UK LLP Board meetings at which reports on issues raised under whistleblowing policies and procedures are discussed.</p>
<p>D.4.1 The firm should report to independent non-executives on issues raised under its whistleblowing policies and procedures and disclose those policies and procedures on its website.</p>	<p>Section 5 - Risks Appendix 2 - EY Global Network</p>

AFGC 2016 Compliance

Principles and provisions of the 2016 AFGC REPORTING	How EY UK is addressing the principles and provisions
<p>E.1 Internal reporting principle The management of a firm should ensure that members of its governance structures, including owners and independent non-executives, are supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.</p>	<p>Section 6 - Governance</p>
<p>E.2 Governance reporting principle A firm should publicly report how it has applied in practice each of the principles of the Audit Firm Governance Code (AFGC) and make a statement on its compliance with the Code's provisions or give a considered explanation for any non-compliance.</p>	<p>Section 6 - Governance See also throughout this transparency report</p>
<p>E.2.1 The firm should publish on its website an annual transparency report containing the disclosures required by Code Provisions A.1.2, A.1.3, B.1.2, C.2.1, D.1.3, D.2.2, E.2.2 and E.3.1.</p>	<p>Refer to individual code provisions and our website</p>
<p>E.2.2 In its transparency report the firm should give details of any additional provisions from the UK Corporate Governance Code which it has adopted within its own governance structure.</p>	<p>No additional provisions of the UK Corporate Governance Code have been adopted beyond those that are reflected in the AFGC.</p>
<p>E.3 Transparency principle A firm should publish on an annual basis in its transparency report a commentary on the firm's performance, position and prospects.</p>	<p>Section 1 - Leadership messages Section 4 - Results</p>
<p>E.3.1 The firm should confirm that it has carried out a robust assessment of the principal risks facing the audit firm, including those that would threaten its business model, future performance, solvency or liquidity. The firm should describe those risks and explain how they are being managed or mitigated.</p>	<p>Section 5 - Risks</p>
<p>E.3.2 The transparency report should be fair, balanced and understandable in its entirety.</p>	<p>Section 6 - Governance The Transparency Report is written by extensive subject matter experts, coordinated by the UK Regulatory & Public Policy team. This report is subject to both review and approval by the EY UK LLP Board.</p>
<p>E.4 Reporting quality principle A firm should establish formal and transparent arrangements for monitoring the quality of external reporting and for maintaining an appropriate relationship with the firm's auditors.</p>	<p>Section 6 - Governance</p>
<p>E.4.1 The firm should establish an audit committee and disclose on its website information on the committee's membership and terms of reference which should deal clearly with its authority and duties, including its duties in relation to the appointment and independence of the firm's auditors. On an annual basis, the audit committee should publish a description of its work and how it has discharged its duties.</p>	<p>Section 6 - Governance Terms of references document on website</p>

AFGC 2016 Compliance

Principles and provisions of the 2016 AFGC DIALOGUE	How EY UK is addressing the principles and provisions
<p>E.5 Financial statements principle A firm should publish audited financial statements prepared in accordance with a recognised financial reporting framework such as International Financial Reporting Standards or UK GAAP, and should be clear and concise.</p>	<p>See the Ernst & Young LLP financial statements available from Companies House (to be filed end of Oct 2018).</p>
<p>E.5.1 The firm should explain who is responsible for preparing the financial statements and the firm’s auditors should make a statement about their reporting responsibilities, preferably in accordance with the extended audit report standards.</p>	<p>See the Ernst & Young LLP financial statements available from Companies House (to be filed end of Oct 2018).</p>
<p>E.5.2 The firm should state whether it considers it appropriate to adopt the going concern basis of accounting and identify any material uncertainties to its ability to continue to do so, with supporting assumptions or qualifications as necessary.</p>	<p>See the Ernst & Young LLP financial statements available from Companies House (to be filed end of Oct 2018).</p>
<p>F.1 Firm dialogue principle A firm should have dialogue with listed company shareholders, as well as listed companies and their audit committees, about matters covered by this Audit Firm Governance Code to enhance mutual communication and understanding and ensure that it keeps in touch with shareholder opinion, issues and concerns.</p>	<p>Section 1 - Leadership messages Section 2 - Trust in audit - Stakeholder engagement</p>
<p>F.1.1 The firm should disclose on its website its policies and procedures, including contact details, for dialogue about matters covered by this Audit Firm Governance Code with listed company shareholders and listed companies. It should also report on the dialogue it has had during the year. These disclosures should cover the nature and extent of the involvement of independent non-executives in such dialogue.</p>	<p>Section 1 - Leadership messages Section 2 - Trust in audit - Stakeholder engagement Contact details are available on the transparency report webpage</p>
<p>F.2 Shareholder dialogue principle Shareholders should have dialogue with audit firms to enhance mutual communication and understanding.</p>	<p>Section 1 - Leadership messages Section 2 - Trust in audit - Stakeholder engagement</p>
<p>F.3 Informed voting principle Shareholders should have dialogue with listed companies on the process of recommending the appointment and re-appointment of auditors and should make considered use of votes in relation to such recommendations.</p>	<p>Section 2 - Trust in audit - Stakeholder engagement Through our stakeholder engagement activities we encourage dialogue between investors and listed companies.</p>

