

EY UK 2019 Transparency Report

27 September 2019

2019 Highlights

Quality¹

External review



89% of EY's FTSE 350 audits and 78% of all inspected audits required no more than limited improvements

(FY18: 82% and 67% respectively)

Internal review

117 engagements reviewed in FY19, covering

46% of our

Responsible Individuals, of

which 83% had no

improvements or minor improvements only

Delivery



97% of our auditors delivered, supported or contributed to a quality audit

90% of our auditors believe EY places sufficient emphasis on audit quality



Our people

Our overall UK&I engagement score is

69%

equal to 2017²

EY UK FY19 partner representation comprises



female and

BAME

11%

EY's new target is to double the proportion of female and ethnic minority talent in the UK partnership to 40% female and 20% BAME by July 2025

Results

Audit revenues grew by 2% on last year to £453m (FY18: £444m) and constitute 19% of firm revenues (FY18: 18%)

EY Foundation 5th year

- ▶ 3,400 + EY people volunteered to support 4,061 young people who were engaged by the EY Foundation
- ▶ EY has partnered with 320 + employers

13

EY named Sunday Times 2019 13th best company to work for

Environmental sustainability

6.5 million disposable cups per year eliminated across our UK workplaces, following the introduction of reusable cups and bottles and 1.1 million pieces of plastic takeaway food packaging eliminated from our in-house coffee shops and restaurants each year by switching to plant-based sustainable alternatives

¹ Figures in this section relate to the audit business. All other figures relate to the UK firm as a whole.

² The previous comparable survey was carried out in 2017.

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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 reporting period from 2 July 2018 to 28 June 2019, unless otherwise stated. This reporting period is referred to throughout the report as FY19. The following reporting period is referred to as FY20.

Transparency in our public interest

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

The report has been prepared in accordance with the 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 mapping to the requirements of the EU Audit Regulation is provided in Appendix C.

Local audit

We are also required to comply with The Local Auditors (Transparency) Instrument 2015 (the Instrument), as in the current year we signed 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 mapping to the requirements of the Instrument is provided in Appendix D.

Audit Firm Governance Code

First published in January 2010, and later revised in 2016, the Audit Firm Governance Code (AFGC or 'the Code') sets a benchmark for good governance and applies to firms auditing 20 or more listed companies.

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. Appendix B provides a list of the Code's principles and provisions with a reference next to each requirement to show where in this report, we explain how EY UK met each requirement.

Firms are asked to consider whether they might also wish to comply with some of the principles and provisions in the UK Corporate Governance Code (UKCGC). While we have not implemented any of the UK CGC provisions not separately encompassed within the AFGC, we will keep this under review.

The AFGC requires firms to report against any Key Performance Indicators (KPIs) for governance in place. We report on how we achieved our governance KPIs in Section 5 of this report.

Throughout this 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.

Section 1

Leadership messages



Leadership messages



Foreword from the EY UK Chairman

We are clear at EY UK about the crucial role that our work plays in building and sustaining trust and confidence in capital markets and helping to preserve the attractiveness of the UK as a centre for business. We believe that this aligns completely with EY's global purpose, Building a better working world, and the values that underpin our business. At the heart of this is our audit business. The paramount importance of serving and protecting the public interest drives our decision-making across the firm and our focus on consistently and sustainably delivering quality audits.

A key priority for EY UK continues to be further improvements to our audit quality. We established our Sustainable Audit Quality (SAQ) programme five years ago and increased our investment in audit quality in the UK during that period by approximately £25m per annum. We anticipate further focus on good corporate governance at the companies we audit as a key element of ensuring quality audits can be delivered.

Notwithstanding our latest inspection results in 2019 in which the Financial Reporting Council (FRC) graded 89% of our FTSE 350 audits as either good or requiring no more than limited improvements, we are committed to improving even further. Our goal is for all EY audits to be of the highest quality and we will dedicate the necessary time and resource in pursuit of this ambition.

We could not have the successful business that we do without the expertise and professionalism of all our 14,500 people in the UK.

The energy they bring and the values they hold underpin EY UK's ability to serve and protect the public interest through the work that we do across the firm.

I am also proud of the steps that we have taken in 2019 and continue to take to create an open and inclusive culture in which anyone can succeed irrespective of race, gender, or social background. We have launched a new ambitious diversity and inclusiveness strategy to bring more diverse talent to our business, setting ourselves the target of 40% female and 20% black, Asian and minority ethnic (BAME) partners by 2025. I am pleased that we have been able to go even further at a leadership level with our board now comprising a 40:60 male to female ratio. This shows our commitment to diversity.

Such developments are important because the audit profession continues to be under intense scrutiny from regulators, government and other stakeholders.

The ongoing reviews into different aspects of the corporate and audit ecosystem are a very welcome opportunity to make lasting improvements to the overall corporate environment. We believe a number of changes are required to create an environment in which business can better meet society's expectations:

1. Stronger independent regulator
2. Improvements to corporate reporting
3. Improvement to the audit product
4. Greater accountability for auditors
5. Greater accountability for directors

Looking ahead to FY20, we expect there will continue to be a strong focus on our sector and potential economic challenges. Nevertheless, I am confident that with our people focused on delivering consistently high-quality services, we can build on our success and continue to serve the public interest.

As ever, I am keen to receive any feedback or questions on EY's business in the UK. Please do not hesitate to get in contact with me:

savarley@uk.ey.com;

A handwritten signature in black ink, appearing to read 'Steve Varley'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Steve Varley
EY UK Chairman

Leadership messages (cont'd)



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

I am pleased to offer my third report as the Chair of EY UK's Independent Non-Executive (INE) Oversight Committee (IOC). Sir Peter Westmacott and I were delighted to welcome Tonia Lovell to the Committee in June of this year.

IOC focus areas

FY19 marks the second operating year for the IOC and the INEs have continued to focus on public interest and reputational matters while ensuring we meet the regulatory requirements of the FRC's Audit Firm Governance Code (AFGC). We have also sought to participate actively in the current UK audit and corporate reporting reforms, exchanging views with stakeholders and offering challenge to the firm.

As INEs, we are free to determine our agenda and to discuss and consider those issues and matters we feel are of most importance in the context of our responsibilities.

The framework we use to discharge our duties includes our IOC, supplemented by our attendance at the firm's Board meetings and executive committees such as the Audit Quality Board.

This year we have continued our proactive engagement with investors, the firm's regulator and EY staff representative bodies and our visits to the firm's regional offices and specialist departments.

Our standing IOC agenda items include:

- ▶ Oversight of the work of the Audit Quality Board, Risk Oversight Committee, the Code of Conduct Committee and the work of the Ethics Partner
- ▶ Review of people management policies and procedures to ensure the public interest is protected
- ▶ Risks arising from the global network
- ▶ Reviews of the work of the non-audit service lines from a reputational standpoint

Although our work is typically thematic in nature, we also engaged on individual client matters during the year where the circumstances merited it.

Full visibility of the entirety of the business is acquired by our attendance at the firm's Board meetings. In this way we gain oversight of its operations, financial performance and whistleblowing procedures.

Through the existing EY committees and processes, we have reviewed a number of issues, including:

Audit quality

- ▶ Audit quality inspection results
- ▶ Resourcing and talent
- ▶ Culture
- ▶ Banking audits
- ▶ IFRS 9
- ▶ Letterbox audits

Risk oversight

- ▶ The firm's risk and control framework
- ▶ Managing conflicts of interest
- ▶ Contingency planning
- ▶ Three lines of defence
- ▶ Preparations for Brexit

Non-audit service lines

- ▶ Advisory
- ▶ Tax and Law Practice

The IOC has had regular updates on the firm's Sustainable Audit Quality (SAQ) programme which underpins the investment in initiatives that will deliver high-quality audits both today and in the future.

The INEs are satisfied that the activities listed above enable us to meet all of the requirements of the AFGC.

Leadership messages (cont'd)

Effectiveness of the IOC

This year, we commissioned an independent evaluation of the effectiveness of the IOC, to ensure we:

- ▶ Have the correct processes in place to enable effective oversight
- ▶ Are effective in continuously driving accountability and adopt the appropriate values and standards,
- ▶ Continue to challenge the firm appropriately

We look forward to assessing the outcomes of this review in the autumn of 2019.

Stakeholder engagement

We have engaged proactively with the FRC through the evolution of the Audit Firm Monitoring and Supervisory Approach and workshops on specific themes.

To enhance our existing stakeholder engagement programme, this year we cast our net more widely than in previous years and engaged in roundtables with both the Audit Committee Chairs' Independent Forum (ACCIF) and the Investors who form the Company Reporting and Auditing Group (CRAG).

We continued our participation in EY's annual Financial Reporting Outlook (FRO) conference and the Audit Quality Summit, where we had the opportunity to engage with companies we audit, audit committee chairs and others.

As EY UK's INEs we see these as important forums to hear first-hand about the issues at the forefront of stakeholders' minds.

Engagement with EY Global

Similar to our approach in previous years, we continue to work with the EY global network. We believe this collaboration is essential in delivering high-quality audits across national borders. I have continued my role on the Global Governance Council (GGC) and also continued to represent the UK INEs on the global Public Interest Committee (PIC), which I have chaired since April 2017.

Combined, 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.

The year ahead

This is a critical time for the profession and we will continue to work closely with the firm to ensure it responds appropriately to the challenges it is facing, notably on audit quality, reputation, culture, ethics and the risk and control framework. We remain confident in the firm's strong commitment to the public interest and high-quality audits.

On behalf of Sir Peter, Tonia and myself, thank you for reading this report. We would be delighted to hear your feedback and are available to answer any questions on our roles, responsibilities and work.

You are welcome to contact anyone of us:

david.thorburn@uk.ey.com; tonia.lovell@uk.ey.com; pjwestmacott@gmail.com



David Thorburn

Chair of the IOC

Leadership messages (cont'd)



Message from the Head of EY UK Audit, Managing Partner UK&I Assurance

We are facing an unprecedented time of uncertainty in the audit profession and in the UK more generally. Recent high-profile corporate failures have weakened public trust and confidence in both the auditing profession and business at large. Multiple ongoing regulatory reviews continue to reshape the corporate reporting environment and raise fundamental questions about the purpose, product and role of an external audit, as well as the accountability of company directors and auditors.

We believe that we have an important opportunity to ensure that the profession continues to evolve to best serve business, investors and other public interest stakeholder needs. To that end, we are fully engaged in the numerous ongoing regulatory reviews into the corporate and audit market, and I am grateful for the work that EY UK Audit Quality Leader Bob Forsyth and his team did during the year in leading our audit quality initiatives.

Audit quality

As UK Head of Audit my primary focus is audit quality. Sustainable Audit Quality (SAQ) is vitally important for restoring trust in business and maintaining the UK's attractiveness as a place to do business. We have made a real step change in our focus on audit quality over the last five years since we started our SAQ programme and I am proud of this progress.

This year, 89% of our FTSE 350 audits were rated as good or requiring no more than limited improvements - more than any other firm. However, we need to do more to ensure that every EY audit achieves the FRC's highest standards (i.e., grade 1 and 2A) and ultimately to achieve the target of zero audit inspection failures. I am confident that the increasing investment and refocused actions we are taking under our SAQ programme will continue to improve the quality of our audits and move us further towards achieving this goal.

It is also vital that all audit quality results have a direct impact on partner remuneration and on individual promotions and rewards. We believe this is an important aspect of promoting the highest standards of behaviour that we want our people to have.

During the year we established our Audit Risk Committee, to expand our risk-scanning processes on audits. The goal is to ensure that we appropriately identify high risk clients and sectors and tailor our approach to them.

Looking ahead to FY20, I am excited by what our SAQ programme has planned and looking forward to seeing how our business evolves over this period. We have a number of priority areas which include additional investment in people, increasing the scope of our Audit Quality Support Team (AQST), championing new ideas and innovation and enhancing our focus on promoting the desired culture and behaviours for audit quality. More details on this are included in Section 2 of this report.

Talent

The audit profession must continue to attract, retain, engage and develop the best people. It is increasingly difficult to do this in an era of technological innovation - we need to find individuals who can both apply professional scepticism and be adept at using technology. We are addressing this challenge by diversifying our recruitment and providing targeted training to ensure our people have the skills they need.

We have to do more, however, to address the changing needs of both the audit market and the talented people we want to attract to it. We need to increase our investment in people and other resources to meet the expectations of regulators and policymakers for higher quality audits during a time when we face intense competition for the best talent.

If we are to continue to provide the highest performing audit teams to enhance audit quality, it is vital that we maintain the attractiveness of the audit profession and remunerate our people appropriately.

Leadership messages (cont'd)

Commercial pressures

We have seen a variety of commercial pressures combining to create today's unprecedented audit market dynamic. Change is being forced by the combination of increased and continuing investment in audit quality, mandatory audit tendering and switching costs, the increased costs of attracting and developing more highly skilled people and new investments in technology and compliance.

In response to these dynamics we are evaluating our audit engagements in the UK to ensure that the economic returns support the level of work, investments and financial resilience the firm need to deliver consistent high-quality audits. This includes reviewing the risk profiles of the companies we audit, with an increased focus on whether we should continue as the auditor of companies that have weak corporate governance and control procedures. When deciding whether to respond to a tender request, we will factor in the sufficiency of a company's governance standards and the availability of our resources to deliver the audit.

The year ahead

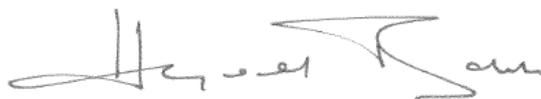
Looking ahead, the coming year may bring some of the biggest challenges this profession has faced: in how we respond to the outcomes of the regulatory reviews, continue to attract and retain the best people and also deal with the economic environment that Brexit may bring.

My focus will continue to be ensuring that the highest standards of audit quality are maintained while responding to this changing market dynamic.

We will also be publishing our first Audit Quality Report in October 2019 providing more details on our SAQ.

Should you wish to discuss any of these issues with me you are welcome to contact me on this email address:

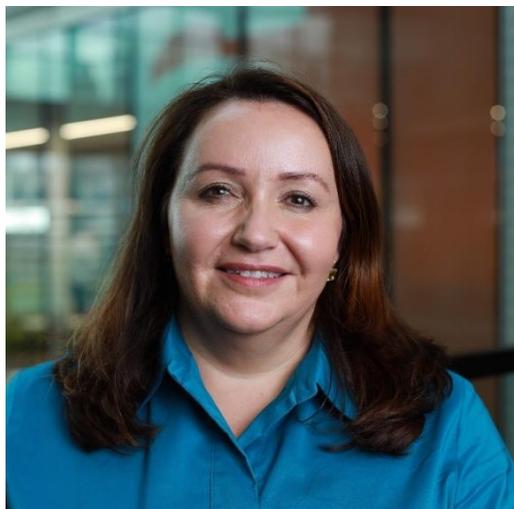
hball@uk.ey.com



Hywel Ball

Head of EY UK Audit, Managing Partner UKI Assurance

Leadership messages (cont'd)



Message from the UK Head of Regulatory & Public Policy

A year of strategic policy challenges

We have continued to face significant challenges from the uncertainties relating to both the impact that Brexit is having on the economy and the heightened public concern and changing expectations of the purpose and quality of audit. In response to the second of these challenges we have seen a number of complex strategic Government and regulatory interventions, all focused on preserving the attractiveness of the UK capital markets.

In my first year as UK Head of Regulatory and Public Policy my focus has been to work to address these challenges by being more transparent about our commitment to audit quality through becoming more proactive in our engagement with our stakeholders.

Supporting the change to re-establish trust in business

EY is supportive of the UK Government's vision to introduce a series of new reforms to enhance our sector and to strengthen public trust in business. We view a new and stronger regulatory framework as vital. The UK has long been recognised as a world leader in audit and accounting services, with world-class frameworks for corporate governance, reporting and regulatory oversight.

To preserve this, we support the recommendations set out in the Independent Review of the Financial Reporting Council (FRC) led by Sir John Kingman and welcome the creation of a new regulator, with a new mandate and stronger legal powers.

EY has also expressed support for the overarching objectives of the recent review by the Competition and Markets Authority (CMA) of the UK statutory audit market. We have continued our engagement with policy makers and other stakeholders to explore innovative ways to increase choice, without compromising audit quality or firm resilience.

We look forward to the outcome of the Independent Review led by Sir Donald Brydon into the quality and effectiveness of audit.

Engaging with a wider set of stakeholders

Our aim this year was to broaden our engagement activities to encompass a wider set of stakeholders. To do this we convened a series of roundtable discussions with; investors, audit committee chairs and business leaders. In these meetings we debated how we can work together to reshape the corporate reporting environment, expand the scope of the audit and improve the accountability framework to include both auditors and company directors.

In a time of change, it is vital that we participate constructively in the debate and listen to a wide range of voices. Insights from these collaborative discussions have not only helped us to shape our responses to the Government's consultations; they have also influenced decisions relating to how we operate as a firm.

I have no doubt the year ahead will be challenging but we look forward to continuing our engagement and doing our part to participate constructively in shaping public policy.

Should you wish to discuss any of these topics with me you are welcome to contact me:

ccowling@uk.ey.com

A handwritten signature in black ink, appearing to read 'Christabel Cowling', with a long horizontal line extending to the right.

Christabel Cowling

Audit Partner, UK Head of Regulatory & Public Policy

Leadership messages (cont'd)



Message from EY UK Risk and General Counsel, Managing Partner

Section 4 of this report includes details of the key elements of our risk management framework, including our Risk Oversight Committee, Independence function, the Reputation and Conflicts Panel and our approach to Enterprise Risk Management. Section 5 provides an overview of the legal structure of our organisation, as well as the firm's governance and management bodies.

As a business, it is essential that we not only respond to legal and regulatory changes but also anticipate and proactively engage with future change to ensure that we are best-placed to continue to serve the companies we audit and the public interest. This is particularly true in the current environment and is reflected in the broader themes that have been areas of focus over the last 12 months, including the establishment of a centralised risk management function, work on the trust agenda, and continued preparations for Brexit.

Risk function

During the year we have enhanced the risk framework for the measurement, monitoring and management of our critical risks in order to reflect leading practice. We have also built a robust reporting and analytics capability to support this framework. We will benefit from a deeper understanding of our risks and how to manage them to achieve our strategic goals in a rapidly changing business and regulatory environment.

We identified 14 principal risks in the body of this document. For example, we are focused on delivering high-quality audits and attracting and retaining talent. The implementation of an Enterprise Resource Planning (ERP) system in October 2019 is an area of current focus, as are the economic impacts of political events in the UK and globally. Future potential regulatory driven change and its impact on audit quality and the firm's business model remains an area of concern.

Trust

Our trust agenda has been an important topic for the firm during the last year, facilitating open and honest discussions about the high standards of behaviour we set for ourselves. Our extensive programme of events included two sets of partner roadshows as well as sessions bringing together teams at all levels of our organisation to focus on trust and ethical decision-making. Through these sessions we have concentrated on small actions that can have big impacts as well as reinforcing our understanding that every day our actions and decisions influence the perception of colleagues, clients and communities.

Brexit

As the political climate has shifted over the last year, our strategy has continued to focus on preparations for a 'no deal' Brexit. We followed last year's wide-ranging review of potential exposure across the business by preparing a full risk mitigation programme and broad communications strategy, which we began to implement in the count down to the original exit day of 29 March. As the potential date for the UK to leave the European Union has been pushed back we have kept all potential impact areas under review and continue to refine our communications strategy to ensure that our service to our clients is uninterrupted in the run up to Brexit and thereafter.

Leadership messages (cont'd)

Looking forward

As the legal and regulatory environment evolves, our approach to risk management will continue to play an essential part in ensuring that our people are best advised to take on the right clients, maintain independence and objectivity, and comply with changing regulation and our own quality standards. In this context, trust, ethical-decision making and the values to which we hold ourselves have never been more important.

If you would like to discuss anything further, please contact me on:

lcameron@uk.ey.com

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



Culture

Tone at the top

The EY UK leadership team 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. Although 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 and adhering to our policies by leading by example. EY's quality review programmes also 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. Openness is also key. In our annual Internal Audit Quality Survey of audit staff 72% of respondents said that when mistakes happen, they are discussed and used for learning purposes within the team and the organisation.

Culture

The whole firm, not just the audit practice, appreciates the importance of our role as auditors. We are committed to serving the public interest together with maintaining our independence and objectivity. Our auditors fully recognise the significance of their role in reporting to shareholders and we have been focused on reinforcing that recognition over the last year. Encouragingly, in our latest Audit Quality Survey, 99% of our people responded 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 believe that culture plays a large part in defining us as an organisation. A positive and healthy culture means people feel engaged and supported, free to speak up, and are able to be themselves at work. These outcomes have tangible business benefits in terms of attracting and motivating talent, how we deliver exceptional client service and how we manage risk.

In 2017 we conducted our first UK Culture Assessment. Outcomes of this assessment were shared with the EY UK LLP Board in April 2017 and subsequently with our wider internal and external stakeholders across both the UK and our wider global EY organisation. We also published these results in our 2018 Transparency Report.

An area we are focused on in developing our culture is for an improvement in work-life balance. Our people tell us they dislike our "long hours" culture. This sentiment is also reflected in the results of our annual Audit Quality Survey in which only 33% of respondents agreed that 'Their teams had sufficient resources to enable them to deliver quality audit during FY19'. We recognise that FY19 has been a challenging year for our staff and are working to address the challenges the cultural survey has identified. Refer to Section 1: Leadership message from the Head of UK Audit for further information.

EY initiatives

On the following pages we discuss:

- ▶ EY Initiatives
- ▶ Audit Quality - priorities
- ▶ Inspections and thematic reviews
- ▶ Our internal review process
- ▶ Other areas of focus
- ▶ Our people's view
- ▶ Technology in today's audit and stakeholder engagement

The SAQ programme

EY has made a significant global investment in audit quality and developed a comprehensive Sustainable Audit Quality (SAQ) programme. For information in respect to Global SAQ, refer to Appendix A.

