

EY UK 2020 Transparency Report

November 2020



Building a better
working world

COVID-19

People-centric objectives:

Staying safe

and keeping well

Being productive

at home

Keeping informed

and up-to-date

Principles:

- ▶ **Do the right thing for our people** – by keeping our people and partners, and their families, well and safe.
- ▶ **Do the right thing for our clients** – by maintaining client service, and actively looking for opportunities to support our clients.
- ▶ **Do the right thing for our business** – preserving long-term business health, including financial strength.
- ▶ **Empower our people and partners** – to make sensible decisions.

Initiatives to help manage the impact

Homeworking

implemented successfully from day-one for

16,000+ UK-based people:

- ▶ Success attributed to a long-established culture of flexible and remote working.

Special leave allowance

increased from one week to two.

Discretionary sick pay

extended to all staff with under one year's service.

Mental health and wellbeing

supported by a series of webcasts:

- ▶ With **10,000+** EY UK people joining the inaugural COVID-19 webcast.
- ▶ Involving health professionals' advice on COVID-19 issues.
- ▶ Promoting EY UK's Financial Wellbeing Hub, with information on debt management and accessing financial advice.

Workshops

1,500+ people volunteered to share views on homeworking and returning to the office.

Health & Safety/Ergonomic assessments

provided for **3,000+** people including:

2,500 chairs

3,500 monitors

43 sit/stand desks

Overseas home return

support provided to **200+** employees.

Risks and work operations

Regular updates and advice on:

- ▶ Accessing equipment and support for homeworking.
- ▶ Ongoing office closures and reopening plans.
- ▶ Cyber threat advice.

Economic and social support

Examples of EY UK's help and advice:

- ▶ Support for health services.
- ▶ Co-leader of the UK's Recapitalisation Group – advising HM Treasury and Bank of England on schemes to support company financing and debt management.

Highlights

Quality¹

External review



of EY UK's FTSE 350 audits and 71% of all inspected corporate audits required no more than limited improvements (FY19: 89% and 78% respectively).

Internal review

103 engagements reviewed in FY20, covering

34% of our Responsible Individuals, of which **77%** required no improvements or minor improvements only.

Delivery



of our auditors believe EY placed sufficient emphasis on audit quality (FY19: 90%).

Our people

Our overall UK engagement score is

69%

Based on the most recent survey from 2019.

EY UK FY20 partner representation comprises



female and



BAME

EY UK's target is to increase UK partnership to 40% female and 20% BAME by July 2025.

Results

Audit revenues grew by **20%** on last year to £544mn (FY19: £453mn) which constitutes 21% of firm revenues (FY19: 18%).

EY Foundation 6th year

- ▶ **2,170+** volunteers supported **6,780+** young people who were engaged by the EY Foundation.
- ▶ The Foundation partnered with **340+** employers.

Times **Top 50** Employers for Women.
Empower **Top 100** Ethnic Minority Executives and Future Leaders.

Environmental sustainability

- ▶ 100% of energy supplied to our UK offices (electricity and biogas) was procured from renewable sources.
- ▶ EY is committed to becoming carbon neutral by the end of 2021.

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

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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 29 June 2019 to 03 July 2020, unless otherwise stated. This reporting period is referred to throughout the report as FY20. The following reporting period is referred to as FY21.

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) Regulations 2020, 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 Local Auditors (Transparency) Regulations 2020 regulations 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 UKCGC 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 Chair



Hywel Ball

EY UK Chair

“

I am dedicated to making EY UK a place where everyone can belong.

Welcome to our EY UK 2020 Transparency Report.

This year's report covers a period unlike any other, in which a global pandemic has fundamentally disrupted the way businesses operate and how people live. I would like to thank all our people for their efforts and resilience over the last year and particularly in the past six months. I know it has been a tough time and I am proud of how everyone has responded.

In this report, we explain how EY UK has responded to COVID-19, as a business and in ensuring that we maintain the highest quality and consistency of delivery to clients and the entities we audit. We will also give you a flavour of the vital work that EY UK has undertaken to support clients, the Government and the NHS at a very tough time.