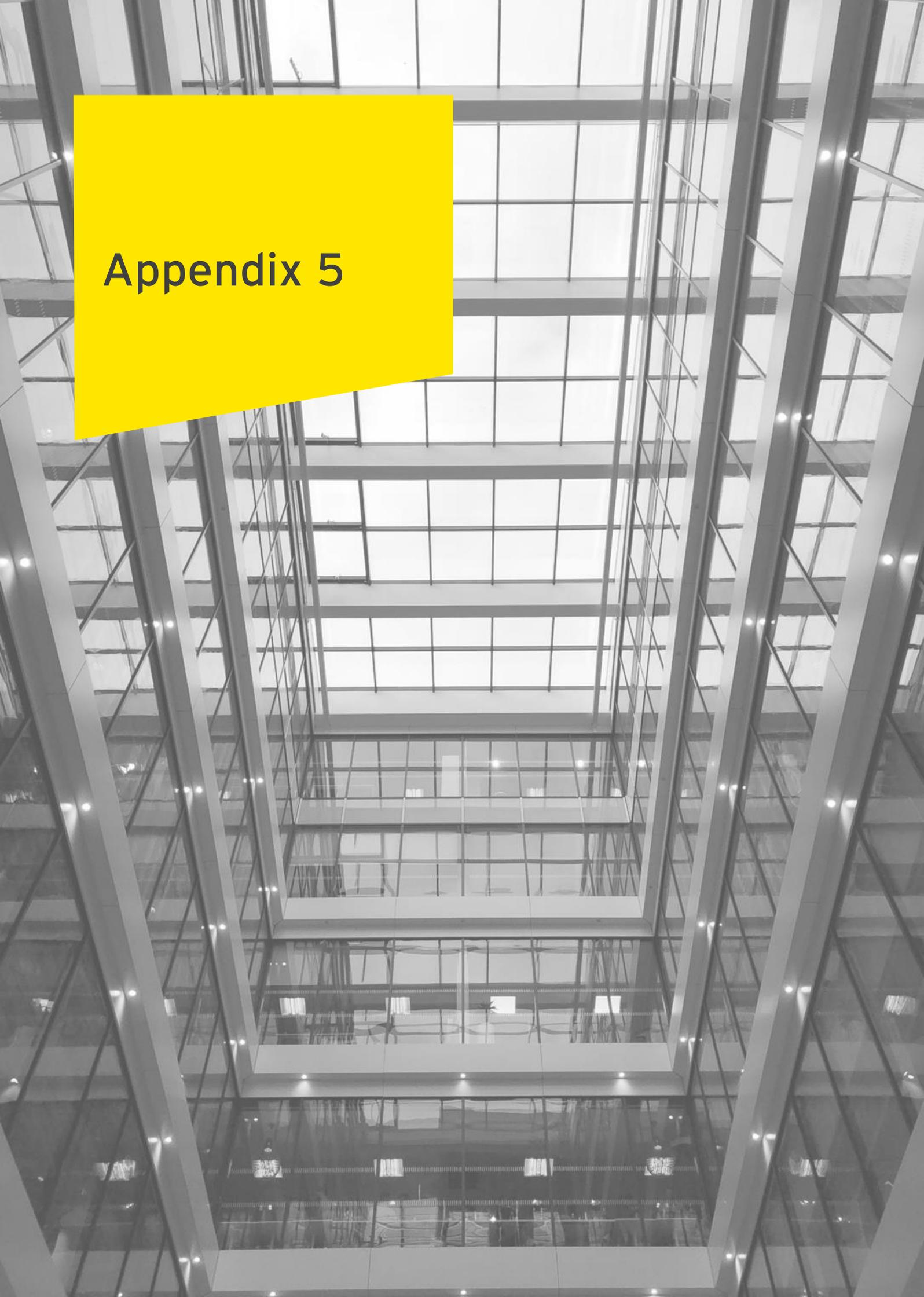


Appendix 4

EU Audit Regulation

Under Article 13 of The EU Audit Regulation (537/2014) EY UK is required to disclose certain information. The table below shows where these disclosures can be found in this Transparency Report.

Provisions of the Regulation	Where to find information on how EY UK complies with the Regulation
a) a description of the legal structure and ownership of the audit firm	Section 6 - Governance Appendix 2 - EY Global Network
b) where the statutory auditor or the audit firm is a member of a network:	
i. a description of the network and the legal and structural arrangements in the network	Appendix 2 - EY Global Network
ii. the name of each statutory auditor operating as a sole practitioner or audit firm that is a member of the network	Appendix 2 - EY Global Network
iii. the countries in which each statutory auditor operating as a sole practitioner or audit firm that is a member of the network is qualified as a statutory auditor or has his, her or its registered office, central administration or principal place of business	Appendix 2 - EY Global Network
iv. the total turnover achieved by the statutory auditors operating as sole practitioners and audit firms that are members of the network, resulting from the statutory audit of annual and consolidated financial statements	Appendix 2 - EY Global Network
c) a description of the governance structure of the audit firm	Section 6 - Governance Appendix 2 - EY Global Network
d) a description of the internal quality control system of the statutory auditor or of the audit firm and a statement by the administrative or management body on the effectiveness of its functioning	Section 5 - Risks Appendix 2 - EY Global Network