The UK programme, now in its sixth 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 created a new role of Audit Quality Leader for the UK firm. One of their primary responsibilities is to lead the SAQ programme. This position was held by Bob Forsyth for FY18. Michael-John Albert has taken over this role from 1 July 2019.

We have increased our investment in audit quality in the UK over the past five years by approximately £25m per annum. The number of people dedicated to our audit quality programme by over 25% in the last 12 months alone.

Key to the success of our SAQ programme has been the continuous commitment of firm's leadership to the investment in and delivery of this initiative. We revisit and refresh the strategy each year and have made significant investments in compliance, technology and talent to enable us to deliver the sustainable high-quality audits that stakeholders demand.

Each year EY UK hosts an Audit Quality Summit that brings together over 400 partners, associate partners, directors and senior managers. The summit provide a launch platform for new initiatives aimed at improving audit quality. Our regulators and other stakeholders also attend the summits. For FY20, the theme of the September summit was 'Raising the bar...our journey to 100% quality audits'. We reflected on the lessons learnt from internal and external quality reviews, our audit quality agenda for FY20, innovation and technology and hosted a panel discussion with audit committee chairs and investors on 'what does high quality look like'.

In FY19 we established an Audit Risk Committee which has expanded our broader risk-scanning process to ensure that we are appropriately identifying our high-risk clients and sectors. The committee has been considering the adequacy of our audit and resource response to higher risk audit engagements, including requesting that certain teams make presentations to the committee on their proposed work. It has also circulated to the audit practice guidance on sectors facing increased audit risk, e.g., retail and real estate.

Activities of the AQB

The Audit Quality Board (AQB) meets 11 times a year including an annual strategy session.

The chair of the AQB prepares a report on the AQB's work, which is presented to the Independent Non-Executives INEs at INE Oversight Committee (IOC) meetings. The INEs are invited to attend the AQB meetings in order to observe the work. David Thorburn and Sir Peter Westmacott attended AQB meetings in FY19. Tonia Lovell attended the September 2019 AQB.

The AQB receives regular updates on the SAQ programme, client pursuit approvals, AQST reviews, Root Cause Analysis (RCA), independence, audit digitisation and simplification activities. The AQB also reviews a dashboard with Audit Quality Indicators (AQIs) 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. Our AQIs have evolved since the AQB was set up. The FRC is currently carrying out an AQI thematic review and we will be interested its feedback as we look to refine our AQIs further.

During FY19 the AQB considered and agreed actions on a wide range of other topics including support for the audit teams (e.g., additional resources), culture, performance and reward, resourcing for new audit wins and wider audit resourcing matters.

EY initiatives (cont'd)

Activities of the AQB (cont'd)

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

The AQB has approved enhancements to the SAQ programme for FY 20 and has established the priorities for the audit practice. These will help us to respond to the areas where we have not delivered consistently high quality audits. They are designed to help us achieve the FRC’s target of 90% of all audits inspected requiring no more than limited improvements in 2020 and all audits inspected requiring no more than limited improvements from 2021 onwards.

AQB Effectiveness Review

During FY19, EY’s corporate governance specialists reviewed the effectiveness of the AQB. The review was part of our commitment to be the best in class in audit quality. It considered the terms of reference and the agendas of the meetings held in the last two years, and included observation of actual meetings and interviews with various stakeholders in the organisation.

We are pleased to have received positive feedback from the review which concluded that, in the view of stakeholders and practitioners, the AQB contributes to audit quality. The board consists of a suitable mix of members who bring good cognitive diversity. The agenda is comprehensive and, in large part, contains the right issues to enable adequate oversight of matters impacting audit quality. Given the complexity of the firm, the AQB helps in providing focus and escalating issues through the right channels by bringing together those who are responsible for supporting audit quality, those responsible for audit resources and audit leadership.

The effectiveness review also contained some recommendations following benchmarking with best practice from corporate boards, equivalent boards in EY practices in other jurisdictions and public information on competitor equivalent bodies. We have started to implement these recommendations. For example, we are inviting presentations from other partners and staff on a regular basis and we have enhanced the AQB agenda with more alignment between strategic and tactical matters. Following the feedback, we have also increased levels of attendance by the firm’s Independence department.

The priorities agreed for our UK SAQ for FY20 are set out below:



Audit quality – priorities

1 Update to control framework - ISQM1

The International Auditing and Assurance Standards Board (IAASB) published an Exposure Draft of its new standard, the International Standard on Quality Management 1 (ISQM1), in February 2019 to replace the International Standard on Quality Control 1 (ISQC1). The new standard will enable a shift by regulators from reviewing individual engagement inspections and making inferences about a firm's system of quality management to a future state where they can directly focus on a firm's system of quality management. ISQM1 requires a risk based approach to assessing risks to audit quality and the responses put in place to manage these risks. It places greater emphasis on the role of strong governance and leadership within firms. ISQM1 also reflects the increasingly complex world in which we operate addressing a country practice's reliance on the support and controls operated by its network, the use of technology and the use of external service providers. Under ISQM1 we will be required to monitor our quality controls more rigorously than under ISQC1 and remediate any deficiencies identified.

With the new standard currently expected to be effective in December 2021 we have commenced work to implement the new standard alongside the global organisation's System of Quality Management transformation programme. Our initial steps have included:

- ▶ The confirmation of those processes covered by ISQM1
- ▶ Reviewing our extant processes and the quality controls within those
- ▶ Identifying any gaps in the control framework and challenging current controls under the new framework
- ▶ Understanding our global firm's approach to the documentation of network processes and controls
- ▶ Analysing the requirements of ISQM1 with regards to our reliance on the EY network

We are also considering the ongoing requirements under ISQM1 to monitor compliance with our quality controls framework and where we will need to deepen or broaden our monitoring and testing programme compared to our current AQIs.

2 Audit Quality Support Team (AQST)

Our AQST of experienced auditors was established to perform in-depth, independent, in-flight reviews. 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 the engagement quality compliance reviewer (EQCR) during the reviews. For large, complex audits we have introduced a second level AQST reviewer.

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, which monitors progress and results at its monthly meetings.

As part of our RCA in 2018/19, support from the AQST was noted as a key factor contributing to high quality audits. We increased the scope of this programme in FY19. A further increase in the scope of this programme was approved at the AQB's June 2019 strategy away day.

Audit quality – priorities (cont'd)

3 Root Cause Analysis (RCA)

RCA is carried out on audits with quality findings in either internal or external inspections. We also perform RCA on selected prior year adjustments and non-personal independence breaches in addition to other ad hoc investigations where required. Finally, we also cover audits that are judged to be of a particularly high quality. We are increasing our investment in the RCA team to enhance its breadth and allow the team to obtain further detailed insights of positive and negative quality findings identified during quality inspections.

RCA is performed by an experienced team of audit professionals who have received appropriate RCA training. RCA investigations are undertaken using the following approach and methodology:

- ▶ Gathering and examination of information on what has happened to drive the finding
- ▶ Performing desktop analysis of the findings and related audit documentation including obtaining and analysing AQI information
- ▶ Carrying out in-depth interviews with key members of the audit team, including the partner, senior manager, the EQCR partner, members of the wider audit team and specialists (where relevant)
- ▶ Aggregating engagement-level root causes and identifying common themes

In the current year we used a behavioural psychologist to assist on a selection of our interviews with those teams who would benefit most. Our RCA team received additional training from our forensics investigations specialists in August 2019.

4 Project management

The EY Global Milestones programme was piloted in FY17 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 a high degree of executive engagement on a timely basis on our audits. The programme has been extended to cover a wider selection of clients. The milestones functionality, which is embedded in our audit software, enables audit teams to allocate preparers and reviewers to individual tasks, set deadlines at a task level and track progress against those deadlines. This enables teams to improve their project management and allows efficient monitoring of completion.

In addition, our audit software tool, EY Canvas, facilitates interaction between the audit teams and companies we audit. The EY Canvas Client Portal enables the exchange and tracking of information required for the audit and the assignment of owners and deadlines.

Case Study: How monitoring milestones progress helped us provide support to the audit team

The SAQ programme team monitors the progress of large and complex audits and presents monthly reports to the AQB. Delays were identified in planning sign offs by one of our PIE audit teams. We liaised with the team to understand the reasons that were impacting the completion of work. We escalated the concern to the AQB and the issue was resolved by the allocation of a new experienced team member to move the work forward. We noted a considerable improvement in completion the following month.

Audit quality – priorities (cont'd)

5 Promote desired culture and behaviours

One of the important drivers that we use to help promote the culture of the firm and behaviours of our people is our EY Expert Model. During the last year we have continued to enhance this model, which was enthusiastically adopted in previous years. The model is based on the behaviours of our highest-performing teams, as assessed by external cognitive psychologists. The model was established by the psychologists carrying out in depth interviews of members of these high-performing teams to identify specific behaviours and approaches that could be replicated by all teams.

In FY19 we enhanced the model to focus on the societal purpose of our profession and include a discussion on the auditor's responsibility to shareholders. The enhanced model ensures that staff at all levels understand the values and behaviours we must demonstrate. We prioritised the extent and consistency of the model's adoption, further embedding desirable behaviours into business-as-usual activity across all of our audit teams.

We also introduced feedback surveys specifically on the implementation of this model. These surveys covered all partners. We continue to receive positive feedback from our teams on the application of the model, and on the audit quality benefits, including from teams who have undergone internal or external quality inspections. The purpose of gathering feedback is to ensure that implementation of the model has been embraced in all areas of the practice. The feedback gathered considers the whole audit lifecycle to assess implementation from planning through to completion and debrief, as well as focusing on the extent of application at a risk and issue level.

6 Centres of excellence

The UK Board approved the creation of a central function (Central Client Due Diligence team) to support all service lines with their anti-money laundering customer due diligence responsibilities. The firm has invested significantly in building a highly trained team of 28 people with access to market-leading research and monitoring tools. Initial results show a marked improvement in the quality of information gathered regarding our clients and the documentation of financial crime risks presented in each service we provide. Deployment of the team has occurred gradually over the year, concluding with Assurance in September 2019.

Inspections and thematic reviews

Results of our external audit inspections

EY UK is subject to external inspection by the FRC, the ICAEW's Quality Assurance Department (QAD) and the US Public Company Accounting and Oversight Board (PCAOB).

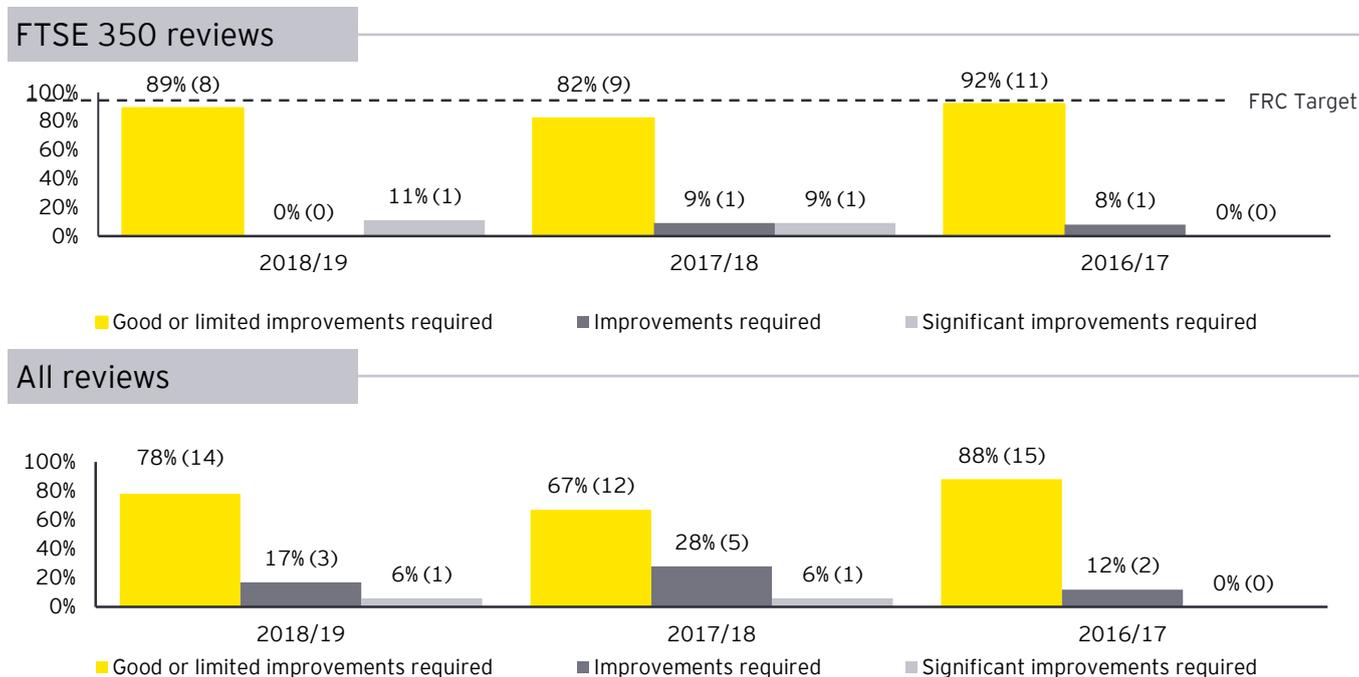
We continue to invest in enhancing audit quality. We are pleased that our most recent external audit inspection results show an improvement, after a drop in our results in the prior year following three consecutive years of improvement. In our most recent FRC inspection, 78% of the audits reviewed were graded as requiring no more than limited improvement, compared with 67% in the previous year. For FTSE 350 audits reviewed, the FRC graded 89% as requiring no more than limited improvement compared to the FRC's target of 90% for that population. However, we recognise that there is further room for improvement across all audits.

We comment below on the status and results of each regulator's review of our work in turn.

Financial Reporting Council

The public inspection reports rate 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 July 2019:



⁽¹⁾ Results presented in the above graphs are in percentage terms, with the absolute number of engagements reviewed given in brackets

Following the FRC's latest review, 78% (prior year 67%) of EY audits inspected were graded as requiring no more than limited improvements. For our FTSE 350 audits, 89% (prior year 82%) of those inspected were graded as requiring no more than limited improvements. We are pleased that our 2019 results show an improvement compared to the prior year. However, we are disappointed that one of our FTSE 350 audits was identified as requiring significant improvements and we recognise the further efforts that we need to make to deliver consistent high audit quality and achieve the FRC's new targets.

In its report, the FRC noted that EY UK has continued its work on quality related initiatives, including:

- ▶ Continued development and enhancement of the firm's SAQ programme
- ▶ Continued enhancement of the AQST
- ▶ Increasing consistent implementation of the EY Expert Model

Inspections and thematic reviews (cont'd)

Financial Reporting Council (cont'd)

The FRC highlighted the following areas of good practice:

Individual audit reviews	EY UK audit practice procedures
<ul style="list-style-type: none"> ▶ The group auditors' extent of involvement in the work of component auditors, in particular integration between the group audit team and component audit teams, including the split of the responsibilities between the teams ▶ Challenge and assessment of management's key assumptions in relation to financial services entities, specifically the good corroborative evidence supporting the audit of conduct provisions and loan loss impairment ▶ Effective quality control procedures, including effective challenge of the audit engagement team by the engagement quality control reviewer ▶ Clear reporting of audit judgements and conclusions in areas of significant risk (including insurance provisions, investment properties and investment valuations) ▶ Deferring audit sign-off until the audit team had obtained and reviewed key audit evidence and ensured that robust control procedures had been completed 	<ul style="list-style-type: none"> ▶ Regular monitoring of consultations on high risk entities and investigations where no consultation has occurred ▶ Increasing AQST resources to carry out hot reviews of a sample of FTSE 350 and other major public interest audits ▶ Increasing consistent implementation of the firm's audit team behavioural model with mandatory discussion of auditor's purpose and how the auditor serves shareholders and the wider public interest ▶ Implementing revised policies on the thresholds for gifts and hospitality provided to and received from audited entities ▶ Amended acceptance procedures to ensure that the central independence team monitors the permissibility of non-audit tax services for PIEs

In its press release on the results for all audit firms inspected, the FRC commented on the need to increase focus on management judgemental matters. We are committed to improving in this area.

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

Area	Increase the challenge and corroboration of management assumptions in relation to intangible assets
Our response	<p>This finding arose on two audits. Our RCA identified that the findings resulted from insufficient senior resource following changes in audit timetables and complex issues that arose during the audits. This was exacerbated by one key team member being involved in both audits simultaneously, creating time pressures which meant that the detailed review that is routinely conducted and would detect inadequacies in the testing was not performed in sufficient depth. The issues noted in the FRC's review were therefore not detected by EY's normal review.</p> <p>We have controls in place designed to detect when individuals are working hours that are above our expectations so that EY management can intervene and act if the individuals have not themselves raised the fact that they are under time pressure. Those controls did not prevent this situation arising. We have reviewed the design of these controls to ensure that any similar situations are detected and dealt with on a timely basis. We will also continue to reiterate the importance of all our people seeking further support when they require it. We will also continue to emphasise the importance of thorough and timely review, which will be facilitated using the behavioural model alongside our 'milestones' project management programme.</p>

Inspections and thematic reviews (cont'd)

Area	<p>Improve reporting from the firm's internal specialists on the key assumptions underpinning the estimation of provisions</p>
Our response	<p>We have put a great deal of focus on the use of specialists in our audits. We are therefore pleased that the FRC identified a generally good level of involvement from the firm's specialists in the support of the audit teams.</p> <p>Our RCA identified that our teams on audits with findings in this area had appropriately included actuaries as team members with specialist knowledge and they had considered the relevant matters. However, the teams did not stand back to consider whether the audit file reflected the level of challenge and rigour that had been applied or ensure that the full set of actuarial working papers were included in the final audit file. Audit files should include actuaries' detailed working papers as well as their final report.</p> <p>We have held training sessions with actuarial partners and managers alongside the audit teams to reiterate our expectations in relation to actuarial working papers and the level of detail that should be included in audit files. In addition, we have developed a standard list of actuarial working papers that teams should expect to include in the audit file.</p>
Area	<p>Ensure consistency of the group audit team's oversight of component audit teams.</p>
Our response	<p>When the International Standard on Auditing (UK) 600 'Specialist Considerations – Audit of Group Financial Statements (including the Work of Component Auditors)' was revised in June 2016, we updated our guidance and templates accordingly. We are pleased that the majority of our teams have responded well to these changes, and good practices have been identified by the FRC.</p> <p>Our RCA indicates that the audits identified by the FRC did not make the change required to increase and evidence the nature and extent of the primary team's involvement in the oversight of component audit teams. In response to emerging findings from the FRC's inspection, we issued new guidance clarifying the requirements and considerations of ISA 600. This considered the Staff Guidance Note issued by the FRC during November 2018 covering Group Audits. Our new guidance included an addendum to our template to record the interactions with component teams.</p> <p>The audit where this finding was the most pronounced was also referred to within the finding on intangible assets. The same root causes were identified for both issues.</p>

Regulatory actions

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

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 27 September 2019, neither EY UK nor our partners have been sanctioned or fined by the FRC in respect of audit work completed in the last six years.

We were the auditors of Thomas Cook for 30 September 2017 and 2018. On the 24th September the FRC issued a press notice that they are considering whether there is any case for investigation and enforcement action in cooperation with the insolvency service. We will cooperate with any action the FRC decides.

The ICAEW investigated EY UK's audits of a UK limited company for the financial years ended 31 December 2014, 2015 and 2016. EY UK accepted that it failed to obtain sufficient appropriate audit evidence in respect of the accounting treatment of certain acquired assets. The firm agreed to an order in February 2019 whereby it accepted a reprimand and agreed to pay a fine of £7,000 and make a contribution of £4,580 to the costs of the ICAEW.

Inspections and thematic reviews (cont'd)

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 shareholder interest and scope for improvement and learning from good practice.

The FRC issued in December 2018 a thematic review on the topic 'Other Information in the Annual Report – The work performed by auditors to meet their reporting responsibilities in respect of the other information in the annual report'. We analysed this report and have considered both good practice and areas for improvement. We were pleased to recognise some of our own areas of good practice in this thematic review. In response to the improvement areas, we undertook training for staff and updated audit documentation enablers to ensure we addressed FRC observations.

The FRC issued a thematic review on Transparency Reports for audit firms in September 2019. Ahead of the release of the final report, the FRC shared key findings which we discussed with them. We considered the FRC's recommendations for concise and balanced reporting to promote trust, greater emphasis on self-assessment including challenges the firms face in seeking to deliver consistently high quality audits and how successful they are being at meeting those challenges and engagement with stakeholders to encourage use of the reports.

We find these thematic review reports helpful in identifying areas of good practice as well as opportunities to improve.

Financial services sector

We continue to engage with the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) on emerging audit matters as a firm and on matters specific to each client individually where relevant. This interaction is important to EY UK as it allows us to obtain the regulator's views on macro issues and insights on risk matters or areas of concern for specific clients to feed into our risk assessment.

Public Company Accounting Oversight Board (PCAOB)

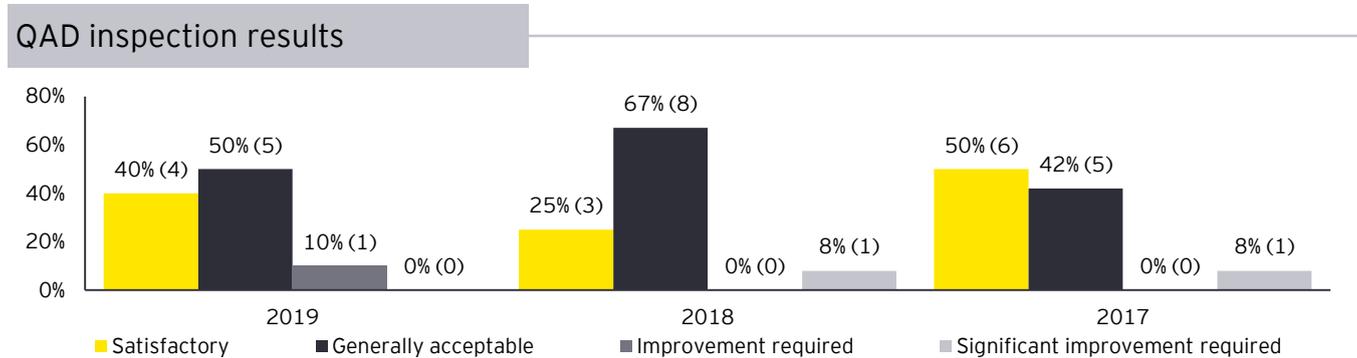
EY UK is inspected every three years by the PCAOB and an inspection commenced during May 2017. The PCAOB chose three engagements to review and deficiencies were reported on two audits. One of these deficiencies related to our evaluation of the effectiveness of managements' review controls and the other to our evaluation of the aggregate significance of control deficiencies we had identified. We have remediated the findings on both audits and we have formulated an action plan to address the issues which has been submitted to the PCAOB. In addition to the public report the PCAOB also provided a private report setting out deficiencies in the wider quality control processes and our responses to those are included in the action plan submitted to the PCAOB.

ICAEW's Quality Assurance Department (QAD) findings

The QAD conducts monitoring visits to all firms registered for audit with the ICAEW. Its monitoring visits contribute to the ICAEW's objective of maintaining the highest standards among member firms. EY UK 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 2018 and the resulting report was issued in the spring of 2019. The QAD report issued in spring 2019 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:

Inspections and thematic reviews (cont'd)



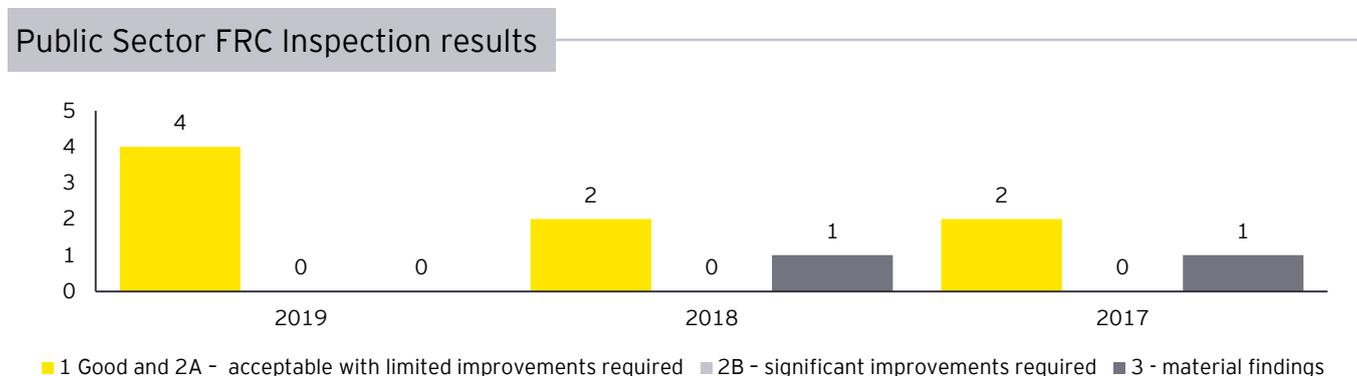
Results presented in percentage terms; absolute number of engagements reviewed presented in brackets

Nine of the 10 files subject to standard-scope review were either satisfactory or generally acceptable. However, one engagement was rated 'improvement required'. The audit engagement involved the use of an integrated UK and overseas team. The review identified widespread issues with the working of that arrangement and the documentation retained on the UK file. In addition, the review identified two areas where the testing was weak. RCA has been completed on this engagement indicating that EY guidance for such team structures was appropriate but not properly followed. In response to the findings, the engagement team increased the supervision of the overseas team in the current year and extended the opinion date to ensure the audit was appropriately documented.

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.

Regulator inspections of public sector appointments

During the year to June 2019 the FRC inspected four of our 2017/18 public sector appointment audits: three of these were local authority audits where the FRC acted under contract from the Public Sector Audit Appointments (PSAA) and one was a health body for which the FRC had direct responsibility. The results of the public sector FRC inspections are set out below:



In addition to the financial statement reviews the FRC reviewed two Value for Money ('VFM') conclusions. One engagement was rated 1 'Good' and the other was rated 2B 'significant improvements required'. The 2B rating was driven by weaknesses in the work performed over the financial recovery and savings plans. We are undertaking RCA on this engagement to identify actions we can take to improve audit quality across our practice.

For 2018/19 audits the FRC has direct responsibility for inspecting all 'major local audits' (defined within the Local Audit (Professional qualifications and Major Local Audit) Regulations 2014 (SI 2014/1627)).

Public sector audits that fall outside the remit of 'major local audits' will be monitored by the ICAEW's QAD. The QAD inspected one of our 2017/18 health body audits and rated it 2A, 'generally acceptable'. The VFM conclusion was given as a rating of 1 'satisfactory'. The QAD issued their report on this inspection in spring 2019.

Our internal review process

Results of our internal Audit Quality Review (AQR) process

Each year we review a sample of our audit engagements through our internal AQR process. The corporate review is conducted in the summer months and inspects audits completed in the previous 12 months. Audits reviewed in the summer of 2019 are primarily audits of December 2018 accounts, although we ensure our sample covers a range of audits, not just those with December year ends. Public sector audit quality reviews are undertaken later in the calendar year due to predominantly March year ends. The audits reviewed in late 2018 were primarily audits of March 2018 accounts.

The reviews are 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 within EMEIA. The reviews are subject to oversight from senior partners and associate partners of EY member firms in order to support the rigour, integrity and consistency of the process.

The review process is intended to cover every Responsible Individual (RI) – partners and associate partners authorized 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 117 engagements.

We continue to assess the effectiveness of our process and will look to make further improvements as appropriate. 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 27.

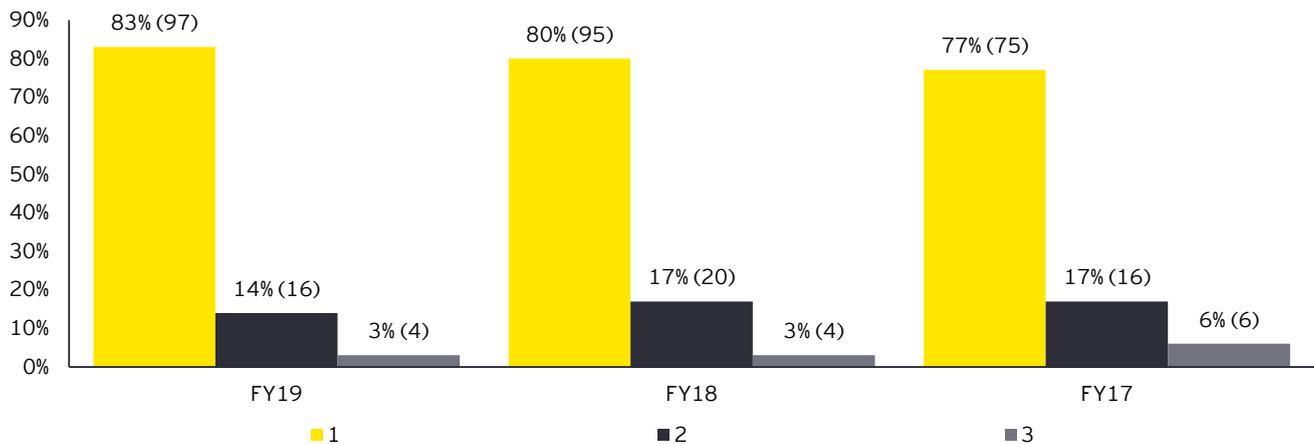
As well as reviewing individual audit engagements, our AQR process involves a review of our cross-firm processes and controls in a number of areas: client acceptance and continuance; consultations and pre-issuance reviews; people processes (recruitment, assignment of staff, learning and performance evaluation);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

We reviewed 46% of our RIs in FY19, 47% in FY18 and 37% in FY17. In addition, we reviewed 47% of our public sector engagement leads in FY19, 60% in FY 18 and 40% in FY17.

In previous years we presented our corporate and public sector AQRs separately. This year (and in future) we will present the combined results. Prior year comparatives have been restated accordingly. The results below include all AQRs commenced in the EY global quality monitoring programme between August 2018 and August 2019.

Our internal review process (cont'd)

Audit Quality Review (AQR) 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 improved 3% year on year and we continue to target a further increases in future years. We are disappointed not to have seen a reduction in category 3-rated engagements identified in the FY19 AQR season. The 3-ratings were driven by the following findings on each engagement:

- ▶ Insufficient audit work performed over three substantive areas where the audit work was performed in advance of the year end and there was a lack of appropriate roll forward procedures
- ▶ Errors in the strategy and execution of inventory counts for a retail client
- ▶ Overreliance on a third-party auditor and insufficient audit evidence retained on file
- ▶ Insufficient audit work over a significant risk area

RCA has been initiated for all engagements with material findings to identify actions we can take to improve audit quality across our practice.

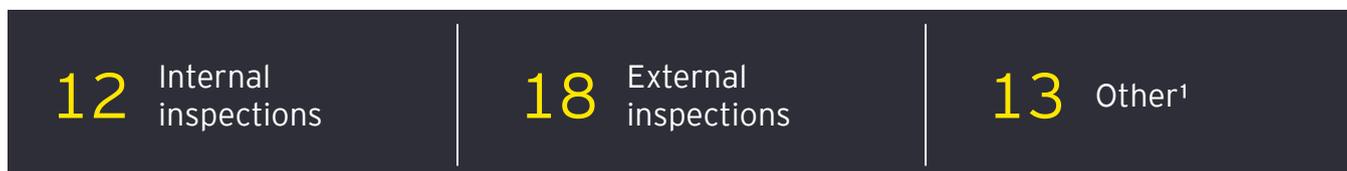
Root Cause Analysis (RCA)

The findings from our 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 details on findings from the RCA and the action plan are discussed in the section 'Inspections and thematic reviews'. The findings reported following the 2018/19 RCA were:

Factors key to good quality results	Root causes of weaker quality results
Consistent use of our EY Expert Model and implementation of the milestones programme on audit engagements	Inadequate supervision and RI involvement
High degree of executive engagement	Audit teams not considering the sufficiency of audit evidence from perspective of an independent reviewer
Support provided by our AQST	Insufficient application of professional scepticism
Consistent use of tools and enablers	Resourcing constraints

Our internal review process (cont'd)

Number of inspections subject to RCA



¹ includes prior year audit adjustments, office wide reviews and non-personal independence breaches.

Use of behavioural psychologist – how has it improved the RCA process?

For a selection of RCA investigations performed this year we used a behavioural psychologist from our Dutch firm - gaining some interesting insights into our RCA process and our understanding of underlying behaviours that may affect audit quality. Based on this experience, we have made a number of improvements to our RCA process for FY20 including:

- ▶ Using some self-assessments prepared by audit team members in advance of interviews
- ▶ Performing even more detailed desktop research of engagement hours, AQIs, and use of firm initiatives before interviewing the audit team
- ▶ Performing interviews on an individual basis with the engagement team and ensuring there is more focus on underlying behaviours

Linkage to our people's performance and reward

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 signs audit opinions, is subject to a specific quality review conducted by an Audit Quality Panel. This review considers many factors, including grades from the external and internal quality inspections. The panel ensures that both good and unsatisfactory audit quality inspection results 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 quality grades which are linked to individuals' compensation. In FY19 we offered quality performance awards to staff as part of their performance review and compensation. In addition, we have a non-monetary recognition scheme in place, called 'audit culture coins' to promote and reward a culture of high audit quality.

Other areas of focus

Specialist involvement

On our audit engagements we work closely with our specialists from other service lines. Multi-disciplinary organizations with global reach are needed to allow the seamless access to non-audit specialists that is necessary for high-quality audits today and in the future.

Specialists' work can form around a quarter of audit activity. In addition, using resources from our offshored Global Delivery Services (GDS) can account for around 15%. For instance, one large bank audit involved specialists in areas such as: IT, tax, financial accounting, risk (including credit, conduct, capital, regulations), economists, valuation and business modelling (forecasts and pensions), actuaries, data analytics, fraud (including anti-money laundering).

We are committed to continuing effective integration of specialists on our audits. All our specialists are subject to a mandatory audit training curriculum rolled out annually. For example, we held one training session with actuarial partners and managers and audit senior managers to reiterate expectations regarding actuarial working papers and what detail should be included in audit files. In addition, we developed a standard list of the actuarial working papers that specialists and audit teams should expect to include in the audit file. At the our annual Summer Academy training for all auditors we have included a further session on involvement and coordination with specialists in the audit.

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. These tools enable documentation of the group auditor's oversight of work performed by both firms within our EY network and other audit firms. We are pleased that the FRC has included within its public report, in the last three years, areas of good practice noted in our work reviewed in relation to group audit team oversight. However, we also note the FRC's comments in its 2018/19 report on applying good practice consistently. During FY19 following the release of Staff Guidance Note 02/2018, we released additional guidance on ISA 600 to re-emphasise the special considerations for group audits.

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 and those individuals involved in audits regulated by the PCAOB undertake specific training covering the relevant audit and accounting standards. The training curricula are designed each year to reflect the current needs of the business. We have attempted to streamline the formal learning offering and made more content available virtually and on an 'on-demand' basis to maximise learning effectiveness.

Scepticism and professional judgement are just two examples of the themes covered in our training. At our annual Summer Academy one case study based session focused on how to understand relationships between information in the accounts, including what is actually driving changes in the business and market expectations. It also considered how scepticism should be applied to assess whether management is fairly articulating the business in the annual report and accounts and what we should be looking for.

Other areas of focus (cont'd)

Training (cont'd)

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:

	FY19	FY18	FY17
Senior 2	81	95	83
Senior 3	38	50	56
Manager	44	54	66
Senior Manager	29	41	47
Director/Partner	29	41	47

The hours shown above are the minimum mandatory hours of structured training at each level. There has been a decrease this year as FY18 included training on transformation and analytics as we introduced changes and new practices. We have made a conscious decision to shift the focus to provide more accessible on-demand sessions to capture real time hot topics and updates. This enables learners to complete the training that responds to their specific needs on their audits. As noted on page 82 we have a policy that requires completion of at least 20 hours of continuing professional education each year and at least 120 hours over a three-year period and as people choose which training to undertake they must ensure they comply with these requirements.

Before an application is made to the relevant institute for an individual to be appointed a Responsible Individual (RI) (able to sign audit opinions on behalf of EY), a rigorous internal process of assessment takes place including a review of continuing education. All RIs are then required to comply with the programme of training requirements set out on page 82. Each RI is assessed at a Quality Panel annually. This panel checks whether the mandatory training has been completed. The AQR process as set out on page 25 is a key process for enabling EY to determine whether it is appropriate for individuals to retain their RI status and if they have any further training needs (e.g., related to any AQR findings).

All Key Audit Partners (KAPs) and staff working on 'local audit' engagements are required to undertake sector specific mandatory training for local audit work. This covers health, local government and local government pension schemes and is delivered at both the planning and execution stages of the audit. Additional training is also delivered to KAPs on their additional powers and duties under the Local Audit and Accountability Act 2014. The results of both internal and external quality reviews of local audit engagements are communicated to all government and public sector assurance staff. Core skills training on EY's approach to local audits has been delivered during the year.

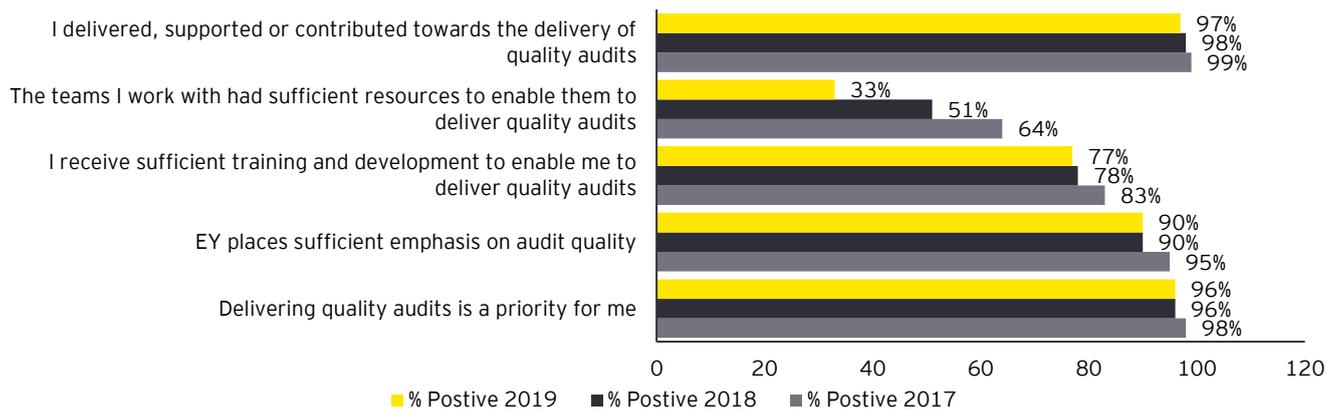
The Learning and Development team continue to consult heavily with the Professional Practice Directorate (PPD), the Financial Reporting Group (FRG), the Quality network and EY's leadership team to ensure that the curriculum responds to quality findings, remains relevant and reflects the ongoing demand for increased quality.

Our people's view

Audit Quality Survey results

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:



In line with prior years, audit quality remains a priority for our people and the vast majority of them have contributed to delivery of quality audits in FY19. We are pleased that 90% of our people believe that EY places sufficient emphasis on audit quality. We are also proud that 98% of our people said that they understand their role as an auditor in providing independent assurance, supporting strong capital markets and protecting the public interest.

We noted a decline in positive responses to the sufficiency of training and development. We have continued to invest in training and development through our dedicated Summer Academy training event, quarterly audit update webcasts and the audit quality summit to provide our people with the skills they need to deliver quality audits. As described on page 28, we have attempted to streamline the formal learning offering and made content available virtually and on an 'on-demand' basis to maximize the learning effectiveness. We will gather more feedback from the practice to understand how we can improve further in this area.

We have experienced a further decrease in positive responses to the question asking our people if their teams had sufficient resources to enable them to deliver those quality audits after improvements on this question between 2015 and 2017. In FY18, we set out that the priorities of the SAQ programme would 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 would 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, continue to implement the EY Expert Model, enhance the AQST and focus further on project management to help teams deliver their audits. We have implemented the planned actions and it is therefore disappointing to see a further decline.

There is a variation in the pressures felt at different levels and in some areas of the practice. Some offices have continued to experience particular pressure due to higher than expected attrition and challenges in the recruitment market. This is particularly significant in the South East of England and in our Government and Public Sector practice. During FY19 due to resource constraints we advised the regulators and certain Government and Public Sector clients that we would delay undertaking a number of audits to ensure that when they were completed, we had appropriate resources to complete high quality audits. We have vacancies open in these areas and have been actively recruiting for some months now. We are finding the recruitment market challenging as other firms are also recruiting and many people are choosing to leave the profession. We are using the EY Global network to support us with secondees and also carrying out recruitment trips overseas. We had a similar focus on recruitment in the financial services part of the business two years ago and it is pleasing to note that the results of our survey are more positive in that area. Alongside this we are reviewing our portfolio of work. In addition to the regular monthly Audit Quality Board meetings we have been holding specific resource focused Board meetings to specifically address and take actions in relation to the resource constraints being experienced. We are continuing to focus on other remedies such as innovation, Centres of Excellence and conducting portfolio reviews to alleviate the pressure.

Technology in today's audit and stakeholder engagement

Technology in today's audit

We continue to transform the way we perform our audits by increasing our use of technology. Our focus has been on the creation and adoption of enabling technologies, such as our Helix analytics platform and Canvas Client Portal, as well as rapidly maturing technologies such as Robotic Process Automation. By increasing the rate of adoption of new technology we are supporting improvements in audit quality and building more fulfilling careers for our people. For example, automating standardised routine tasks improves the accuracy of our procedures and allows our people more time to develop deeper insights from our procedures.

In the current year, we continued our migration of assurance data and tools from on-site servers to the cloud. Cloud technology brings advanced security and stability while also accelerating our ability to bring these new innovative solutions to the companies we audit.

To support this, we are building further digital skills, with various initiatives underway including Digital Apprentice programmes, digital learning curricula, technology career pathways and accreditation via our EY Badges qualifications. We now have over 200 full-time digital specialists in the UK. We are pleased that this year our UK team was presented with two prestigious 'EY Lighthouse' awards from EY Global. These internal awards are granted to recognise pioneering innovation at, in which EY then invests to ensure such capabilities are available in all countries.

We are now piloting implementation of our new Digital Audit methodology where data analysis is integrated throughout each phase of our audit approach. This builds on our work in recent years to adopt an analytics approach in specific areas of the audit.

Dialogue with stakeholders

Over the past five years, we have continuously sought engagement and dialogue with material stakeholders. These include investors, regulators, civil servants, parliamentarians, audit committee chairs, chief financial officers and the wider boards of listed companies. It is more crucial than ever that we hear from a range of voices in order to build a more trusted audit product that underpins the capital markets, meets public expectations and supports the attractiveness of the UK as a place to do business.