e) an indication of when the last quality assurance review referred to in Article 26 was carried out	Section 2 - Trust in audit
f) a list of public-interest entities for which the statutory auditor or the audit firm carried out statutory audits during the preceding financial year	Appendix 6 - EY UK PIE audit clients
g) a statement concerning the statutory auditor's or the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted	Section 5 - Risks Appendix 2 - EY Global Network - Independence practices
h) a statement on the policy followed by the statutory auditor or the audit firm concerning the continuing education of statutory auditors referred to in Article 13 of Directive 2006/43/EC	Appendix 2 - EY Global Network - Continuing education of audit professionals
i) information concerning the basis for the partners' remuneration in audit firms	Appendix 2 - EY Global Network - Partner remuneration
j) a description of the statutory auditor's or the audit firm's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7)	Appendix 2 - EY Global Network - Commitment to quality
k) where not disclosed in its financial statements within the meaning of Article 4(2) of Directive 2013/34/EU, information about the total turnover of the statutory auditor or the audit firm, divided into the following categories:	
i. revenues from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity	Section 4 - Results
ii. revenues from the statutory audit of annual and consolidated financial statements of other entities	Section 4 - Results
iii. revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and	Section 4 - Results
iv. revenues from non-audit services to other entities	Section 4 - Results