Engaging with a broad range of stakeholders was particularly important this year given the debate on competition, choice and quality in the audit market. We were able to discuss our views and initiatives in relation to audit quality and other matters covered by the Audit Firm Governance Code. The insights gained through these stakeholder discussions helped to improve our understanding of and response to market needs and the public interest respectively.

The demand for greater accountability and transparency has never been higher, and the volume of our engagement activities reflects how seriously we take our responsibility in these areas.

Investors

Investors are the ultimate beneficiaries of audit. It is therefore critical that we understand their perspectives. We hosted our annual Dialogue with Investors event in November 2018, welcoming 20 investors representing £2 trillion in assets under management to discuss audit quality, corporate reporting and standards.

In May 2019, our INEs held a discussion with the Company Reporting and Auditing Group (CRAG) representing the interests of investors. With several ongoing regulatory and independent reviews impacting the audit market, the timing of this meeting was particularly apt. Subjects for discussion included fees, competition, director accountability and corporate reporting.

We also hosted knowledge sharing sessions with investment houses about engagement with company boards on reporting and auditing matters. These sessions included two with Allianz Global Investment, one with BMO Global Asset Management (EMEA) and participation in a joint Investor Forum and Investment Association event. These sessions helped to deepen understanding about audit and better equip investors to engage with company boards on reporting and auditing matters.

It was noted that if more of the participants at such events had a direct involvement in the investment process, and if the range of professionals in the room could be broadened, we would gain further insight into investor opinion, issues and concerns.

Technology in today's audit and stakeholder engagement (cont'd)

Audit Committee Chairs of Listed Companies

The debate on audit reform has brought into focus the importance of the relationship between audit committee chairs, investors and auditors. In June 2019 our EY INEs and Head of Audit met with the Audit Committee Chairs' Independent Forum (ACCIF). The dialogue focused on ways audit firms can improve engagement with companies and increase transparency of audit quality reporting.

Regulators and policy makers

In June 2018 we invited our key regulators and policy-makers to make presentations at our annual Regulatory & Public Policy Planning Day. This internal meeting helps for EY partners to gain a better understanding of our regulators' and policymakers' priorities by engaging with them in first-hand dialogue. We believe that our planning day differentiates us from other firms, and its insights allow us to fulfil our public interest duties more effectively.

UK Centre for Board Matters (CBM)

Our UK Centre for Board Matters is a programme for Non-Executive Directors (NEDs), delivering insights into the current issues facing UK businesses. This year, we delivered three principal campaigns on board governance, organisational culture and long-term value, engaging through podcasts, webcasts, blogs and events. We hosted FTSE 100 audit committee dinners at which the proposals set out by the CMA and Sir John Kingman were discussed, along with the potential implications for their role as FTSE 100 audit committee chairs. Our podcasts included discussions on the growing impact of intangible assets on stakeholder trust in business, and on why boards should view letters from investor groups as an opportunity to articulate purpose. In order to broaden the reach of our engagement activities further, we also partnered with Criticaleye, the peer-to-peer board community, sponsoring their 2018 NED retreat. This allowed us to engage in dialogue and share insights with the 88 delegates in attendance.

Embankment Project for Inclusive Capitalism (EPIC)

Our work to continue to enhance the future of corporate reporting continued this year. We have been engaging with more than 30 global business leaders, including asset owners, managers and companies, representing almost \$30 trillion of assets under management. Together we have been working to develop both a reporting framework and a standardised, material and comparable set of metrics for the measurement of activities that create long-term value and affect a broad range of stakeholders, including customers, employees, suppliers, communities and shareholders. Our collective aim was to agree on a set of metrics that is underpinned by a methodology focused on outcomes, measures the execution of a company's strategy and links it to long-term financial value for shareholders. The output of this 18-month long journey was published in November 2018.

Our continued commitment to audit quality

As noted on page 15 each September we host our annual Audit Quality Summit. We welcome addresses from the FRC, investors and audit committee chairs at this event. EY INEs also attend. In November 2018, we held our annual Financial Reporting Outlook event, bringing together almost 600 senior finance leaders, independent directors and regulators. The day featured numerous plenaries and breakout sessions led by thought leaders covering topics such as: accounting and reporting updates, fraud, corporate governance and internal controls.

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. Our ambition is that whenever people join, however long they stay, the exceptional EY experience lasts a lifetime.

We strive to drive positive change, a diverse and inclusive culture where everyone feels they can belong, and industry-leading career development opportunities for all our people.

In this section, discuss:

- ▶ Diversity & Inclusiveness
- ▶ Recruitment
- ▶ Building fulfilling careers

Diversity and Inclusiveness

We have a UK-wide strategy on Diversity and Inclusiveness (D&I). D&I is an enabler of our key business priorities, aligned to our global business strategy. A diverse and inclusive firm will help us to achieve our growth goals, attract the best clients and be an employer of choice.

Our aim is to create and maintain a culture where everyone belongs, and to significantly shift the make-up of our partnership by 2025. To achieve this, we have made three strategic choices:

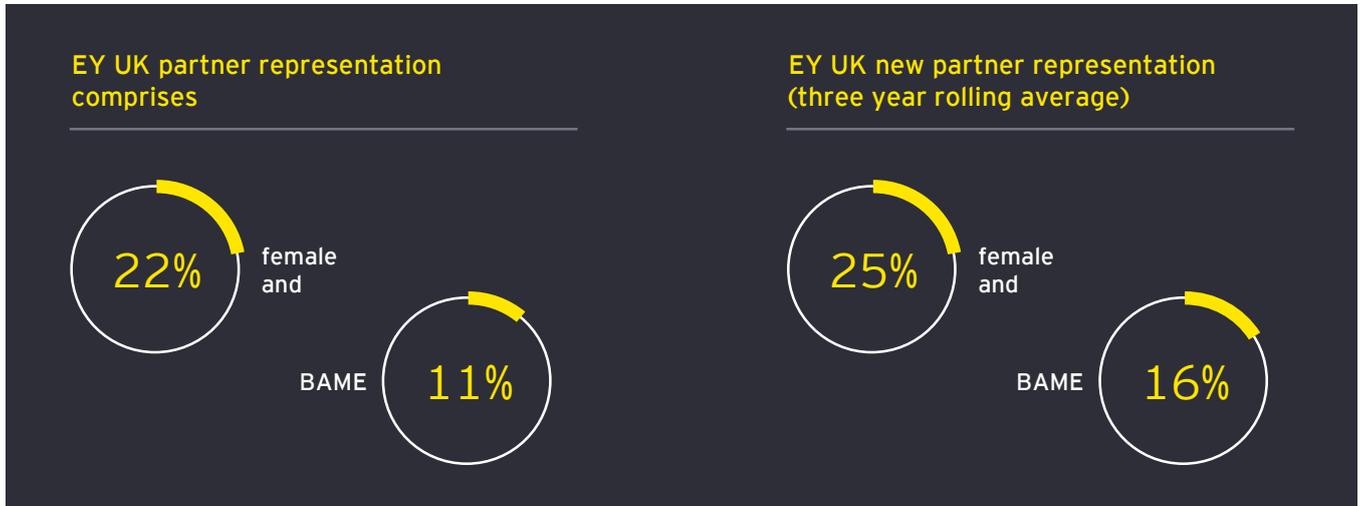
1. Build a culture of belonging	2. A differential focus on race and gender	3. Be a leading, disruptive voice on D&I
An accelerated focus on developing a culture driven by inclusive leadership behaviours, embedded in all business and talent strategies, so that all our people feel they belong.	To bring about a shift in the make-up of the firm at every level - our attention and metrics will focus on race and gender. This does not mean that we will disregard any other differences in our people.	By supporting all of our leaders so they feel accountable and are able to talk openly, knowledgeably and confidently with their teams, clients, communities and stakeholders.

Holding ourselves to account

We continue to rigorously monitor our performance as an inclusive employer. We have set ourselves clear diversity targets across all our people processes. EY UK Chairman Steve Varley meets the EY UK senior business leaders regularly to review progress on our D&I targets.

We have committed 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 FY19, those percentages stand at **16%** and **25%** respectively (FY18: 13% and 24% respectively).

Diversity and inclusiveness (cont'd)



EY UK also set an ambitious new public target to double the proportion of female and ethnic minority talent in the UK partnership to 40% female and 20% BAME by July 2025.

Increased transparency in pay gap reporting

In accordance with UK law, we are required to report each year on our gender pay gap. In line with our focus on race and gender, we voluntarily published our ethnicity pay gap in our EY UK 2018 Transparency Report.

In March 2018 we became the first of the Big Four firms to voluntarily publish our partner pay gap (for ethnicity and gender).

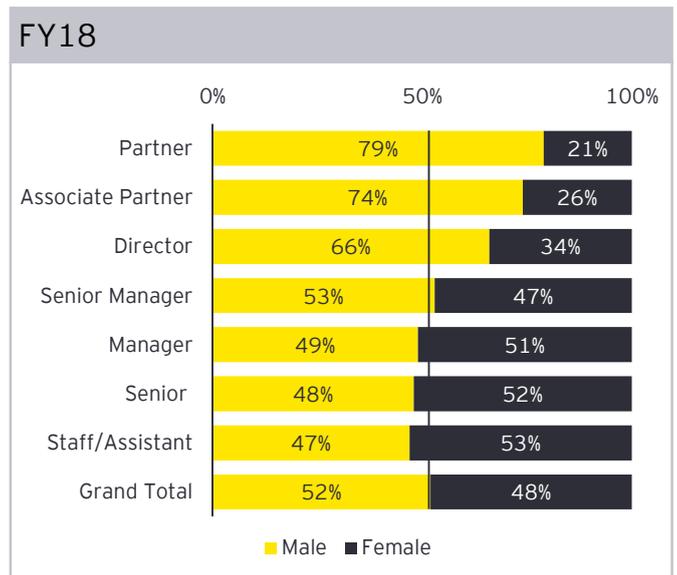
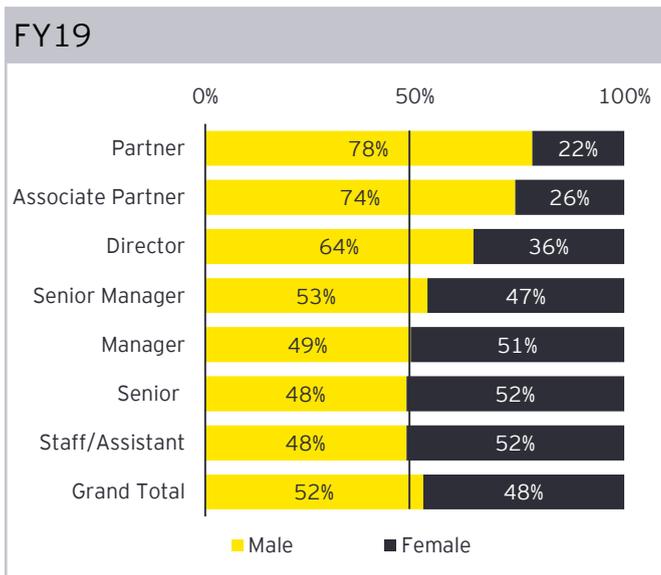
Our partner pay data is not available at the same time as our employee pay data, We will publish both figures collectively in November 2019 consistent with last year.

EY will also be voluntarily publishing its CEO Pay Ratios in 2019, even though as a partnership it is not required to do so. This is in line with the firm's strategy to provide transparency around reward and as an equitable employer that encourages talent from all backgrounds to succeed.

EY UK population by gender and ethnicity

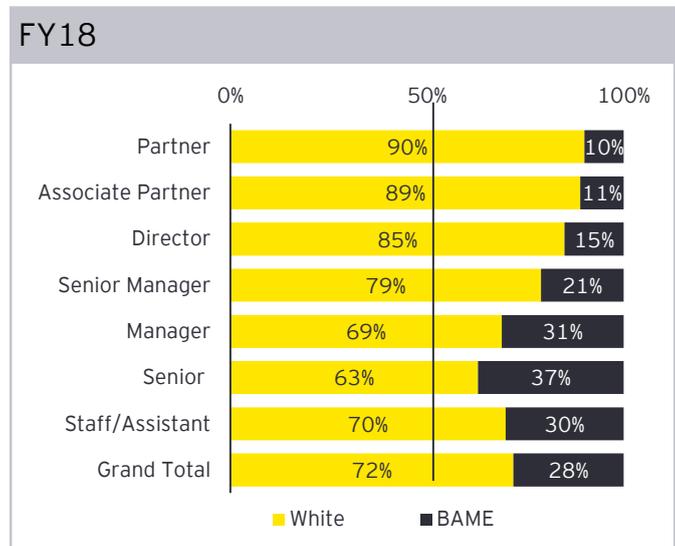
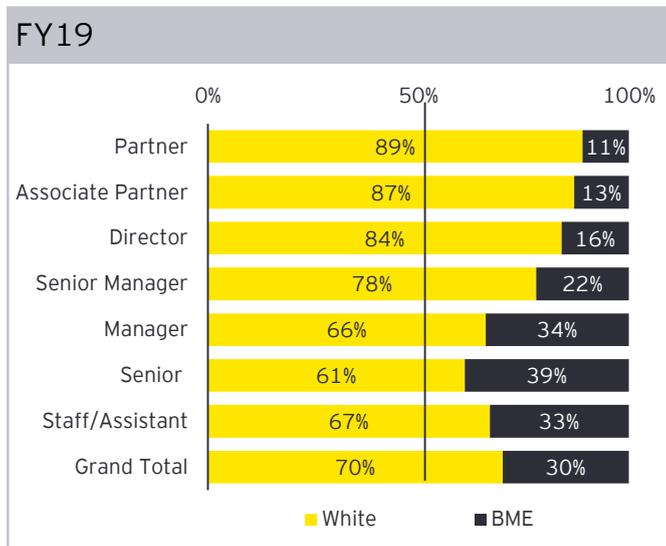
The representation of EY UK population by grade and by gender and ethnicity is as follows:

Gender



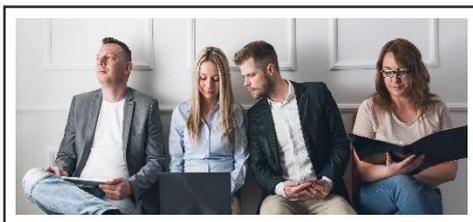
Diversity and inclusiveness (cont'd)

Ethnicity



Mental health @ EY

At EY we take a holistic approach to our people's physical, mental and financial wellbeing. Mental health issues are becoming more widespread in society, yet they often remain hidden. People from all walks of life can be affected, either long term or at different stages of their lives.



1 in 6 working age people have a mental health condition and only **39%** seek help.¹

¹ According to research by Britain's Healthiest Workplace 2018

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

- ▶ Employee-led Mental Health Network - Includes a buddy scheme and enables peer learning and support
- ▶ 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
- ▶ Fast-track psychiatric referral process - Allows people experiencing acute symptoms to be referred directly to a therapist paid by our insurer
- ▶ Tailored resilience programmes - Aimed at different populations in our business, including students, forming part of our on-boarding programme and offering support during their busiest time of year
- ▶ Firmwide wellbeing awareness session - Delivered through our counselling families to encourage all employees and partners to think about the holistic factors of physical, mental, social and financial wellbeing and explore what changes they could make for themselves and others using the resources available at EY

Mental Health First Aid **course completed by 700+** current partners and employees



Recruitment

Recruitment

At EY we pride ourselves on our inclusive culture and diverse teams - an environment that is driven and championed by everyone within our business from our newest starters to our senior leadership team.

'Belong' campaign

Our 'Belong' campaign, launched in February 2019, promoted our commitment to creating a culture where our people are fully supported to be their authentic selves.

Another key aim for this campaign was to increase the number of applications from females, BAME individuals, and those from diverse backgrounds. The results of the campaign show we were successful in doing this. We experienced a 27% increase in applications from female candidates in the first three months after the campaign launched in 2019, and approximately 45% of our graduate offers for FY19 are for BAME candidates.

To respond to our growing business we recruited more experienced hires during FY19 than in previous years. We have re-energised our onboarding programme to ensure it is better tailored to the needs of our new joiners, addressing cultural differences and differing working practices, and providing more UK specific technical training and job shadowing. This ensures that audit quality is protected and that the individuals receive an exceptional employee experience from day one, helping them quickly feel a sense of belonging to our UK Assurance practice.

The FY19 Global People Survey (GPS) results for the UK show a marked improvement in our people receiving timely feedback and having more meaningful career conversations.

Apprenticeships and Insight Programmes

We continue to offer a broad mix of apprenticeship programmes, including Digital and Technology Degree Apprenticeships which allow students to specialise in data analytics or software engineering, preparing them for the workforce of the future. Students and parents are also offered a wealth of insights, career advice and guidance so they can make the right career choices. Our Parental Advice Campaign reached 3.1million people.

During 2019 we ran a Women in Business Insight Programme for over 100 first year undergraduates. Around 80% of these people now have a place on our Summer Internship Programme for 2020 across all locations and service lines. We also ran a successful Leading Women programme for second year undergraduates. 80% of the participants are set to join as graduates in September 2020.

Building fulfilling careers

Building fulfilling careers

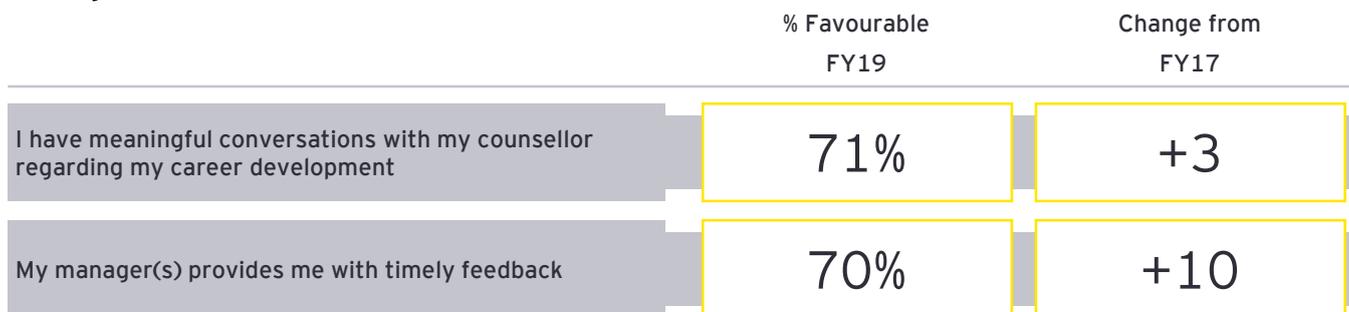
As highlighted in Section 2, one of the key observations from our 2019 EY Cultural Assessment was that many of our people are looking for greater fulfilment from their careers at a time when they are working longer hours to deliver audit quality. Over the past year we have worked to meet that expectation through a variety of actions including audit innovation, where we have made significant progress in the use of analytics and bots. We are also making better use of offshore Global Delivery Services and the EY Audit Centre of Excellence in Belfast to support our onshore teams. These steps have allowed us to free up time for our people to continue delivering high quality audits and also spend time on other interesting and fulfilling work.

Understanding our purpose and societal contribution as a profession

In FY17 we worked with a group of cognitive psychologists to build our 'Expert Model' based on Purpose Led Outcome Thinking (PLOT). The model helps us to define the criteria that really matters to our people, and how these criteria affect our people's lives. During the year we developed the model further and focused it on the needs of individuals to promote discussion and help people engage differently with others around our role as a firm in society, the broader purpose of an audit and consequently, the importance of their role.

LEAD: career development and performance

One of our top priorities is an increased focus on our people to help them advance their careers. The FY19 Global People Survey (GPS) results for the UK show a marked improvement in our people receiving timely feedback and having more meaningful career conversations.



LEAD (Leadership Evaluation and Development) is helping more people getting on-the-job coaching and feedback, and better support from counsellors.

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 access the right experiences to support their growth.

Critical to LEAD are regular feedback cycles with a focus on obtaining ongoing feedback, and discussing activities for the coming cycle with a counsellor. Connect Groups, where counsellors meet to discuss how they can support their counsees, are led and facilitated by 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 counsees having more balanced and better conversations on career, development and performance

The FY19 Global People Survey (GPS) results for the UK show a marked improvement in our people receiving timely feedback and having more meaningful career conversations.



Building fulfilling careers (cont'd)

Dynamic working

Flexible working at EY UK has been a key feature for many years and is now firmly integrated into our culture. Investment in technology has enabled us to build a tangible extension to our formal flexible working arrangements and introduce dynamic working.

During FY18 we ran a series of 'sprints' across our Assurance business, empowering our people to think creatively and try new ways of working to help us respond to concerns around a work/life imbalance. We measured the impact of these sprints, and with the help of focus groups, distilled them into a short list of key behaviours:

- 1** Focus on outputs
- 2** Assume trust
- 3** Set boundaries
- 4** Communicate regularly
- 5** Embrace diversity

In FY19, we implemented a programme of change across our business. UK Assurance Talent leadership visited each of our offices and worked with local people to build personalised dynamic working plans which are now part of 'business as usual'. This dynamic working allows much greater flexibility to work the hours people want, in the location of their choice, and with access to the colleagues they need for help and support.

Accelerating and developing our talent

This year we introduced more agility into our promotion process, removing barriers that previously hindered the ability of the business to respond quickly to changes in local regions. Our processes now allow ad-hoc promotions throughout the year and a more agile school leaver programme to enable us to recognise our people at the right points in their careers and to help us retain more of our top talent.

During FY19 we also implemented a range of incentives to help us retain our top talent. Examples include our 'Milestones' promotion bonus scheme which recognise our people as they build their careers within EY Assurance.

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.

In 2018 the Remuneration Committee led a review of the variable pay element of our total reward package to ensure that the scheme is better understood and aligns with LEAD, our performance management system. The review drew on feedback from our people, gathered through our Global People Survey, Cultural Survey Assessment and numerous working groups involving participants from all ranks, service lines, markets and geographic locations.