Appendix 5

Financial reporting council - The local auditors (Transparency) Instrument 2015

Provisions of the Regulation	Where to find information on how EY complies with the Regulation
1. A description of the legal structure, governance and ownership of the transparency reporting local auditor.	Section 6 - Governance Appendix 2 - EY Global Network
2. Where the transparency reporting local auditor belongs to a network, a description of the network and the legal, governance and structural arrangements of the network.	Section 6 - Governance Appendix 2 - EY Global Network
3. A description of the internal quality control system of the transparency reporting local auditor and a statement by the administrative or management body on the effectiveness of its functioning in relation to local audit work.	Section 1 - Leadership messages Section 5 - Risks Appendix 2 - EY Global Network
4. A description of the transparency reporting local auditor's independence procedures and practices including a confirmation that an internal review of independence practices has been conducted.	Section 5 - Risks Appendix 2 - EY Global Network - Independence practices
5. Confirmation that all engagement leads are competent to undertake local audit work and staff working on such assignments are suitably trained.	All engagement leads for local audit are registered as 'key audit partners' with the ICAEW and are supported by dedicated public sector audit staff who, in addition to the training outlined in 'Appendix 2 - EY Global Network - Continuing education of audit professionals' receive sector specific training specific to their local audit work.
6. A statement of when the last monitoring of the performance by the transparency reporting local auditor of local audit functions, within the meaning of paragraph 23 of Schedule 10 to the Companies Act 2006, as applied in relation to local audits by Section 17 and paragraphs 1, 2 and 28(7) of Schedule 5 to the Act, took place.	Section 2 - Trust in audit
7. A list of major local audits in respect of which an audit report has been made by the transparency reporting local auditor in the financial year of the auditor; and any such list may be made available elsewhere on the website specified in regulation 4 provided that a clear link is established between the transparency report and such a list.	Appendix 5 - Major local audits
8. A statement on the policies and practices of the transparency reporting local auditor designed to ensure that persons eligible for appointment as a local auditor continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level.	Section 2 - Trust in audit Appendix 2 - EY Global Network - Continuing education of audit professionals
9. Turnover for the financial year of the transparency reporting local auditor to which the report relates, including the showing of the importance of the transparency reporting local auditor's local audit work.	Section 4 - Results
10. Information about the basis for the remuneration of partners.	Appendix 2 - EY Global Network - Partner remuneration

Major local audits

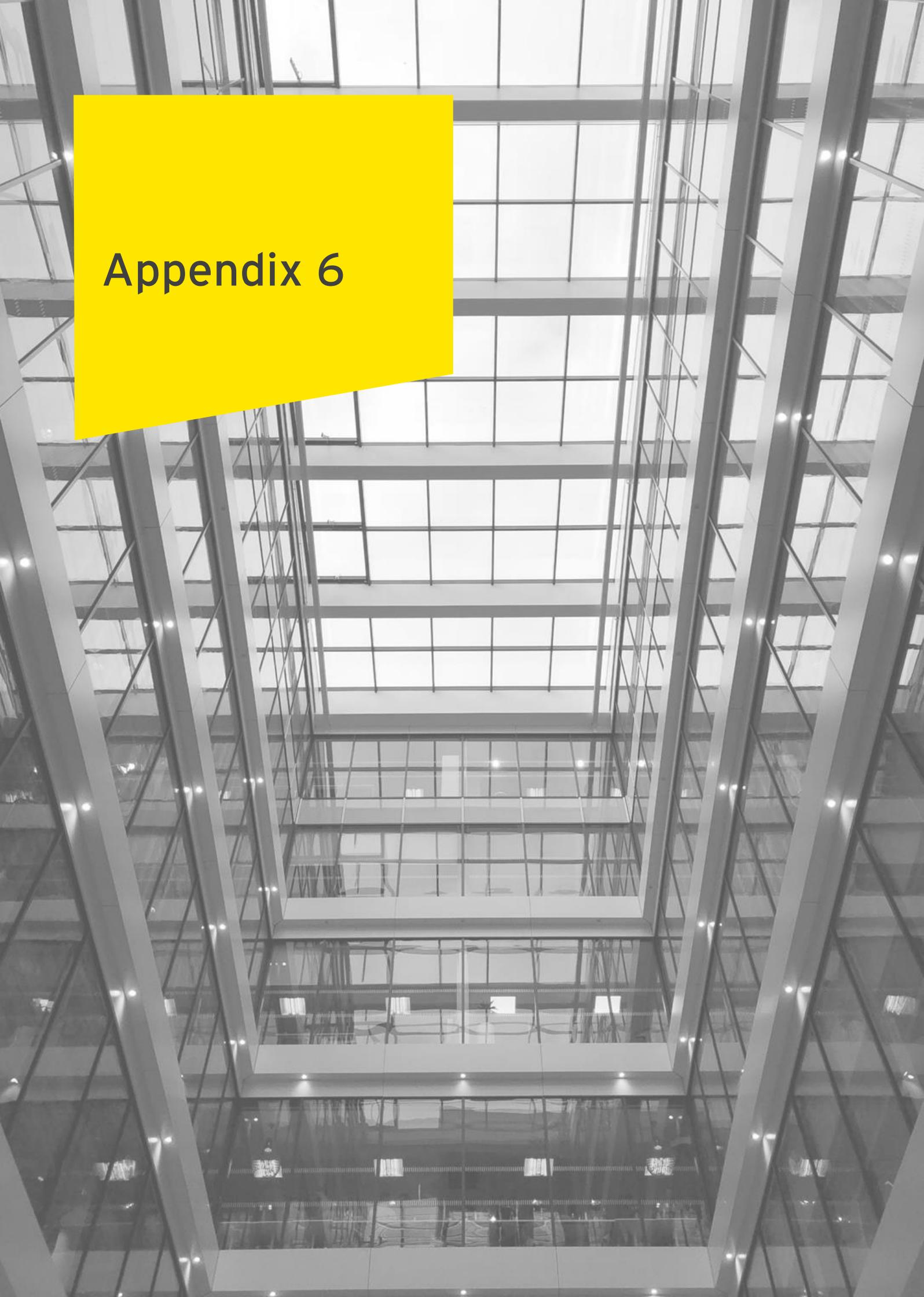
In FY18, EY UK performed the following major Local Audits:

Engagement	Sector	Types
Bedford Borough Council	LG	Unitary Authority
Bedford Pension Fund	LG Pension	LG Pension Fund
Brighton and Hove City Council	LG	Unitary Authority
Brighton and Sussex University Hospitals NHS Trust	NHS	Acute NHS Trust
Central Bedfordshire Council	LG	Unitary Authority
Derby City Council	LG	Unitary Authority
Essex County Council	LG	County Council
Essex Pension Fund	LG Pension	LG Pension Fund
Gloucester Foundation Trust	NHS	Foundation Trust
Greater London Authority	LG	GLA and Functional Bodies
Hampshire County Council	LG	County Council
Hampshire Pension Fund	LG Pension	LG Pension Fund
Hertfordshire County Council	LG	County Council
Hertfordshire Pension Fund	LG Pension	LG Pension Fund
London Borough of Havering Council	LG	London Borough Council
London Borough of Havering Council Pension Fund	LG Pension	LG Pension Fund
London Borough of Hillingdon	LG	London Borough Council
London Borough of Hillingdon Pension Fund	LG Pension	LG Pension Fund
London Borough of Newham	LG	London Borough Council
London Borough of Newham Pension Fund	LG Pension	LG Pension Fund
London Fire and Emergency Planning Authority	LG	Fire Authority
Luton Borough Council	LG	Unitary Authority
Merton Council	LG	London Borough Council
Merton Pension Fund	LG Pension	LG Pension Fund
Middlesbrough Council	LG	Unitary Authority
Milton Keynes Council	LG	Unitary Authority
Newcastle City Council	LG	Metropolitan DC
NHS Cambridgeshire and Peterborough Clinical Commissioning Group	NHS	Clinical Commissioning Group
NHS Coastal West Sussex Clinical Commissioning Group	NHS	Clinical Commissioning Group

Major local audits

Engagement	Sector	Types
NHS Coventry and Rugby Clinical Commissioning Group	NHS	Clinical Commissioning Group
NHS Ipswich and East Suffolk Clinical Commissioning Group	NHS	Clinical Commissioning Group
NHS Oxfordshire Clinical Commissioning Group	NHS	Clinical Commissioning Group
Norfolk County Council	LG	County Council
Norfolk Pension Fund	LG Pension	LG Pension Fund
Northumberland Council	LG	Unitary Authority
Oxfordshire County Council	LG	County Council
Oxfordshire Pension Fund	LG Pension	LG Pension Fund
Peterborough City Council	LG	Unitary Authority
Police and Crime Commissioner for Hampshire	LG	Police and Crime Commissioner
Police and Crime Commissioner for Kent	LG	Police and Crime Commissioner
Police and Crime Commissioner for Thames Valley	LG	Police and Crime Commissioner
Portsmouth City Council	LG	Unitary Authority
Portsmouth Hospitals NHS Trust	NHS	Acute NHS Trust
Sefton Council	LG	Metropolitan DC
South Tyneside Council	LG	Metropolitan DC
South Tyneside Pension Fund (Tyne & Wear)	LG Pension	LG Pension Fund
Southampton City Council	LG	Unitary Authority
Staffordshire County Council	LG	County Council
Staffordshire Pension Fund	LG Pension	LG Pension Fund
Suffolk County Council	LG	County Council
Suffolk Pension Fund	LG Pension	LG Pension Fund
Transport for London	LG	GLA and Functional Bodies
Walsall Metropolitan Borough Council	LG	Metropolitan DC
Wandsworth Borough Council	LG	London Borough Council
Wandsworth Pension Fund	LG Pension	LG Pension Fund
West Sussex County Council	LG	County Council
West Sussex Pension Fund	LG Pension	LG Pension Fund