This refreshed variable pay proposition provides more transparency about how the scheme pays out and how an individual can influence or have access to a performance award. The variable pay element of our total reward package was well received in FY18 and has been carried forward into FY19. It should be noted that INEs have been included in reviewing our people management policies and procedures, including remuneration and incentive structures at the EY UK LLP Board.

Our focus for FY20

We continue to focus on ensuring that we deliver a differentiated outcome for our people. We are concentrating on how we can implement changes that improve our selection, development, management and retention of our people. We are using analytics to learn more about why people choose to leave us, or choose not to join us, so that we can make more informed decisions about what our people want and need to thrive at EY.

We have launched a pricing for quality initiative in the UK to evaluate our audit engagements to ensure that the economic returns support the level of work, investments and financial resilience needed to deliver consistent high-quality audits.

There is a clear link between the attractiveness of our profession and our pricing for quality initiative. The recognition our people receive is directly aligned with our ability to have the right resources to deliver audit quality.

Section 4
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 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 was applicable to us from July 2017, 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.

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. Both the EY UK LLP Board and INEs reviewed the output of the 2019 effectiveness review of the firm's internal controls, which included all material controls.

Key Elements of Our Risk Management Framework

Risk Oversight Committee (ROC)

ROC's primary mandate is 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 continued to focus on evolving the rigour with which the firm's principal risks are identified, assessed, managed and monitored at a firm, service line and functional level. As in every year, the ROC has continued to drive ongoing enhancements to our internal governance, processes and controls.

Highlights of the committee's activity this year include:

- ▶ Development of a more advanced risk management framework
- ▶ Review of internal audit planning and the results of audits executed during the year
- ▶ Review of and support for new financial crime initiatives, including implementation of a new centralised anti-money laundering (AML) client due diligence function
- ▶ Considering progress reports, updates and responses relating to the firm's responses to the CMA, Kingman, the department for Business, Energy & Industrial Strategy (BEIS) and Brydon reviews
- ▶ Reviewing the firm's preparedness for significant future external and internal events, including Brexit and the implementation of the firm's forthcoming systems and process transformation programme (the Mercury System)
- ▶ Review of specific risks and their management at a firm and service Line level
- ▶ Revisiting the assessment of the impact of selected principal risks on the viability of the EY UK business model, future performance, solvency and liquidity

Risk management framework

Independence

The firm's independence function continued to build on existing policies and procedures by further embedding our independence controls and processes to meet our ethical and regulatory requirements. Separately, significant input was provided into the firm's response to the FRC's [Post Implementation Review 2016 Ethical and Auditing Standards – Call for Feedback](#) where the FRC sought views from stakeholders on the effectiveness of the revised Ethical Standard since it was introduced in 2016. This was followed by the firm's response to the FRC's Feedback Statement and Impact Assessment (Post Implementation Review of the 2016 Auditing and Ethical Standards).

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 could constitute a potential threat to EY UK's objectivity, integrity, confidentiality or reputation in providing services to the companies we audit. The significance of the threat will vary widely depending on the circumstances. The conflicts check process is integral to our 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 FRC Ethical Standard (2016) has the concept of an ORITP which the FRC is seeking to further clarify in the 2019 revision of the Ethical Standard. We seek to consider all ethical and conflict issues through the eyes of an ORITP.

This test examines relationships and perceived or actual conflicts. 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 Limited (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 senior leader 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 an engagement can be accepted, client engagement teams are required to complete engagement acceptance procedures, which, depending on the nature of the engagement, may include a mandatory conflict check 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.

Risk management framework (cont'd)

Engagement acceptance and considering conflict issues (cont'd)

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.

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. In FY19 certain professionals were required to undertake mandatory conflict of interest training that covered principal concepts and guidelines on how to manage conflicts of interest.

Reputation and Conflicts Panel (RCP)

In order to address the ongoing heightened public interest in perceived or actual conflict situations, EY UK has a RCP to act as the conscience for the firm and to provide informed views on reputation and conflicts-related matters through the lens of the ORITP. Our INEs have oversight of the RCPs deliberations.

The RCP enhances and complements the existing process for addressing conflict matters and also addresses high profile matters that could affect the reputation of EY UK, including:

- ▶ Making decisions on the firm's response to conflict or perceived conflict situations
- ▶ Forming views on significant matters with high public interest or scrutiny
- ▶ 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 FY19:

- ▶ EY UK continued to focus on its General Data Protection Regulation (GDPR) programme, which entered its consolidation phase. In order to heighten awareness of data security a new data security policy was introduced which included new UK sanctions for non-compliance and refreshed data incidents management guidance to support responsible data handling. New training was also launched
- ▶ EY UK continued to refresh 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 further mandatory AML training was launched

Ethics and whistleblowing

The EY Global Code of Conduct provides a behavioural and 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 UK 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 responded to a new standard issued by IESBA setting 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 reinforced 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.

Risk management framework (cont'd)

Ethics and whistleblowing (cont'd)

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

The guidance is kept under review, and it is anticipated that a further update will be undertaken during FY20.

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. The most recent such communication was circulated in June 2019.



During the reporting year, around **15,000** staff were required to undertake training courses, which included independence, anti-money laundering, health and safety, anti-bribery and data protection – a commitment of over **50,000** hours.

Governance and accountability for risk management

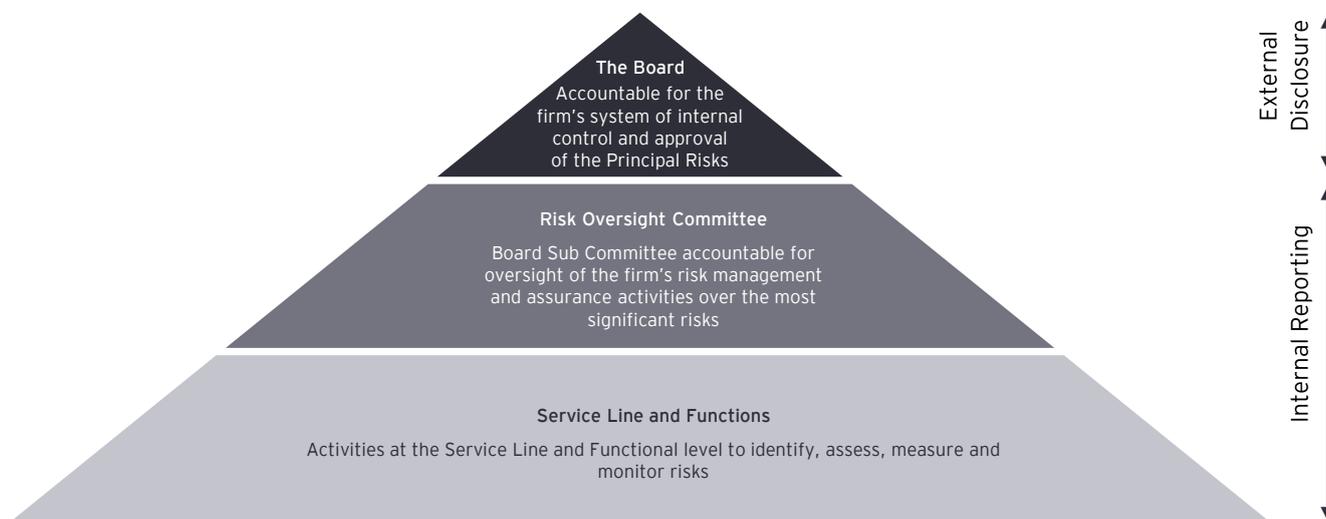
The environment we operate in presents a broad range of principal and subsidiary risks. Effective management of these risks is critical to safeguarding the firm and delivering on our purpose and ambition. EY UK operates a robust risk management process to identify, assess, measure and monitor the risks it faces.

The firm operates a conventional three lines of defence model. The first line of defence rests with the service lines and functions. Policy development, frameworks, tools, advice, guidance, monitoring and assurance are provided by the second line. 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 FY19 the internal audit programme included reviews of expenses compliance, suspicious activity reporting (SAR), anti-bribery and corruption, service quality, and various targeted reviews of the Mercury Programme. This is supplemented by audits conducted by our Global Internal Audit Function.

In addition, on an annual basis relevant management confirms that the firm's principal risks are properly identified, and that controls are in place to monitor them. This includes a robust assessment of the principal risks that would threaten the firm's business model, future performance, solvency or liquidity and sustainability of the audit practice of EY UK as described later in this section of the report.

Risk management framework (cont'd)

Governance and accountability for risk management (cont'd)



Governance: Interaction of the LLP Board, ROC and Independent Oversight Committee

Three governance bodies focus on risk:

- ▶ The Board has overall accountability for our system of internal control and for approving 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 firm's risks, 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 (IOC) where appropriate. The ROC also considers emerging risks as part of its normal activities. The ROC approves the annual internal audit plan, confirms the terms of reference for each internal audit report and reviews the final reports including the appropriateness of management actions
- ▶ The IOC requests updates on certain risk matters in order to enable its members to carry out their functions. See Section 1: Leadership messages, and Section 5: Governance, for more information on the IOC.

Work Undertaken during the year on risks and risk management

This year significant enhancement to the firm's risk framework was undertaken. This involved redefinition of principal risks, drivers and impacts, clarification of accountabilities and the cascade of responsibilities, clearer definition of risk appetite, creation of new reporting on risks encompassing a more comprehensive set of risk metrics and control related information, and implementation of a new risk management system.

Additionally, the Risk Register is formally reviewed on an annual basis and, in relation to the principal risks described further below, confirmation is obtained from relevant management that the major risk drivers have been identified and that processes and controls are in place to monitor and to manage them.

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

The following principal risks faced by EY UK and how they are mitigated are as follows.

Principal risks

Risk	Description/Drivers	Activities to mitigate and monitor risks
Externally imposed change to our existing business model threatens our ability to continue to deliver high quality audits	<ul style="list-style-type: none"> ▶ Government or regulatory action causes us to change our existing business model, whether through changes to the UK Firm's structure or otherwise 	<ul style="list-style-type: none"> ▶ Frequent interaction with Government bodies and Regulators, and contribution to the continuing debate on the future of the Big 4 and Audit, as addressed by the Kingman, CMA, BEIS and Brydon reviews; ▶ Continuous engagement with our regulators, to understand and respond to proposed changes raising the bar on regulation ▶ Monitoring of all changes to regulation, to identify impacts on the firm and translate these into changes to the firm's procedures and guidance to ensure compliance by our people with all relevant regulation ▶ Regular review of regulatory compliance by 1st and 2nd line control functions ▶ Close monitoring of potential threats to audit independence, which remains a key concern ▶ Scenario and contingency planning
Loss of public trust in the firm as a result of reputational damage	<p>Reputational damage could be caused by:</p> <ul style="list-style-type: none"> ▶ Providing services to clients which would be viewed by some or all of our stakeholders as contrary to our public standing; ▶ Conduct by our people which does not meet the high standards we impose on ourselves 	<p>We value our reputation highly and an appreciation of reputational risk is at the heart of all our business decisions. Additionally:</p> <ul style="list-style-type: none"> ▶ Significant reputational issues are reviewed and opined on by the Reputational & Conflicts Panel ▶ Building trust within the firm and with our external stakeholders remains a key focus and has been reiterated recently through a series of initiatives ▶ Ethics and a shared set of values drive the behaviour of our partners and staff, this is reinforced by training and guidance, and monitored by our Code of Conduct Committee ▶ The firm has whistleblowing procedures in place, which includes a confidential ethics hotline

Principal risks (cont'd)

Risk	Description/Drivers	Activities to mitigate and monitor risks
Audits are not performed or documented in accordance with auditing standards	<p>Audit quality which falls below expectations might negatively impact on the companies we audit and wider trust in our profession. This could be caused by:</p> <ul style="list-style-type: none"> ▶ Being insufficiently sceptical or challenging in areas of audit judgement ▶ Inappropriately applying accounting standards to the company's fact pattern ▶ The audit plan not meeting the requirements of the auditing standards, including not sufficiently addressing the risk of material misstatement ▶ An independence breach ▶ Not using a team with the right skills, experience and capacity ▶ Failure to spot an emerging systematic risk or properly understand legal, accounting standard or audit standard changes ▶ Shortcomings in other EY network firms' work ▶ Quality review/control processes are not adhered to ▶ Archived audit documentation does not reflect the work undertaken ▶ Client setting unrealistic timetables, failing to deliver information for audit on a timely basis, misleading the audit team and/or withholding information 	<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 and assignment procedures ▶ Training on audit and accounting-related matters for audit staff and specialists supporting audit teams ▶ Centralised specialist teams in audit and accounting matters with mandatory consultations in high-risk areas ▶ Quality review procedures over service delivery. Root cause analysis (RCA) of deficiencies identified and lessons learned implemented ▶ Globally consistent tools and technology to support audit delivery <ul style="list-style-type: none"> ▶ Audit methodology and risk management policies accessed through an online portal ▶ Audit platform used across the EY network enabling easy communications within audit teams ▶ Data analytics embedded in audit technology ▶ 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 ▶ Global Sustainable Audit Quality (SAQ) programme
We are found to be in breach of new or existing regulation	<p>The current regulatory and public policy landscape can result in regulatory requirements and other policymaker actions increasing or changing frequently, with significant sanctions for non-compliance. These actions might become increasingly difficult to interpret and apply if:</p> <ul style="list-style-type: none"> ▶ We do not understand or are not aware of new and changing regulatory requirements and expectations, or changing interpretations thereof ▶ Staff not aware of and not fulfilling their role in risk management and/or do not understand the risks the firm is exposed to ▶ People do not follow internal policies and procedures, including our code of conduct ▶ We do not continue to enable and embed a culture of strong risk management and compliance 	<p>The EY UK Regulatory & Public Policy team is responsible for monitoring regulatory and policy developments impacting the UK firm.</p> <p>This insight, combined with feedback from our regulators, INEs, EY Global Public Policy Committee and the UK Professional Practice team and the monitoring of regulatory developments performed by second line functions, is used to:</p> <ul style="list-style-type: none"> ▶ Update our policies and procedures framework ▶ Prepare and update guidance documents for our staff ▶ Refresh our training plan (mandating particular components as necessary) <p>Service line 'risk radars', second line monitoring activities and our Internal Audit (IA) programme provide further support and control.</p> <p>Additionally, the firm is investing in new tools and technologies to support our staff in monitoring regulatory developments.</p>

Principal risks (cont'd)

Risk	Description/Drivers	Activities to manage and monitor risks
<p>Confidential information is misappropriated, mishandled or corrupted</p>	<p>Data protection and information security protocols might be neglected, or controls might be breached resulting in compromised client or EY proprietary data and information by:</p> <ul style="list-style-type: none"> ▶ Loss of electronic equipment or hard copy documents ▶ Information being sent electronically or in hard copy to an unintended recipient ▶ Information not being created, stored, transferred or destroyed appropriately or in line with policy ▶ Malicious and unauthorised (internal and external) access to EY offices and/or systems (data breach because of a cyber-attack and/or data or code corruption) 	<p>Comprehensive and well-established internal quality management procedures consistent with industry standards, best practice, regulatory guidance and legal requirements to address the risks of breach, including:</p> <p>Data Protection and Information Security training programme</p> <ul style="list-style-type: none"> ▶ Mandatory training, regular communications and awareness raising for staff on the importance of data protection and risk mitigation, including what to do in the event of data loss and an annual declaration that they have read and understood requirements ▶ Mandatory GDPR training in place for all staff ▶ Provision of Assurance specific incident training ▶ Staff awareness periodically tested via a programme of audits <p>Policies and procedures</p> <ul style="list-style-type: none"> ▶ Information governance policies and framework, with supporting guidance, to seek to enable compliance and best practice in handling confidential information ▶ UK Data Protection Code of Practice ▶ Enhanced procedures in recruitment, induction and leaver processes ▶ Newly proposed sanctions for negligent data loss ▶ Contractual terms addressing the handling of confidential information and client data <p>Improved hardware and software controls</p> <ul style="list-style-type: none"> ▶ Enhanced IT Asset Encryption ▶ Use of data loss prevention monitoring ▶ Continued investment in cybersecurity controls with regular reporting to the Board ▶ Ongoing monitoring and trend analysis of data incidents ▶ Periodic testing of IT and cyber security controls ▶ Dedicated team of cybersecurity experts who actively monitor, hunt and defend our systems ▶ Regular training and reminders to staff to remain vigilant for potential cyber attacks (including phishing)
<p>Strategic investments do not generate an adequate return</p>	<p>EY is investing in new digital offerings linked to our strategic objectives and collaborates with various external organisations through alliances or acquisitions. These investments might not provide the required return on investment if:</p> <ul style="list-style-type: none"> ▶ Strategic investments are made without a clear business case, or without proper governance and challenge ▶ The firm is not able to deliver on strategic investments in line with expectations ▶ Unanticipated challenges in the delivery of the investment or in the maintenance of the investment deliverables might occur 	<p>EY has a stringent Governance Framework in place to approve and manage strategic investments. All investments are assessed and approved based on individual business cases by investment boards and executive committees.</p> <p>Continuous monitoring is in place to monitor the economic return of these investments and necessary corrective management actions are undertaken when required.</p> <p>We have strengthened cross-collaboration between service lines as well as with other global EY member firms to leverage our investments within EMEA and worldwide.</p>

Principal risks (cont'd)

Risk	Description/Drivers	Activities to manage and monitor risks
Our business model becomes unsustainable	<p>The delivery of EY services might become unsustainable as a result of:</p> <ul style="list-style-type: none"> ▶ Ineffective use of technology, nearshore vs. offshore and third parties/alliance partners as part of our delivery model ▶ Poor pricing of services such that we do not generate a sustainable margin ▶ Resource model not being appropriate for current and future demands 	<p>Senior management continuously monitors the performance of our firm throughout the year. Appropriate management action is undertaken when necessary to adjust to changing market conditions. Ongoing review at an engagement level allows for continuous monitoring of pricing, scope and margin. We continue to invest in assets and alliances to grow our delivery capability.</p> <p>Our recruiting strategy is adjusted on a continuous basis, so we have the right talent to deliver the services to meet the our needs of the companies we audit.</p>
Clients and the companies we audit are dissatisfied with the quality of work delivered	<p>Delivering service of a quality which does not meet the expectations of the companies we audit, or those of our other clients, might negatively impact our reputation as a trusted service provider, impact our ability to win further business and result in litigation. This could be the case if we are:</p> <ul style="list-style-type: none"> ▶ Providing a service where we have contracted to deliver outside of our capabilities ▶ Not using a team with the right skills, experience and capacity ▶ Using an ineffective or inappropriate delivery approach ▶ Failing to manage scope, deliverables, timescales, dependencies and assumptions at inception or during the engagement life cycle 	<p>Our firm seeks to ensure that we are delivering exceptional client service based on:</p> <ul style="list-style-type: none"> ▶ Client and engagement acceptance and continuance to verify that we will provide the right service to the right client ▶ Comprehensive and well-established internal quality and compliance procedures to address the risks of service failure ▶ Rigorous recruitment and development procedures ▶ Adjusting our delivery approach on an engagement-specific level, e.g., use of offshore capabilities ▶ Service line-specific policies designed to assist client teams in understanding and managing the risk of poor quality or noncompliant service delivery (e.g., breach of independence) ▶ Quality review procedures over service delivery and continued enhancement of delivery tools
We are not appropriately managing our cost-base	<p>Direct and indirect costs of service delivery might be higher than expected. This could be caused by:</p> <ul style="list-style-type: none"> ▶ Inadequate cost management of our service delivery and/or overhead costs ▶ External factors, particularly response to regulation and to UK Government mandated change, driving higher costs 	<p>EY continues to manage costs on a firm-wide level with:</p> <ul style="list-style-type: none"> ▶ Stringent financial controls in place at all levels of the firm ▶ Ongoing management reviews of our cost/income position and cashflow development ▶ Enhanced engagement planning and control ▶ Wider use of collaborative tools to manage cost ▶ Monitoring of developments in regulation to track and forecast costs ▶ Scenario planning for market issues potentially impacting on the firm's business performance, and annual modelling of the sustainability of the firm and therefore of our ability to continue to provide high quality audit services, as part of our viability assessment.

Principal risks (cont'd)

Risk	Description/Drivers	Activities to manage and monitor risks
Talent (including partners and staff) is not attracted, integrated, retained and managed	<p>EY's proposition as an employer of choice might be weakened in the future and we might not be able to retain the right talent if we are not able to:</p> <ul style="list-style-type: none"> ▶ Offer attractive total reward packages and flexible working arrangements, and fail to ensure people's health and well-being ▶ Provide attractive career paths with sufficient personal development and compensation ▶ Engage people through effective leadership, management and support ▶ Create and maintain a diverse and inclusive culture 	<p>These include:</p> <p>Supporting personal development</p> <ul style="list-style-type: none"> ▶ Individual counselling and 'buddying' programmes to develop the right talent ▶ Implementation of a firm-wide harmonised Learning & Development strategy ▶ Multi-year talent programmes, including diversity and inclusiveness initiatives ▶ Strengthened induction and post-induction programmes at staff and partner level <p>Involving senior management to foster talent</p> <ul style="list-style-type: none"> ▶ Implementation of 'Market Learning Sponsors' to ensure senior management buy-in and to embed Learning & Development into individual service line strategy ▶ Regular leadership communications covering strategy and performance ▶ Annual employee survey with formulation of action plans <p>Better managing performance</p> <ul style="list-style-type: none"> ▶ Simplified annual performance management processes ▶ Annual benchmarking of total reward by grade, location and competency groups
We are negatively impacted through association with the global network of EY firms	<p>Member firms of the EY Global Network may have issues which impact on the reputation and performance of the UK firm, for instance as a result of:</p> <ul style="list-style-type: none"> ▶ Inappropriate conduct or a compliance breach by another EY member firm ▶ Service failure by another EY member firm which impacted our ability to provide high quality audit services in the UK or to UK clients 	<p>There is ongoing monitoring and engagement between the firm's legal and Professional Practice Directorate (PPD) teams on a global level to understand the implications of activities in other EY member firms and their regulatory environments.</p> <p>Additionally, the EY UK – like all other EY member firms – manages service quality at engagement and service line level. The Quality and Risk Management teams provide further support and guidance to manage and mitigate risks.</p>
We accept an inappropriate client or engagement	<p>We might accept clients or deliver engagements that are inappropriate. This might be the case if we:</p> <ul style="list-style-type: none"> ▶ Fail to assess the suitability of clients and engagements at inception ▶ Fail to continuously monitor the companies we audit and engagements throughout the life of the client relationship/engagement and take appropriate action ▶ Are not aware of changing stakeholder expectations as to the companies we audit, for whom we work or the sectors in which we operate 	<p>Stringent policies and procedures are in place to prevent the acceptance of inappropriate clients or engagements:</p> <ul style="list-style-type: none"> ▶ Independence & Global Conflicts policies to prevent conflicts of interests and other independence issues ▶ Mandatory use of the Business Relationship Evaluation Tool ▶ Ring-fencing of teams ▶ Mandatory use of the tool for acceptance of clients and engagements, including continuance (PACE) ▶ Strengthened control environment with respect to anti-money laundering controls to prevent financial crime (including creation of central client due diligence team) ▶ Development of an awareness campaign regarding anti-money laundering, anti-bribery & corruption, fraud and sanctions

Principal risks (cont'd)

Risk	Description/Drivers	Activities to manage and monitor risks
The provision of service delivered is disrupted	<p>We might not be able to deliver engagements and services as certain internal or external events might negatively impact our service delivery ability:</p> <ul style="list-style-type: none"> ▶ Inadequate technology, system and application performance and recovery, continuity and replacement procedures ▶ Failure in management of IT change ▶ Failure in service delivery by another EY member firm being part of the supply chain ▶ Malicious physical acts or cyber-attacks that impact the delivery of our services ▶ Events leading to inaccessibility to EY and client premises or unexpected or unplanned unavailability of key personnel (e.g., terrorist attacks, natural disasters, pandemic, fire in an EY or client building) 	<p>EY has a comprehensive risk management plan in place to protect our service delivery. Controls include:</p> <ul style="list-style-type: none"> ▶ Management of IT system lifecycles and system performance ▶ Stringent disaster recovery procedures and employee support ▶ Professional IT change management programme governance involving senior members of the firm ▶ Integrated IT management across all member firms of systems in use globally ▶ Use of up-to-date cyber defence systems, protocols and staff trainings ▶ Physical access security across all EY office locations ▶ Scenario modelling and comprehensive contingency planning covering all service lines and functions, particularly to ensure continuity of audit services
Our services are not adaptable to changing market conditions	<p>EY might not be ready to meet changing market conditions. This might be the case if:</p> <ul style="list-style-type: none"> ▶ We are not anticipating or reacting sufficiently quickly to macroeconomic/geopolitical shifts (for instance Brexit) and market changes (client demands, channel shifts, regulatory change and competition including new market entrants) ▶ We do not have the right skills, experience and capacity ▶ Major accounts, market segments or sectors significantly reduce their spend 	<p>Service line management teams monitor the impact of macro-economic and political uncertainties to:</p> <ul style="list-style-type: none"> ▶ Respond to changing macro conditions in an agile way, e.g., a Brexit Steering Committee continues with a mandate to consider the impact of Brexit on EY UK, its staff and clients ▶ Prepare ourselves for the entry of new competition or adjusted business models of our competitors ▶ Identify future trends in client needs (e.g., digitalization and artificial intelligence) and align our investment strategy accordingly ▶ Amend our recruitment and training strategy so we can deliver the services the companies we audit need in the future

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:

- ▶ Validating the firm's risks
- ▶ Review of the management and monitoring of risks
- ▶ 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 confirmation at service line and functional levels that processes and controls are in place to manage principal risks
- ▶ Reviewing the Risk Register for completeness using the output of discussions across the firm's services lines and functions on risks and control activities, with the ROC 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 FY19, 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 5

Governance



EY UK Key Performance Indicators (KPIs) on firm governance

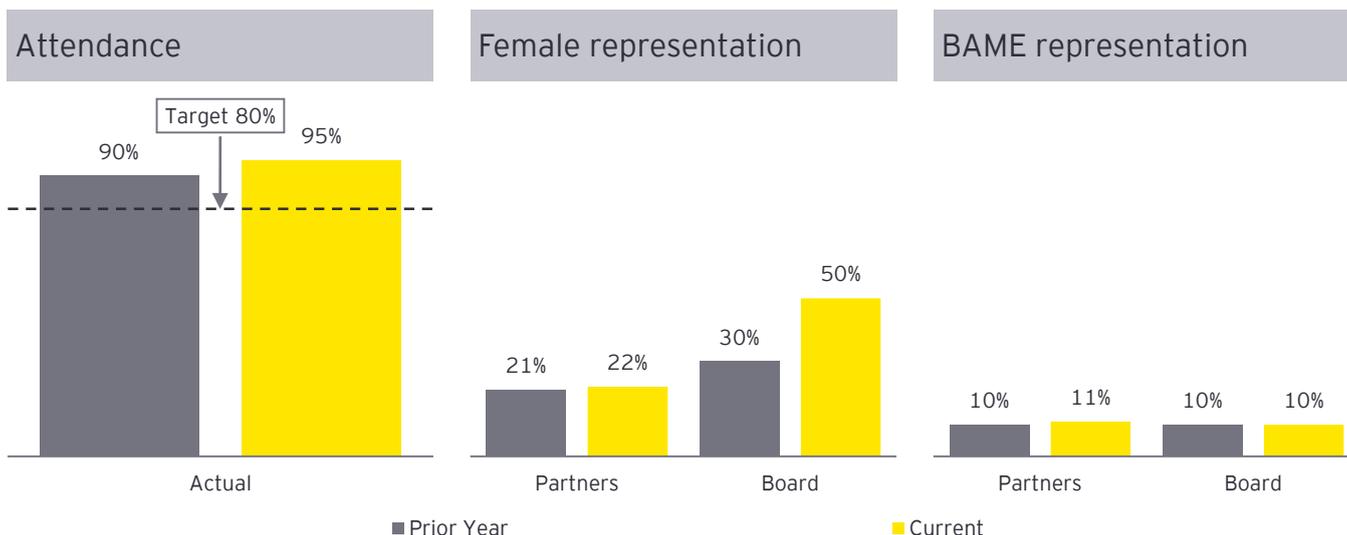
The 2016 Audit Firm Governance Code (AFGC) requires that firms determine governance KPIs and report against them. The Board of EY UK (the Board) previously agreed KPIs on firm governance and below we explain how we have achieved these KPIs in the current year.

KPI

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 Board meetings.

FY19 achievement of KPI

- ▶ The Board held four main quarterly meetings during the year.
- ▶ There were additional ad hoc meetings as and when required, and various decisions were also made via electronic forums.
- ▶ As at 30 June, of the 10 Board members, five were male (including one BAME member) and five were female meaning the board met its gender KPI.
- ▶ Collectively, the Board had an attendance rate of 95%. Individual attendance rates are set out in this section.



Values – As part of the firm’s culture assessment, we hold an annual People Survey, with the Board acting upon the cultural aspects of the findings.

The survey assesses people’s views on the firm. The 69% engagement score is derived by aggregating responses to questions across different areas including advocacy, satisfaction, commitment and pride.

A comprehensive survey is conducted every two years, with shorter ‘pulse’ surveys taking place in the intervening years. The actions taken during the year to respond to the findings of the survey are discussed throughout this report.

The Board received reports on the UK firm’s compliance with the Global Code of Conduct.

Our overall UK&I engagement score is

69%

equal to 2017¹

¹ The previous comparable survey was carried out in 2017

EY UK Key Performance Indicators (KPIs) on firm governance (cont'd)

KPI

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.

On an annual basis, the Board must satisfy itself that the INEs remain independent from EY UK.

Operations – The Audit Quality Board (AQB) should meet at least six times per annum to oversee the focus on sustainable audit quality.

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.

FY19 achievement of KPI

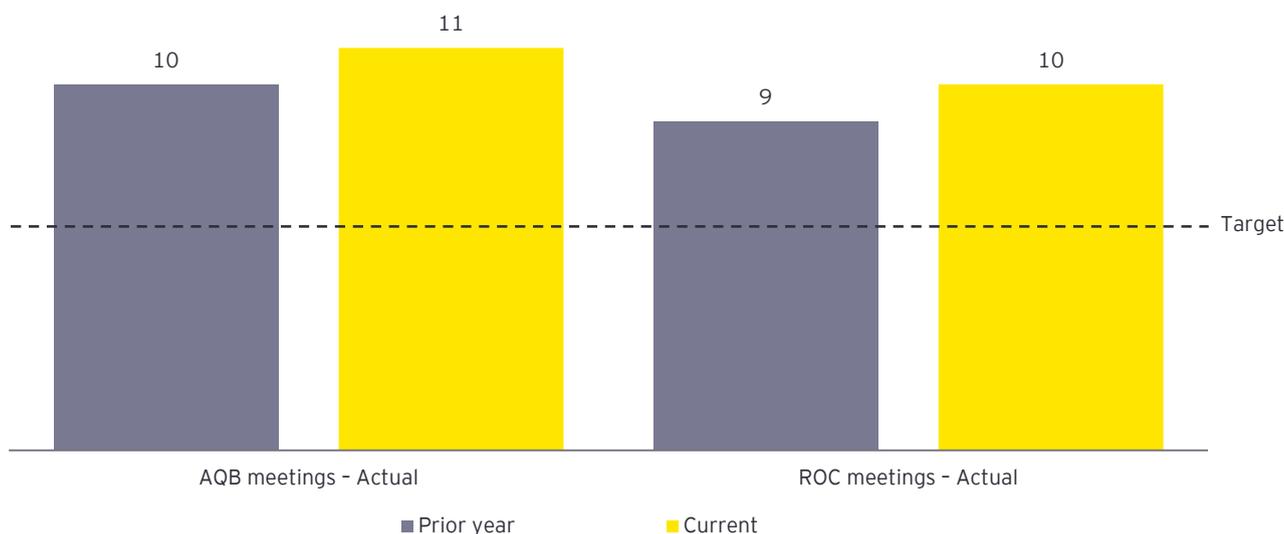
As set out in this section, there have been two INEs for the majority of the year, while a third INE was being recruited to replace Rosemary Martin. The Board is satisfied that they were independent.

The IOC met four times during the year.¹

The Board is satisfied that the INEs remain independent from EY UK as explained later in this section.

The AQB met 11 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.

The ROC met 10 times during the year. The activities undertaken by the ROC, along with commentary on the firm’s internal controls, are set out in Section 4 Risks.



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.

The Board approved the Transparency Report on 26 September and satisfied itself that it is fair, balanced and understandable, and complies with the AFGC.

Dialogue – The Board should satisfy itself, on at least an annual basis, that a formal programme of investor dialogue is occurring.

The Board is satisfied that, as set out in Section 2 Trust in audit, a formal programme of investor dialogue is taking place.

¹ Due to scheduling requirements, the Q1 FY20 IOC meeting was brought forward to 26 June 2019. To avoid double-counting this meeting, it is not recorded in this Transparency Report, but will be recorded in the FY20 Transparency Report.

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) become 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, EY UK is covered by the governance arrangements established by Ernst & Young EMEIA Limited and Ernst & Young Global Limited (refer to Appendix A for further details). 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 forums, which enables it to share best practice with peers, along with other approaches and different techniques for running EY UK sustainably.

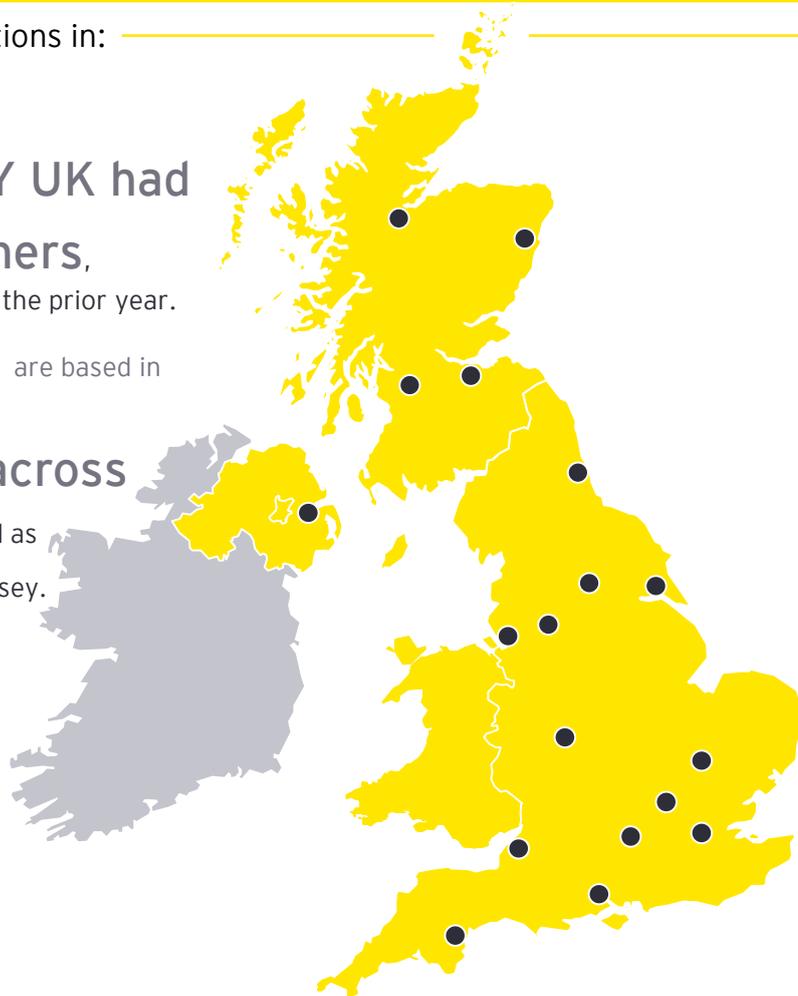
Although decision making is local, the regular review process provides another level of informed challenge to proposed decisions and plans. Additional detail on our UK governance is given below. Details of entities related to EY UK can be found in its statutory financial statements.

We have EY locations in:

At 1 July 2019, EY UK had **735 partners**, compared to 719 in the prior year.

153 partners are based in the regions.

20 offices across the UK as well as in Jersey and Guernsey.



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

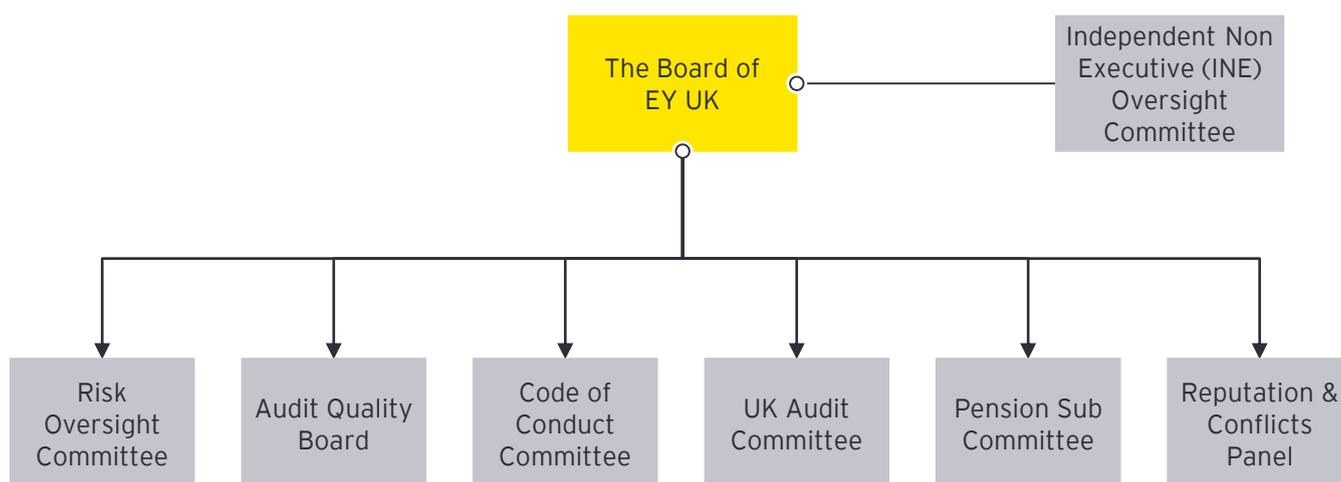
Refer to Appendix A (page 65-68) for further detail on our legal structure, ownership and governance, as well as the EY network arrangements.

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. All members of the governance structure are provided with information in a timely manner before 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)

The Board is appointed by the Europe Operating Executive of EY Europe. The UK Country Managing Partner (CMP) is appointed by the Europe Managing Partner of EY Europe, who has the right to remove the CMP, having consulted with the Board and appropriate partners and with the consent of the Europe Operating Executive.

Governance structure



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

- ▶ Representing, and promoting the interests of EY UK
- ▶ Providing leadership for the partners and employees of EY UK and EY UK's subsidiary undertakings
- ▶ Acting as the interface with regulators and governmental authorities
- ▶ Being responsible for managing risk, public policy, inclusive growth and geostrategic service offerings

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 held four main quarterly meetings during FY19 and, in addition, held other ad hoc Board meetings and conducted business through electronic forums.

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, on which decisions are taken, to 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 (the Board) (cont'd)

Composition of the Board as at 30 June 2019

Board members	Title	Length of appointment to nearest year
Steve Varley (Chair)	EY UK LLP Chairman	8 years
Omar Ali	Managing Partner, UK Financial Services	4 years
Ian Baggs	EY UK Head of Financial Services, Assurance, Managing Partner	4 years
Hywel Ball	EY UK Head of Audit, Managing Partner, UK&I Assurance	8 years
Lisa Cameron	Risk and General Counsel, Managing Partner	9 years
Christabel Cowling	UK Head of Regulatory & Public Policy and Audit Partner	1 year
Sue Dawe	Head of Financial Services, Managing Partner, Scotland	1 year
Debbie O'Hanlon	Managing Partner, National Markets	3 years
Robert Overend	UK Country Professional Practice Director and UK Audit Compliance Principal	9 years
Lynn Rattigan	UK Chief Operating Officer	4 years

Biographical details of each Board member are included on our website: <https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019>

Attendance records for each of the governance bodies (as outlined in the governance structure above) in FY19 are given at the end of this section.

Changes to the Board during and since the year end

As reported in last year's Transparency Report, Alisdair Mann stepped down from the Board as of 1 September 2018.

Eamonn McGrath was a member of the Board until he retired from the firm on 31 December 2018.

Robert Overend stepped down from the Board on 1 July 2019.

Justine Belton was appointed to the Board, effective 1 July 2019, and also took over the role of UK Country Professional Practice Director and UK Audit Compliance Principal. Justine is responsible for ensuring compliance with our audit responsibilities and providing audit and accounting technical and learning support to the UK audit practice, to enable it to deliver high quality audits. Justine brings a wealth of experience to the role, having been at EY for 27 years and an Assurance partner for 16 years.

With effect from 1 July 2019, the gender balance of the Board is 60:40 between female and male.

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, who form the IOC, have full visibility of the entirety of EY UK's business and pay particular attention to the risks to audit quality and how these risks are managed by the firm. The INEs' duties, which are exercised through the IOC, can be summarised 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 Independent Non-Executive Committee

The membership of the IOC as at 30 June 2019 was as follows:

IOC members	Title	Length of appointment to nearest year
David Thorburn (Chair)	Independent Non-Executive, Chairman of the IOC	2 years
Sir Peter Westmacott	Independent Non-Executive	2 years
Tonia Lovell	Independent Non-Executive	Appointed on 1 June 2019

As reported in last year's Transparency Report, Rosemary Martin retired as an INE with effect from 3 August 2018, (following the appointment of EY as auditor to a material affiliate of Vodafone, which created a conflict with Rosemary's role at Vodafone) with Tonia Lovell being appointed as her replacement with effect from 1 June 2019.

Biographical details of the INEs are included on our website (<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019>). Details of the attendance of the INEs at the Board meetings are given on the same webpage.

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 with the exception of the period during which Rosemary Martin retired and Tonia Lovell was recruited as explained above. For information on the work of the INEs, see the message 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 (cont'd)

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 AFGC and the FRC's Ethical Standard.

Independence from the firm requires, among other things, that:

- ▶ The appointment of the INEs by the Board be limited to an initial term of three years that may only be extended by a maximum additional three year term
- ▶ Members of the INE's immediate family are not partners or employees of EY
- ▶ The INE may not have a joint investment with EY

Independence from the firm's audit clients:

- ▶ Generally, there are no restrictions on the types of relationships INEs may have with EY audit clients as they are not considered in the firm's Chain of Command and the FRC's Ethical Standard specifically excludes them from these requirements. However, we prohibit the INEs from holding an officer, director or employee role at an EY audit client

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 attends the IOC agenda, offering the INEs updates on EY UK's independence activities and current issues. The INEs also meet the Ethics Partner to discuss ad hoc issues and matters relating to the Reputation and Conflicts Panel. Support is also provided by the Company Secretary, Director of Regulatory & Public Policy (in relation to - stakeholder engagement) and EY Executive Assistant (administration and expenses).