Appendix 6



EY UK PIE audit clients

In FY18, EY UK performed audits of the following PIEs:

3i Group plc

AA plc

AA Underwriting Limited

Abbey Life Assurance Company Limited

ABC International Bank plc

Aberdeen Asian Smaller Companies Investment Trust plc

Aberdeen Diversified Income and Growth Trust plc

Aberdeen Smaller Companies Income Trust plc

ABP Finance plc

ADIB (UK) Ltd

Ahli United Bank (UK) plc

Alpha Plus Holdings plc

Argo Underwriting Agency Limited

Artesian Finance III plc

Ashdowns Limited

Associated British Foods plc

AVEVA Group plc

Awilco Drilling plc

Bank Of China (UK) Limited

Bank Of Cyprus UK Limited

Bank of London and The Middle East plc

Bank Sepah International plc

BB Healthcare Trust plc

BFC Bank Limited

BG Energy Capital plc

BGEO Group plc

Biz Finance plc

BlackRock Commodities Income Investment Trust plc

BlackRock Frontiers Investment Trust plc

BlackRock Greater Europe Investment Trust plc

BlackRock Throgmorton Trust plc

BP Capital Markets plc

BP plc

British Airways plc

Britvic plc

Brown Shipley & Co. Limited

Burford Capital plc

Care Homes 1 Limited

Care Homes 2 Limited

Care Homes 3 Limited

Castle Trust Direct plc

CC Japan Income & Growth Trust plc

CIBC World Markets plc

CIS General Insurance Limited

Civilised Bank Ltd

Clydesdale Bank plc

Coca-Cola European Partners plc

Communis plc

Co-operative Group Holdings (2011) Limited

Co-operative Group Limited

Coutts & Company Limited

Coventry Building Society

CRH Finance (U.K.) plc

CYBG plc

De La Rue plc

Dignity Finance plc

Dignity plc

Domino's Pizza Group plc

Ecofin Global Utilities and Infrastructure Trust plc

Edinburgh Worldwide Investment Trust plc

Ei Group plc

Endurance Worldwide Insurance Limited

Energiean Oil & Gas plc

EnQuest plc

EP Global Opportunities Trust plc

Europe Arab Bank plc

EVRAZ plc

F&C Managed Portfolio Trust plc

F&C Private Equity Trust plc

FGIC UK LTD

Fidelity Asian Values plc

Fidelity China Special Situations plc

EY UK PIE audit clients

Fidelity European Values plc	JPMorgan Elect plc
Fidelity Japan Trust plc	JPMorgan European Investment Trust plc
Fidelity Special Values plc	JPMorgan Global Emerging Markets Income Trust plc
Finance for Residential Social Housing plc	JPMorgan Russian Securities plc
Finsbury Square 2016-1 plc	Julian Hodge Bank Limited
Finsbury Square 2016-2 plc	Jupiter European Opportunities Trust plc
First Hydro Finance plc	Kensington Mortgage Securities plc
Flood Re Ltd	Lanark Master Issuer plc
FM Insurance Co Ltd	Land Securities Capital Markets plc
Foreign & Colonial Investment Trust plc	Land Securities Group plc
Forterra plc	Landmark Mortgage Securities No.1 plc
Fresnillo plc	Landmark Mortgage Securities No.2 plc
GCP Student Living plc	Landmark Mortgage Securities No.3 plc
Gemgarto 2015-1 plc	Lannraig Master Issuer plc
Gemgarto 2015-2 plc	Liberty Mutual Insurance Europe plc
Georgia Healthcare Group plc	London General Insurance Company Limited
Greene King Finance plc	London General Life Company
Greene King plc	London Stock Exchange Group plc