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 annual salaries of the INEs in respect of their UK roles are/were:

- ▶ David Thorburn: £90,000 (as IOC Chair)
- ▶ Rosemary Martin: £75,000
- ▶ Tonia Lovell: £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 £82,500 for his INE role on the Global Governance Council.

INEs' activities

EY UK appoints the INEs to its governance structure via the IOC, and their involvement collectively enhances the firm's performance in meeting the purpose of the AFGC. For the work of the INEs, see the report from the Chair of the IOC earlier in Section 1: Leadership messages.

Risk Oversight Committee (ROC)

For the role of the ROC, please refer to Section 4: Risks.

Other governance and management bodies

ROC members are appointed by the Board, and will serve for a period appropriate to their experience and other roles and responsibilities. The membership of the ROC at 30 June 2019 was as follows:

ROC members	Title	Length of appointment to nearest year
Lisa Cameron (Chair)	Risk and General Counsel, Managing Partner	3 years
Chris Bowles	Partner in Financial Services	2 years
Adrian Browne	Partner – Transaction Advisory Services	1 year
Christabel Cowling	UK Head of Regulatory & Public Policy and Audit Partner	3 years
Stuart Thomson	Partner – Risk	1 year

Adrian Browne and Stuart Thomson joined the ROC on 15 November 2018.

Eamonn McGrath was a member of the ROC until (as noted previously) he retired from the firm on 31 December 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 acts as AQB Chair. The AQB Chair will select other AQB members based on their roles and expertise, with their period of appointment reflecting this. The membership of the AQB as at 30 June 2019 was as follows:

AQB members	Title	Length of appointment to nearest year
Hywel Ball (Chair)	EY UK Head of Audit, Managing Partner, UK&I Assurance	4 years
Bob Forsyth	EY UK Audit Quality Leader	4 years
Ian Baggs	EY UK Head of Financial Services, Assurance, Managing Partner	4 years
Justine Belton	EY UK&I Implementation and Enablement Leader	4 years
Colin Brown	UK&I Audit Chief Operating Officer	3 years
Javier Faiz	Financial Services Audit Chief Operating Officer	4 years
John Headley	Partner in Financial Services Insurance	4 years
Michael-John Albert	Audit Quality Leader, Financial Services	4 years
Robert Overend	EY UK Country Professional Practice Director and EY UK Audit Compliance Principal	4 years
Andrew Walton	UK Deputy Head of Audit	1 year

Peter McIver was a member of the AQB but stepped down on 6 September 2018

Bob Forsyth stepped down from the AQB as of 1 July 2019

Marguerita Martin, Manprit Dosangh and Ken Williamson were appointed to the AQB as of 1 July 2019

Other governance and management bodies (cont'd)

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 Financial Services Office (FSO)	4 years
Rute Aparicio	Transaction Advisory Services (FSO)	4 years
Kate Bamford	People Advisory Services (PAS)	2 years
Colin Dempster	TAS EY UK&I	4 years
Dave Hales	Assurance EY UK&I	4 years
George Hardy	Tax FSO	4 years
John Liver	Advisory FSO	4 years
James Meader	Advisory EY UK&I	2 years
Tim West	Tax EY UK&I	2 years

Reputation and Conflicts Panel (RCP) (formerly Conflicts Panel)

The RCP continues to provide an effective and consistent forum to assess reputation risk, public interest and conflicts in order to enhance trust in the UK firm, its partners and its employees. The RCP is chaired by the Regional Conflicts Leader, a position currently held by Maurice Moses, who is also EY UK's Independence and Ethics Partner. The RCP 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

In FY19, 13 matters were brought to the RCP for consideration

Given the use of a pool of members for the RCP, attendance figures are not given for this body, as the attendees necessarily vary between each meeting. However, Maurice Moses (as Chair) has attended all RCP meetings during the year.

Other governance and management bodies (cont'd)

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 as at 30 June 2019	Lloyd Brown
	Chris Voogd
	Stuart Wilson
	Sarah Williams

Douglas Nisbet was a member and Chair of the UKAC until he retired from the firm on 30 June 2019.

Sarah Williams joined as a member of the UKAC on 1 June 2019

In respect of FY19 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

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 for EY UK on matters of significant interest to the UK firm in respect of its current and future staff pension obligations, in the context of protecting the commercial, financial and reputational interest of the UK firm.

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 as at 30 June 2019	Lynn Rattigan (Chair)
	Angela Dawes
	Taylor Dewar
	Christabel Cowling
	Sue Dawe
	Julianna Oladipo

Alisdair Mann stepped down from the PSC as of 1 September 2018, being replaced on the PSC by Sue Dawe

Eamonn McGrath was a member of the PSC until (as previously noted) he retired from the firm on 31 December 2018, being replaced on the PSC by Christabel Cowling.

Appendix A

EY Global Network



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.

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

The EMEIA Area

EYG member firms are grouped into three geographic Areas: Americas; Asia-Pacific; and Europe, Middle East, India and Africa (EMEIA). Japan was a separate fourth Area, but on 1 July 2019 became part of Asia-Pacific. The Areas comprise a number of Regions, which consist of member firms or sections of those firms.

EY UK is part of the EMEIA Area, which comprises EYG member firms in 97 countries in Europe, the Middle East, India and Africa. Within the EMEIA Area, there are 10 Regions. EY UK is part of the UK & Ireland 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.

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.

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. 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 and Board of Directors

The Board of Directors of EY Europe has authority and accountability for strategy execution and management. It has formed the Europe Operating Executive (EOE) committee. 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 the 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 financial reports of EY Europe and material transactions.

About us (cont'd)

Network arrangements

EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, over 260,000 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, described below, reflect the principle that EY, as a global organisation, has a common shared strategy.

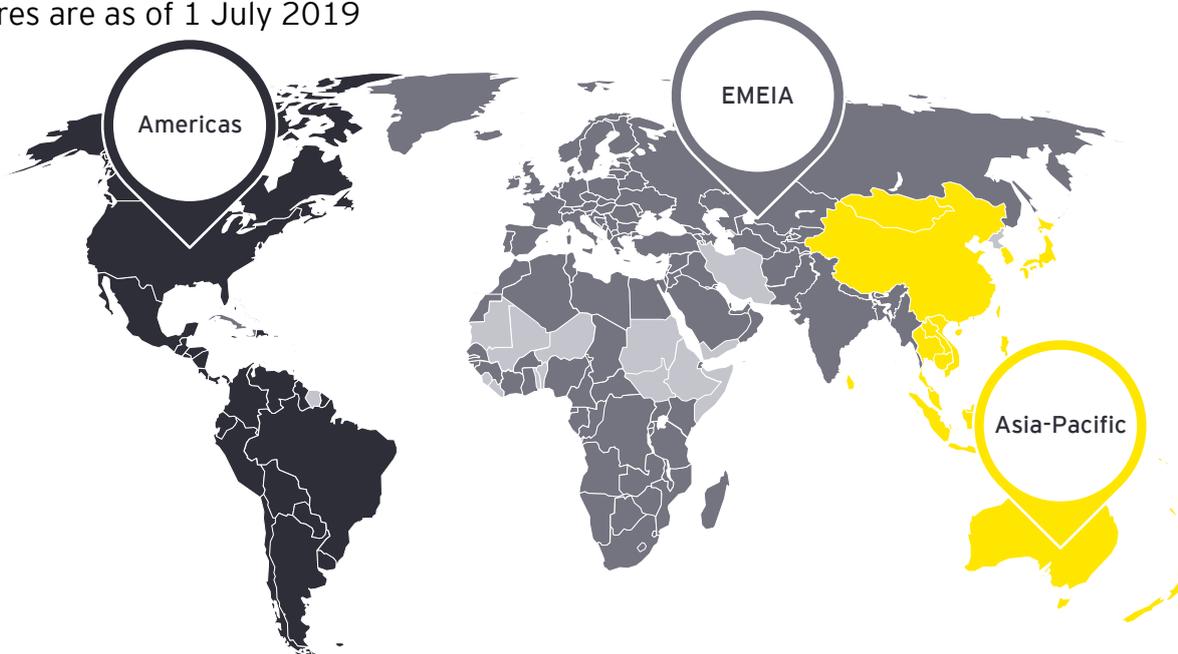
The Executive includes the Global Executive (GE), its committees and teams, and the leadership of the three (previously four) Areas. At the same time, the network operates on a Regional level within the Areas. This operating model allows for greater stakeholder focus in the Regions, permitting member 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 oversees EYG on policies, significant changes to our global vision and strategies, and the public interest aspects of its decision-making. The GGC approves, upon the recommendation of the GE, a number of matters that could affect EY.

	Americas	EMEIA	Asia-Pacific
Regions	10	10	6
Countries	31	97	23

Figures are as of 1 July 2019



About us (cont'd)

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 (PIC) of the GGC. The role of the PIC includes public interest aspects of decision-making, issues raised under whistle-blowing policies and procedures, and stakeholder dialogue 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. As of 1 July 2019, 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; the leaders of the global service lines – Assurance, Advisory, Tax and Transaction Advisory Services (TAS); 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 in and adjudicate on disputes between member firms.

GE committees

Established by the GE and bringing together representatives from the three (previously 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 TAS.

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 (cont'd)

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, HR, 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.

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 knowledge sharing.

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

For information in respect of the UK legal and governance structure, please refer to Section 5. For information in respect of the UK INEs, refer to the message from the Chair of the Independent Non-Executive Oversight Committee (page 6).

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 service to our stakeholders 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 manages 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 Regional 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 (supported by other staff and professionals) within member firms, including coordinating with the service lines on such matters. 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 (cont'd)

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

In addition, the global policy on Reporting Fraud, Illegal Acts and Other Non-compliance with Laws, Regulations and EY's Code of Conduct require EY professionals to speak up on seeing any behaviour that is believed to be a violation of applicable law or regulation, applicable standards or EY's Global Code of Conduct. This includes the unauthorised or improper disclosure of confidential information.

Furthermore, the global policy on Personal Data Protection supports and builds upon provisions within the EY Global Code of Conduct regarding respecting and protecting personal information, in accordance with local law and professional standards, and was recently updated to comply with the EU General Data Protection Regulation (GDPR).

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 cyber attacks, EY UK is vigilant in the steps it takes to secure and protect client 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 on 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 on 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
- ▶ Rotation and long association
- ▶ Audit quality reviews
- ▶ External quality-assurance reviews
- ▶ Compliance with legal requirements

Commitment to quality (cont'd)

Instilled professional values

Sustainable Audit Quality

Quality is the foundation of our work and central to EY's responsibility to provide confidence to the capital markets. This is reflected in the Sustainable Audit Quality (SAQ) programme, which continues to be the highest priority for EY Assurance practices.

SAQ establishes a strong governance structure that enables each member firm to provide high-quality audits. It is implemented locally, and coordinated and overseen globally. The word 'sustainable' in SAQ is used to demonstrate that this is not a one-off, short-term initiative, but an ongoing process of improvement.

There are six SAQ pillars: tone at the top, people capabilities, simplification and innovation, audit technology and digital, enablement and quality support, and accountability. The pillars are supported by a foundation of serving the public interest.

Significant progress has been made through SAQ. EY's internal and external inspection findings globally are improving, and there is greater consistency in execution. EY has deployed world-class technological tools that enhance the quality and value of EY audits, including the EY Canvas online audit platform, the EY Helix analytics platform and the EY Atlas research platform.

A key feature of EY Canvas is the Client Portal, which enables clients to communicate with audit teams and confirm what information auditors have requested and whether that information has been provided. EY Canvas also facilitates the use of the Milestones project management programme, which helps audit teams keep on track and highlights potential matters to be addressed during the audit process.

When Milestones is combined with the EY Client Portal, engagement teams have more time to focus, to be curious and to be sceptical. As a result, audit quality is enhanced.

Other recent SAQ initiatives include: a new approach to pictorially depict a company's internal controls and processes; the Personal Workload Tool, which reviews personal responsibilities and assesses whether there is sufficient time to execute high-quality audits; Purpose-Led Outcome Thinking (PLOT), a framework that focuses on the behaviours that drive high-quality audits and Key Findings Review, which helps coach our teams.

There are also a network of Quality Enablement Leaders (QELs), an overall Global Audit Quality Committee and a Culture and Behaviours Taskforce. They help us in executing and reviewing root-cause analysis and understanding the impact of our initiatives in driving quality outcomes, better behaviours and a continuous improvement mindset.

Audit quality is something that every team member must understand and be committed to implementing locally. SAQ is essential to all our goals and ambitions, and each Regional and Area leader has oversight of the efforts to achieve those goals.

The SAQ 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.

For information in respect of the UK SAQ initiatives, please refer to Section 2 (page 15).

Commitment to quality (cont'd)

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 Global Code of Conduct is issued globally and applies to EY personnel throughout the world. For that reason, the Code does not specifically address the requirements of the AFGC. However, the EY Global Code of Conduct has been reviewed against the AFGC and the principles are reflected therein.

The EY Ethics Hotline provides our people, clients and others outside of the organisation with a means to confidentially 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, 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 effective and efficient 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.

We work to understand where our audit quality may not be up to our own expectations and those of stakeholders, including independent audit 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. We believe that taking effective and appropriate actions to improve quality is important.

Commitment to quality (cont'd)

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 GE has oversight of the implementation of quality improvement. As such, it reviews the results of the internal AQR programme and external audit firm regulatory reviews, as well as any key actions designed to address areas for improvement.

The recent results of such monitoring, together with feedback from independent audit regulators, provide EY UK with a basis to conclude that our internal control systems are designed appropriately and are operating effectively.

Client acceptance and continuance

EY policy

The EY global policy on Client and Engagement Acceptance 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 policy on conflicts of interest 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 using appropriate safeguards. Such safeguards may include obtaining client consent to act for another party where a conflict of interest may exist, establishing separate engagement teams to act for two or more parties, implementing 'Chinese Walls' between engagement teams or declining an engagement to avoid an identified conflict.

The EY global policy on Conflicts of Interest and associated guidance 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 (cont'd)

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 company or engagement and the results of several due diligence procedures. Before we take on a new engagement or company, 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 UK PPD.

In the EY annual client and engagement continuance process, we review our service and ability to continue to provide a quality service, and confirm that companies we serve 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 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

There has been significant investment in EY 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 organized 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 – e.g., there are profiles for listed entities (under Regulation (EU) 537/2014) 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 addition, we monitor current and emerging developments, and issue timely audit planning and execution communications that emphasise areas noted during inspections as well as other key topics of interest to our local audit regulator (or regulators) and the International Forum of Independent Audit Regulators (IFIAR). Specifically, we are preparing for the implementation of ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures (effective for audits of periods beginning on or after 15 December 2019), by raising awareness of the requirements of the new standard and providing reminders on performing risk assessment procedures specific to the audit of accounting estimates, and designing and performing audit procedures responsive to those risks.

Commitment to quality (cont'd)

Technology

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

EY Canvas, the global EY audit platform, lies at the heart of the audit and enables us to provide a high-quality audit. EY Canvas is built using 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.

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 – e.g., in monitoring the status of the audit, capturing audit evidence securely and performing inventory observations.

Audit engagement teams use other applications, data analysers and forms during various phases of an audit to assist in executing procedures, making and documenting audit conclusions, and performing analysis. This includes EY Smart Automation, a collection of applications that are being developed and deployed globally through EY Canvas to digitally enable EY audit professionals in executing audit procedures and processes.

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. This is carried out 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 specialized 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 (cont'd)

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. A tax professional reviews the significant tax and other relevant working papers. For listed entities (Regulation (EU) 537/2014) 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 all consultations are documented, including written concurrence from the person or persons consulted, 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 public interest entities and those considered to need 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 (cont'd)

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.

Rotation and long association

EY supports mandatory audit partner rotation to help reinforce auditor independence. EY UK complies with the audit partner rotation requirements of the IESBA Code, Regulation (EU) 537/2014 of the European Parliament and of the Council of 16 April 2014 (EU 537/2014), and FRC Ethical Standard, as well as the U.S. 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 are important safeguards of audit quality.

For PIEs, the FRC Ethical Standard requires the lead engagement partner and other audit partners who make key decisions or judgements on matters significant to the audit (together, the 'key audit partners') to be rotated after five years.

Upon completing the maximum service period for rotation, a key audit partner may not be involved in services to the PIE audit client until after completing a cooling-off period. This period is five years.

In addition to the audit partner rotation requirements applicable to PIE audit clients, EY has established a long association safeguards framework that is consistent with the requirements of the IESBA Code Article 17 of 537/2014. In the UK this is supplemented by the requirements of the FRC Ethical Standard. The framework includes consideration of the threats to independence created by involvement of professionals over a long period of time on an audit and a safeguards framework to address such threats.

We employ tools to monitor compliance with internal rotation requirements for audit partners and other professionals who have had long association with the audit client as well as gradual rotation. There is also a process for rotation planning and decision-making that involves consultation with, and approvals by, our Professional Practice and Independence professionals.

External rotation

For public interest entities we comply with the external rotation requirements of Art. 17 (1) of the EU Audit Regulation.

Commitment to quality (cont'd)

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 (ISQC) 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. This year's results are discussed in Section 2 of this report.

The engagements reviewed each year are selected on a risk-based approach, emphasising audit engagements that are large, complex or of significant public interest, including elements of unpredictability. The Global AQR programme includes detailed risk-focused file reviews covering a large sample of listed and non-listed audit engagements, and public interest entities and non-public interest entities, 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 1.

The Global AQR programme complements external practice monitoring and inspection activities, such as inspection programmes executed by audit regulators and external peer reviews.

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.

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.

Commitment to quality (cont'd)

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 9 June 2019 and is disclosed in Section 2: Trust in Audit.

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.

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 emphasizes 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, revised and reissued in 2018, sets out the principles to be applied to the collection, 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 the strict requirements of the European Union's General Data Protection Regulation and other applicable laws and regulations concerning data protection and privacy. EY also has Binding Corporate Rules approved by EU regulators in place to facilitate the movement of personal data within the EY network. 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 with regard to various aspects, including our financial relationships and those of our people; employment relationships; business relationships; the permissibility of 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 and supplemented by more stringent requirements in jurisdictions where prescribed by the local legislative body, regulator or standard setting body. The policy also contains guidance designed to facilitate an understanding and the application of 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 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 also be other types of attest or assurance clients. 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 companies we audit 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. Separately, audit engagement team members are required to confirm their independence compliance for the audit engagement through the firm's Canvas process.

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 (cont'd)

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 FY19 testing cycle, EY UK tested more than 540 partners and other personnel. Personal independence is also confirmed on each engagement in EY Canvas.

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 and our Service Offering Reference Tool (see below), 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 a company we audit

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 they are permitted by professional standards, laws and regulations, 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 and considerations.

Business Relationship Evaluation Tool (BRET)

Our people are required to use BRET in many circumstances to identify, evaluate and obtain advance approval of a potential business relationship with a company we audit, thereby supporting our compliance with independence requirements.

Audit committees and oversight of independence

We recognise the important role that 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.

Professional development

Professional development

The continuous development of our people's skills and knowledge is critical to achieving our purpose of enhancing confidence in the capital markets.

Providing opportunities for the right experiences, learning and coaching helps our people to grow and achieve their potential at a variable pace of progression that suits them.

Opportunity to learn through day-to-day work experience are assigned locally in a systematic way while the EY audit learning core curriculum is globally consistent. This is supported throughout by on-the-job coaching from more experienced professionals helping to transform knowledge and experience into practice.

Learning is delivered through the award-winning Audit Academy, which combines interactive classroom-based simulations and 'on-demand' e-learning modules with relevant reinforcement and application support. This is supplemented by learning programmes that are developed in response to changes in accounting and reporting standards, independence and professional standards, new technology 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.

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 meet 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. Some of our initiatives include:

- ▶ EY Atlas, which includes local and international accounting and auditing standards, as well as interpretive guidance
- ▶ 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

Leadership Evaluation and Development (LEAD) is our forward-looking EY approach to supporting people's careers, development and performance. This approach focuses 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.

It 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 EY's leadership dimensions, and assessed performance against peers.

LEAD retains components from our previous Performance Management and Development Process approach that 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.

Financial information

Performance

EY UK achieved steady growth of 1% in UK fee income to £2,447m, growing from £2,412m in 2018. UK total audit revenue was £453m up from £444m in 2018, representing 19% of EY's overall UK revenues. Despite a challenging business environment, revenues in Tax and Transaction Advisory Services grew strongly, while Advisory revenues slowed on previous years. This performance information is preliminary and unaudited.

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).

In FY18, revenue was reported in 'Non-audit services provided to audit clients' when the non-audit service related to a statutory audit client of all EY Global firms. The disclosure has been restated this year to include only those revenues earned where the client is a statutory audit client of the UK firm. This has resulted in a restatement of 'Non-audit services provided to audit clients', reducing revenues reported in that category by £126m with a corresponding increase in revenue included in 'Non-audit services provided to other entities'.

We have reported revenue earned in the Channel Islands separately.

Financial information for FY19 expressed in £m

Service	Revenue	FY19 Percent	Restated Revenue	FY18 Percent
Statutory audits and directly related services for PIEs	119	5%	110	5%
Statutory audits and directly related services for entities whose parent is a PIE	61	2%	56	2%
Other audit services and directly related services for non-PIEs	273	11%	278	11%
Total audit revenues	453	19%	444	18%
Non-audit services provided to audit clients	118	5%	127	6%
Total revenues from audit clients	571	23%	571	24%
Non-audit services provided to other entities	1,855	75%	1,821	75%
Total revenue from the Channel Islands excluded from the categories above	21	1%	20	1%
Total revenue	2,447	100%	2,412	100%
UK Audit Profit ¹	68		58	

¹ Profit is calculated based on the revenue and direct costs associated with audit engagements, together with specific overheads for the audit practice and an allocation of total firm overheads, such as property and technology costs. These costs are allocated on a pro rata basis, based primarily on the headcount or revenues of the relevant business segment. No cost is included for the remuneration of members of EY UK LLP, consistent with the treatment of their remuneration in the firm's financial statements.