Gulf International Bank (UK) Limited	Lowland Investment Company plc
Havin Bank Ltd	LSL Property Services plc
Henderson European Focus Trust plc	Majedie Investments plc
Herald Investment Trust plc	Managed Pension Funds Ltd
Hitachi Capital (UK) plc	Martin Currie Global Portfolio Trust plc
Hochschild Mining plc	Mercia No.1 plc
Hodge Life Assurance Company	Miton Uk Microcap Trust plc
IMI plc	Mizuho International plc
Impax Environmental Markets plc	Monks Investment Trust plc
Inceptum Insurance Co Ltd	Montanaro European Smaller Companies Trust plc
INSURANCE (GB) LTD	Montanaro UK Smaller Companies Investment Trust plc
InterContinental Hotels Group plc	Monzo Bank Limited
Invesco Income Growth Trust plc	Murray Income Trust plc
Investec Bank plc	Murray International Trust plc
Investec Investment Trust plc	Nanoco Group plc
Investec plc	National Bank Of Kuwait (International) plc
J Sainsbury plc	National Deposit Friendly Society Limited
John Menzies plc	NATIONAL WESTMINSTER BANK Public Limited Company
JPMorgan Brazil Investment Trust plc	Natwest Markets plc
JPMorgan Claverhouse Investment Trust plc	

EY UK PIE audit clients

New Star Investment Trust plc	SCOR UK Company Ltd
NMC Health plc	ScotGems plc
Nomura Bank International plc	Seneca Global Income & Growth Trust plc
Nostrum Oil & Gas plc	SG KLEINWORT HAMBROS BANK LIMITED
Nottingham Building Society	Shaftesbury Chinatown plc
Offa No.1 plc	Shaftesbury plc
ONE RE LTD	Shires Income plc
Ophir Energy plc	Shortline plc
Opportunity Investment Management plc	Silk Road Finance Number Four plc
Pa (Gi) Limited	Softcat plc
Pacific Horizon Investment Trust plc	Sompo Japan Nipponkoa Insurance Co Of Europe
PageGroup plc	South West Water Finance plc
PCF Bank Limited	Spire Healthcare Group plc
Pennon Group plc	Spirent Communications plc
Perpetual Income & Growth Investment Trust plc	Spirit Issuer plc
Persimmon plc	Stagecoach Group plc
Personal Assets Trust plc	Stallergenes Greer plc
Phoenix Life Assurance Limited	Standard Life UK Smaller Companies Trust plc
Phoenix Life Limited	Stirling Water Seafield Finance plc
Polypipe Group plc	Stronghold Insurance Company Limited
Premier Oil plc	Tandem Bank Limited
Qib (Uk)	Td Bank Europe Limited
RAK Petroleum plc	Temese Funding 2 plc
Rank Group Finance plc	Temple Bar Investment Trust plc
RELX (Investments) plc	The Bankers Investment Trust plc
RELX plc	The Biotech Growth Trust plc
Renishaw plc	The Co-operative Bank plc
Residential Mortgage Securities 23 plc	The Diverse Income Trust plc
Residential Mortgage Securities 25 plc	The Dominion Insurance Company
Residential Mortgage Securities 26 plc	The Gym Group plc
Residential Mortgage Securities 28 plc	The Higher Education Securitised Investments Series No.1 plc
RM Secured Direct Lending plc	The Independent Investment Trust plc
Royal Dutch Shell plc	The Rank Group plc
Sabre Insurance Company Limited	The Royal Bank of Scotland Group plc
Sabre Insurance Group plc	The Royal Bank of Scotland Public Limited Company
Sainsbury's Bank plc	The Sage Group plc
Sanditon Investment Trust plc	The Scottish Oriental Smaller Companies Trust plc
Sanlam Life & Pensions UK Ltd	