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 £13m (PY: £22m).

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 based on criteria that include specific quality and risk management indicators, covering both actions and results.

LEAD for partners, principals, executive directors 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 policies prohibit evaluating and compensating lead audit engagement partners and other key audit partners on an engagement based on the sale of non-Assurance services to companies they audit. 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-Assurance 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.

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.

EYG audit member firms

As of 30 June 2019, 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
	EY Europe SCRL
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
	OU Baltic Network
Finland	Ernst & Young Oy
	Julkispalvelut EY Oy
France	Artois
	Auditex
	Barbier Frinault & Associes
	Ernst & Young Atlantique
	Ernst & Young Audit
	Ernst & Young et Autres
EY & Associés	
Picarle et Associes	
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 (cont'd)

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	Ernst & Young Baltic UAB
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 for the year ended on 30 June 2018 of these EYG member firms resulting from statutory audits of annual and consolidated financial statements was approximately €2.6 billion. This is the latest available information.

Appendix B

Audit Firm Governance Code



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 2019 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 5 – 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 5 – 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>Appendix A - EY Global Network Section 5 – 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 5 – Governance Appendix A – 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 5 – Governance https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019</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>Section 5 - Governance Terms of references document on website: https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019 The members of the Firm's Governance structure and management are subject to annual reviews as part of our internal formal ongoing performance evaluation process. In addition, in 2019 we have engaged with a third party to undertake an independent evaluation of the IOC and its members, with the intention of extending this third party independent evaluation process to cover other aspects of the Firm's governance structures and management in 2020.</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 5 – 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>https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019</p>

AFGC 2016 Compliance (cont'd)

Principles and provisions of the 2016 AFGC VALUES	How EY UK is addressing the principles and provisions
<p>B.1 Professionalism principle</p> <p>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</p> <p>Section 2 - Trust in audit (Expert Model)</p> <p>Section 3 - Our people (PLOT)</p> <p>Appendix A - EY Global Network (Global confidentiality policy)</p> <p>Appendix A - EY Global Network (Instilled professional values)</p> <p>Appendix A - EY Global Network (Internal quality control system)</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</p> <p>Appendix A – 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 5 – 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>Appendix A – 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</p> <p>A firm should publicly commit itself to this Audit Firm Governance Code (AFGC).</p>	<p>Context</p> <p>Section 1 – Leadership messages</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>Appendix A - EY Global Network</p>
<p>B.3 Openness principle</p> <p>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</p> <p>Section 1 - Leadership messages (Trust)</p> <p>Section 2 - Trust in audit (Expert Model)</p> <p>Section 3 - Our people</p> <p>Appendix A - EY Global Network (Client Acceptance)</p> <p>Appendix A - EY Global Network (Whistleblowing)</p> <p>Appendix A - EY Global Network (Consultation)</p>

AFGC 2016 Compliance (cont'd)

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 5 – 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 5 – 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 5 – Governance</p> <p>https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019</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 5 – Governance</p>

AFGC 2016 Compliance (cont'd)

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 5 – Governance</p> <p>https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019</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 5 – 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 5 – Governance</p> <p>Webpage - Terms of Reference</p>
<p>C.3.1 Each independent non-executive should have a contract for services setting out their rights and duties</p>	<p>Section 5 – 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 5 – 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</p> <p>Section 5 – 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 5 – Governance</p> <p>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 5 – Governance</p> <p>Terms of Reference</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>https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019</p>

AFGC 2016 Compliance (cont'd)

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 4 – Risks</p> <p>Appendix A – EY Global Network (Global Audit Methodology)</p> <p>Appendix A – EY Global Network (Internal Quality Control System)</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 4 – Risks</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 4 – Risks</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 4 – 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 4 – 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, summarize 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 4 – Risks</p> <p>Section 2 – Trust in audit</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 4 – Risks</p>

AFGC 2016 Compliance (cont'd)

Principles and provisions of the 2016 AFGC OPERATIONS	How EY UK is addressing the principles and provisions
<p>D.3 People management principle</p> <p>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</p> <p>Section 3 – Our people</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</p> <p>Section 2 – Trust in audit</p> <p>Section 3 – Our people</p> <p>Section 4 – Risks</p> <p>https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019</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</p> <p>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 1 - Leadership messages</p> <p>Section 4 – Risks</p> <p>https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019</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 4 – Risks</p> <p>Appendix A – EY Global Network</p> <p>https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019</p>

AFGC 2016 Compliance (cont'd)

Principles and provisions of the 2016 AFGC REPORTING	How EY UK is addressing the principles and provisions
<p>E.1 Internal reporting principle</p> <p>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 5 – Governance</p>
<p>E.2 Governance reporting principle</p> <p>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>Context</p> <p>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: https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019</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</p> <p>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</p> <p>Appendix A – EY Global Network</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 4 – Risks</p>
<p>E.3.2 The transparency report should be fair, balanced and understandable in its entirety.</p>	<p>Section 5 – Governance</p> <p>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</p> <p>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 5 – 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 5 – Governance</p> <p>Our terms of references are on our website: https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019</p>

AFGC 2016 Compliance (cont'd)

Principles and provisions of the 2016 AFGC DIALOGUE	How EY UK is addressing the principles and provisions
<p>E.5 Financial statements principle</p> <p>A firm should publish audited financial statements prepared in accordance with a recognized 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 2019).</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 2019).</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 2019).</p>
<p>F.1 Firm dialogue principle</p> <p>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 Section 5 - Governance</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 https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019</p>
<p>F.2 Shareholder dialogue principle</p> <p>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</p> <p>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</p> <p>Through our stakeholder engagement activities we encourage dialogue between investors and listed companies.</p>

Appendix C

EU audit regulation



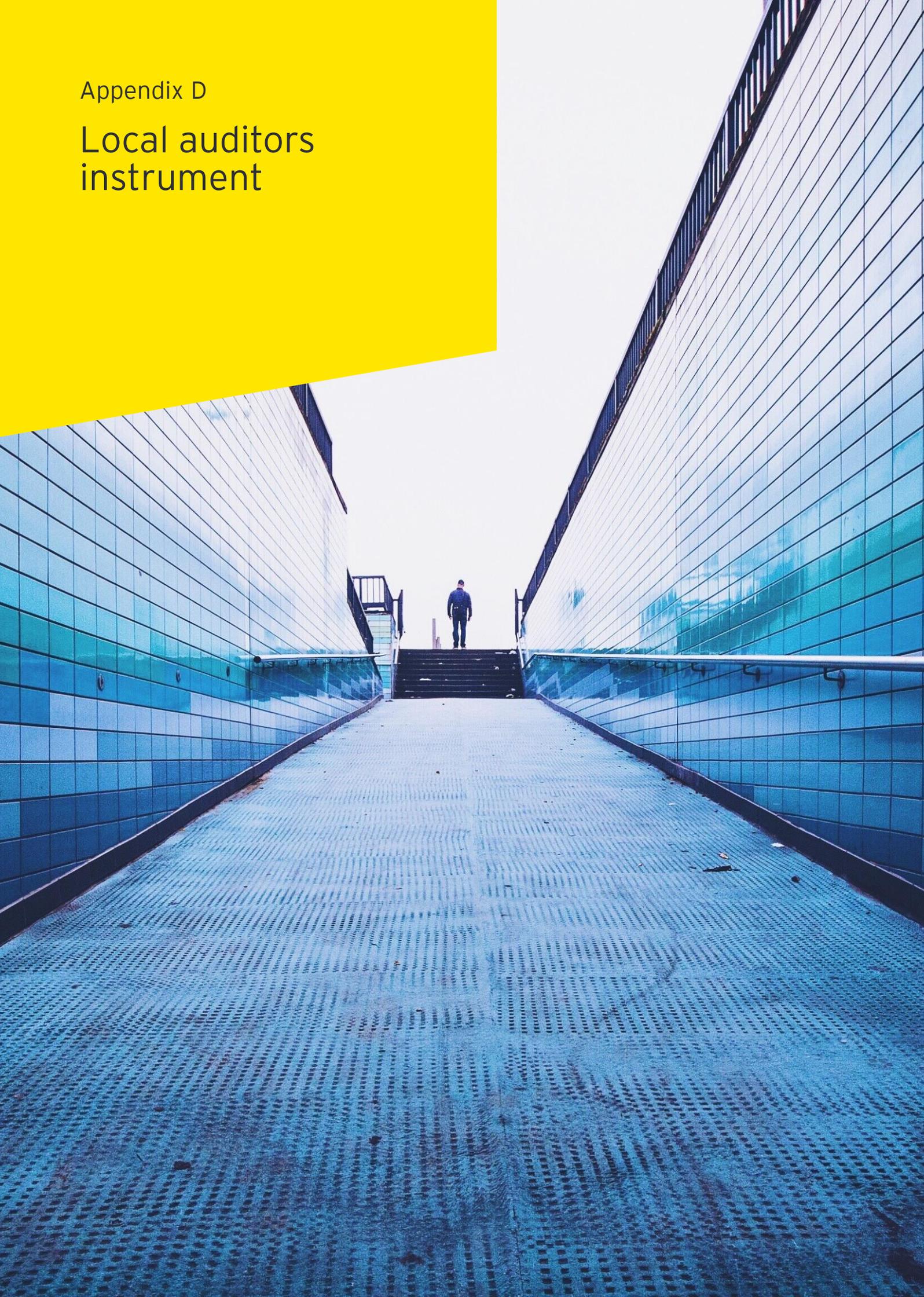
EU audit regulation

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 5 – Governance Appendix A – 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 A – 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 A – 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 A – 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 A – EY Global Network
c) a description of the governance structure of the audit firm	Section 5 – Governance Appendix A – 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 4 – Risks Appendix A – 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 E – 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 4 – Risks Appendix A – 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 A – EY Global Network – Continuing education of audit professionals
i) information concerning the basis for the partners' remuneration in audit firms	Appendix A – 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 A – 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	Appendix A – EY Global Network - Financial information
ii. revenues from the statutory audit of annual and consolidated financial statements of other entities	Appendix A – EY Global Network - Financial information
iii. revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and	Appendix A – EY Global Network - Financial information
iv. revenues from non-audit services to other entities	Appendix A – EY Global Network - Financial information

Appendix D

Local auditors instrument



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 5 – Governance Appendix A – 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 5 – Governance Appendix A – 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 4 – Risks Appendix A – 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 4 – Risks Appendix A – 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.	<p>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 B – EY Global Network – Continuing education of audit professionals’ receive sector specific training specific to their local audit work.</p>
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.	https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019
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.	Appendix A – 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.	Appendix A – EY Global Network - Financial information
10. Information about the basis for the remuneration of partners.	Appendix A – EY Global Network – Partner remuneration

Appendix E

EY UK PIE audit clients



EY UK PIE audit clients

In FY19, EY UK performed audits of the following PIEs:

3i Group plc
Abbey Life Assurance Company Limited
Abc International Bank plc
Aberdeen Diversified Income and Growth Trust PLC
Aberdeen New Dawn Investment Trust Plc
Aberdeen Smaller Companies Income Trust Plc
Aberdeen Standard Asia Focus PLC
ABP Finance Plc
ADIB (UK) Ltd
Ahli United Bank (UK) PLC
Alpha Plus Holdings Plc
Artemis VCT Plc
Artesian Finance III PLC
ASA International Group Plc
Ashdowns Limited
Associated British Foods plc
Astrenska Insurance Limited
Avast plc
AVEVA Group plc
Awilco Drilling PLC
Bank Of China (UK) Limited
Bank of Georgia Group Plc
Bank of London and The Middle East Plc
Bank Sepah International Plc
BB Healthcare Trust plc
BFC Bank Limited
BG Energy Capital 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
BMO Private Equity Trust plc (Prior name F&C PRIVATE EQUITY TRUST 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
Clydesdale Bank plc
Coca-Cola European Partners plc
Commerzbank CCBI Investment Funds ICVC
Co-operative Group Holdings (2011) Limited
Co-operative Group Limited
Coutts & Company Limited
Coventry Building Society
CRH Finance (U.K.) plc
CYBG Plc
Cynergy Bank Ltd (formerly BANK OF CYPRUS UK LIMITED)
De La Rue plc
De Montfort University
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
Energean Oil & Gas plc
EnQuest PLC
EP Global Opportunities Trust plc
Europe Arab Bank plc
EVRAZ plc
F&C Investment Trust PLC (Formerly Foreign & Colonial Investment Trust PLC)
FGIC UK LTD
Fidelity Asian Values Plc
Fidelity China Special Situations PLC
Fidelity European Values PLC
Fidelity Japan Trust Plc
Fidelity Special Values Plc
Finance for Residential Social Housing PLC
First Hydro Finance plc

EY UK PIE audit clients (cont'd)

Flood Re Ltd
FM Insurance Co Ltd
Forterra plc
Fresnillo plc
GCP Student Living plc
Georgia Capital PLC
Georgia Healthcare Group PLC
Gore Street Energy Storage Fund PLC
GOSFORTH FUNDING 2014-1 PLC
GOSFORTH FUNDING 2015-1 PLC
GOSFORTH FUNDING 2016-1 PLC
GOSFORTH FUNDING 2016-2 PLC
GOSFORTH FUNDING 2017-1 PLC
Greene King Finance plc
Greene King plc
Gulf International Bank (UK) Limited
HANDELSBANKEN PLC
Havin Bank Ltd
Hellenic Petroleum Finance PLC
Henderson Diversified Income Trust Plc
Henderson European Focus Trust plc
Herald Investment Trust plc
Hitachi Capital (UK) PLC
Hochschild Mining PLC
Hodge Life Assurance Company Limited
IMI plc
Impax Environmental Markets plc
Inceptum Insurance Co Ltd
INSURANCE (GB) LTD
InterContinental Hotels Group PLC
Invesco Income Growth Trust plc
Investec Bank plc
Investec Investment Trust PLC
Investec plc
J Sainsbury plc
John Menzies plc
JPMorgan Brazil Investment Trust plc
JPMorgan Claverhouse Investment Trust Plc
JPMorgan Elect plc
JPMorgan European Investment Trust plc
JPMorgan Global Emerging Markets Income Trust plc

JPMorgan Russian Securities plc
JPMorgan Smaller Companies Investment Trust Plc
Julian Hodge Bank Limited
Jupiter Emerging & Frontier Income Trust Plc
Jupiter European Opportunities Trust PLC
Lanark Master Issuer plc
Land Securities Capital Markets Plc
Land Securities Group PLC
Lannraig Master Issuer plc
London Stock Exchange Group plc
Lowland Investment Company P L C
LSL Property Services plc
Majedie Investments PLC
Managed Pension Funds Ltd
Martin Currie Global Portfolio Trust plc
Mercia No.1 plc
Miton UK Microcap Trust Plc
Mizuho International
Monks Investment Trust PLC
Montanaro European Smaller Companies Trust plc
Montanaro UK Smaller Companies Investment Trust PLC
Monzo Bank Limited
Murray Income Trust PLC
Murray International Trust PLC
Nanoco Group plc
National Bank Of Kuwait (International) plc
National Deposit Friendly Society Limited
National Westminster Bank Plc
Natwest Markets Plc
New Star Investment Trust PLC
NMC Health plc
Nomura Bank International plc
Nostrum Oil & Gas PLC
Nottingham Building Society
Offa No.1 Plc
One Re Ltd
Ophir Energy plc
Pa (Gi) Limited
PageGroup plc
PCF Bank Limited
Pennon Group plc

EY UK PIE audit clients (cont'd)

Perpetual Income & Growth Investment Trust Plc

Persimmon Plc

Phoenix Group Holdings Plc

Phoenix Life Assurance Limited

Phoenix Life Limited

Polypipe Group plc

Premier Oil plc

QIB (UK) Plc

RAK Petroleum plc

RELX PLC

Renishaw plc

RIT Capital Partners Plc

RM Secured Direct Lending Plc

RM ZDP Plc

RMAC No.1 Plc

RMAC Securities No.1 Plc

Royal Dutch Shell plc

Sabre Insurance Company Limited

Sabre Insurance Group Plc

Sainsbury's Bank Plc

Sanditon Investment Trust plc

Sanlam Life & Pensions UK Ltd

Schroder & Co. Ltd

Schroder Pension Management Limited

Schroders PLC

SCOR UK Company Ltd

ScotGems Plc

Securities Trust of Scotland Plc

Seneca Global Income & Growth Trust plc

SG Kleinwort Hambros Bank Limited

Shaftesbury Carnaby PLC

Shaftesbury Chinatown PLC

Shaftesbury PLC

Shires Income Plc

SIG plc

Silk Road Finance Number Four Plc

Softcat plc

South West Water Finance plc

Spire Healthcare Group plc

Spirent Communications plc

Spirit Issuer plc

Stagecoach Group plc

Stallergenes Greer plc

Standard Life Assurance Limited

Standard Life Pension Funds Limited

Stanlington No.1 Plc

Stirling Water Seafield Finance Plc

Tate & Lyle PLC

Td Bank Europe Limited

Temese Funding 2 plc

Temple Bar Investment Trust PLC

The Bankers Investment Trust Plc

The Biotech Growth Trust PLC

The Co-operative Bank plc

The Diverse Income Trust plc

The Dominion Insurance Company

The Gym Group plc

The Higher Education Securitized Investments Series No.1 Plc

The Independent Investment Trust PLC

The Rank Group Plc

The Restaurant Group plc

The Royal Bank of Scotland Group Plc

The Royal Bank of Scotland Public Limited Company (Formerly Adam & Company PLC)

The Sage Group plc

The Scottish Oriental Smaller Companies Trust plc

The Underwriter Insurance Company Limited

The Unique Pub Finance Company PLC

The University Of Manchester

Theatre (Hospitals) No.1 Plc

Theatre (Hospitals) No.2 Plc

Thomas Cook Group plc

TR European Growth Trust Plc

Transport for London

Transre London Limited

Trent Insurance Company Limited

Twin Bridges 2017-1 Plc

Twin Bridges 2018-1 plc

UBS Asset Management Life Limited

Unum Ltd

Usaa Limited

Virgin Money Holdings (UK) plc

EY UK PIE audit clients (cont'd)

Virgin Money PLC

Volusion Group plc

VTB Capital plc

Warwick Finance Residential Mortgages Number One PLC

Warwick Finance Residential Mortgages Number Three PLC

Warwick Finance Residential Mortgages Number Two PLC

Waterside Campus Development Company Plc

Wausau Insurance Company (UK) Limited

Wesleyan Assurance Society

Wesleyan Bank Limited

Wessex Water Services Finance Plc

Winchester Street Plc

ZEAL Network SE

Glossary

AFGC	Audit Firm Governance Code
AQB	Audit Quality Board
AQI	Audit Quality Indicators
AQR	EY Global Audit Quality Review programme
AQST	Audit Quality Support Team
BAME	Black, Asian and minority ethnic
Big Four	The four largest global accounting and auditing networks: Deloitte, EY, KPMG, PwC
BRET	Business Relationship Evaluation Tool
CCC	Code of Conduct Committee
CMA	Competition and Markets Authority
CMP	Country Managing Partner
D&I	Diversity and inclusiveness
EMEIA	Europe, Middle-East, India and Africa
EOE	Europe Operating Executive
EPIC	Embankment Project for Inclusive Capitalism
EQCR	Engagement Quality Control Reviewer
EY Foundation	An independent charity set up by EY in 2014
EY GAM	EY Global Audit Methodology
EY UK CBM	EY UK Centre for Board Matters
EYG	EY Global
FRC	Financial Reporting Council
FTSE	Financial Times Stock Exchange
FY	Fiscal Year
GDPR	EU General Data Protection Regulation
GDS	Global Delivery Services
GE	Global Executive
GGC	Global Governance Council
GMS	Global Monitoring System
IAASB	International Auditing and Assurance Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales
IESBA	International Ethics Standards Board for Accountants
IFRS	International Financial Reporting Standards
INE	Independent Non-Executive
IOC	Independent Non- Executive Oversight Committee

ISAs	International Standards on Auditing
ISQC No. 1	International Standards on Quality Control No. 1
KPI	Key Performance Indicator
LEAD	Leadership Evaluation and Development
LLP	Limited liability partnership
NED	Non-Executive Director
NOCLAR	EY's Global Code of Conduct
ORITP	The Objective, Reasonable and Informed Third Party
PACE	Process for acceptance of clients and engagements
PCAOB	US Public Company Accounting and Oversight Board
PIC	Global Public Interest Committee
PIE	Public Interest Entity
plc	Public limited company
PLOT	Purpose Led Outcome-orientated Thinking
PPD	Professional Practice Directorate
PPEDDs	Partners, principals, associate partners and directors
PRA	Prudential Regulation Authority
PSAA	Public Sector Audit Appointments Ltd
PSC	Pension Sub- Committee
PY	Prior year
QAD	Quality Assurance Department of the ICAEW
QELs	Quality Enablement Leaders
RCP	Reputation and Conflicts Panel
RIs	Responsible Individuals, being those individuals in the firm allowed to sign audit reports
ROC	Risk Oversight Committee
RPF	Regional Partner Forum
SAQ	Sustainable Audit Quality
SEC	US Securities and Exchange Commission
SORT	Service Offering Reference Tool
TAS	Transaction Advisory Services
The Board	The board of EY UK LLP

Glossary (cont'd)

The EU Audit Regulation	Regulation No 537/2014 of the European Parliament and of the Council of 16 April 2014
UK FSO	EY UK Financial Services Office
UK&I	United Kingdom and Ireland
UKAC	UK Audit Committee
VFM	Value for Money
Vision 2020+	EY's vision to be the leading global professional services organization by 2020

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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