EY UK PIE audit clients

The Underwriter Insurance Company Limited

The University Of Manchester

Theatre (Hospitals) No.1 plc

Theatre (Hospitals) No.2 plc

Thomas Cook Group plc

Transport for London

Transre London Limited

Trent Insurance Company Limited

UBS Asset Management Life Limited

UBS Limited

The Unique Pub Finance Company plc

Unum Limited

Usaa Limited

Vedanta Resources plc

Volution Group plc

VTB Capital plc

Warwick Finance Residential Mortgages No 1 plc

Warwick Finance Residential Mortgages No 2 plc

Waterside Campus Development Company plc

Wausau Insurance Company (U.K.) Limited

Wesleyan Assurance Society

Wesleyan Bank Limited

Westfield Stratford City Finance plc

Winchester Street plc

ZEAL Network SE

Glossary

AFGC	Audit Firm Governance Code	LEAD	Leadership Evaluation and Development
AQB	Audit Quality Board	LLP	Limited liability partnership
AQI	Audit Quality Indicators	NED	Non-Executive Director
AQR	EY Global Audit Quality Review programme	NOCLAR	EY's Global Code of Conduct
AQRT	The FRC's Audit Quality Review Team	ORITP	The Objective, Reasonable and Informed Third Party
AQST	Audit Quality Support Team	PACE	Process for acceptance of clients and engagements
BAME	Black, Asian and minority ethnic	PCAOB	US Public Company Accounting and Oversight Board
Big Four	The four largest global accounting and auditing networks: Deloitte, EY, KPMG, PwC	PIC	Global Public Interest Committee
BRET	Business Relationship Evaluation Tool	PIE	Public Interest Entity
CCC	Code of Conduct Committee	plc	Public limited company
CEOs	Chief Executive Officers	PLOT	Purpose Led Outcome-orientated Thinking
CMA	Competition and Markets Authority	PMDP	Performance Management and Development Process
CMP	Country Managing Partner	PPEDDs	Partners, principals, associate partners and directors
CP	Conflicts Panel	PRA	Prudential Regulation Authority
D&I	Diversity and inclusiveness	PRG	Policy and Reputation Group
EMEIA	Europe, Middle-East, India and Africa	PSAA	Public Sector Audit Appointments Ltd
EOE	Europe Operating Executive	PSC	Pension Sub- Committee
EPIC	Embankment Project for Inclusive Capitalism	PY	Prior year
EQCR	Engagement Quality Control Reviewer	QAD	Quality Assurance Department of the ICAEW
EY Foundation	An independent charity set up by EY in 2014	QELs	Quality Enablement Leaders
EY GAM	EY Global Audit Methodology	RemCo	Remuneration Committee

Glossary

EY UK CBM	EY UK Centre for Board Matters	RIs	Responsible Individuals, being those individuals in the firm allowed to sign audit reports
EYG	EY Global	ROC	Risk Oversight Committee
FRC	Financial Reporting Council	RPA	Robotic Process Automation
FTSE	Financial Times Stock Exchange	RPF	Regional Partner Forum
FY	Fiscal Year	SAQ	Sustainable Audit Quality
GDPP	Global Data Privacy Policy	SEC	US Securities and Exchange Commission
GDPR	EU General Data Protection Regulation	SORT	Service Offering Reference Tool
GE	Global Executive	SOX	US Sarbanes-Oxley Act of 2002
GGC	Global Governance Council	TAS	Transaction Advisory Services
GMS	Global Monitoring System	The Board	The board of EY UK LLP
IAASB	International Auditing and Assurance Standards Board	The EU Audit Regulation	Regulation No 537/2014 of the European Parliament and of the Council of 16 April 2014
ICAEW	Institute of Chartered Accountants in England and Wales	TPEs	Team Planning Events
IESBA	International Ethics Standards Board for Accountants	UK FSO	EY UK Financial Services Office
IFRS	International Financial Reporting Standards	UK&I	United Kingdom and Ireland
INE	Independent Non-Executive	UKAC	UK Audit Committee
IOC	Independent Non- Executive Oversight Committee	US GAAP	US Generally Accepted Accounting Principles
ISAs	International Standards on Auditing	VFM	Value for Money
ISQC No. 1	International Standards on Quality Control No. 1	Vision 2020+	EY's vision to be the leading global professional services organisation by 2020
KPI	Key Performance Indicator		

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