Taking on the roles of EY UK Chair and EY UK&I Regional Managing Partner in July 2020 was a great honour and responsibility. Over the past nine years, under my predecessor Steve Varley's stewardship, the firm has grown significantly, invested across the region and focused on social mobility and diversity, even against a backdrop of political, economic and social upheaval. On behalf of everyone at EY UK, I want to thank him.

I would never have imagined that I would take over the reins during a period of such change, with a global pandemic, the UK's exit from the EU, as well as a number of trends that are reshaping our world. We also face what could be the most significant change to our profession in a generation as we work towards the operational separation of our audit business and other audit reforms. I am confident in our ability to thrive through these challenges.

Since joining EY more than 35 years ago, I have seen the organisation weather recessions and considerable social and economic change. What is constant however, and what I believe sets us in good stead for coping with what faces us now, is the quality of our people, as well as our values and commitment to doing what's right for our clients.

Our purpose, building a better working world, shines through for me in our response to COVID-19. It has brought into focus what our stakeholders need from us in this massively disruptive environment. By using our ability to bring together business, government and other stakeholders to develop responses to some of the disruptive forces facing society – such as global trade, climate change, and societal demands of business – we can strive to contribute to better, fairer and more stable outcomes.

The importance of our people has never been greater. It is my priority to ensure that we continue to invest in their development and show compassion at a time when many may be feeling uncertain, isolated and concerned for the welfare of their families and themselves. The importance of physical and mental health and wellbeing have been brought into even sharper focus than before by the home working required during COVID-19 and we have put it at the heart of our leadership activities and communications during this time. Our commitment to diversity and inclusiveness saw us publish our anti-racism statement in July 2020, and I am dedicated to making EY UK a place where everyone can belong.

I also want to ensure we have a culture that is focused on the right ethical standards and behaviours in everything we do. Our Reputation and Conflicts Panel provides a forum to consider and assess risk and I work with a variety of stakeholders, including our partners and employee forums, to make sure we are creating the right culture, from the top of the firm.

We continued to invest in audit quality during our 2020 financial year, adding 600 people to our audit team and investing in new technology. In July 2020 we appointed Andrew Walton as UK Head of Audit. While we were disappointed that our results in the assessment of audit quality by the Financial Reporting Council (FRC) were not higher, we have put plans in place to address the regulator's feedback. Andrew will give more detail on these plans in Section 2, including our redesigned Audit Quality Strategy.

Andrew brings 29 years of experience to his role and will continue our commitment to continuous improvement in audit quality. Andrew has also joined the EY UK Board, along with Jane Goldsmith, who has become UK Managing Partner for Risk Management. With 30 years of experience in financial services, including 15 years at EY focused on risk and regulatory matters, Jane provides a dedicated focus on risk management, including independence.

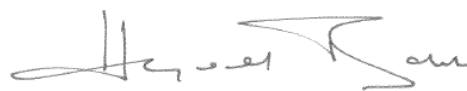
The audit reform agenda has continued to develop through this year, and we, along with the other audit firms, submitted our plans on operational separation of the audit practice to the FRC. We believe that operational separation is one significant element of a reformed audit, corporate report and corporate governance ecosystem in the UK.

However, without further steps to increase the scope of audit, strengthen the regulator and look more broadly at the responsibilities of company directors, we will not restore trust and achieve the safer, more stable ecosystem which we believe stakeholders and the public want to see. We will continue to advocate wider reforms while moving forward with our operational separation plans in discussion with the FRC.

In parallel with our work on operational separation, I will be looking at the UK firm's governance to ensure that it continues to equip us to respond effectively to the market and to deliver high-quality audits on a sustainable basis. In doing this, I will draw on the skills of our three Independent Non-Executives, David Thorburn, Tonia Lovell and Sir Peter Westmacott, who I want to thank for their continued oversight of EY UK and its strategy, particularly around audit quality and as the firm responded to COVID-19. Their challenge and scrutiny are invaluable to our decision making as a firm and we take their contributions to our discussions around governance and the public interest seriously.

Our Transparency Report will go into greater detail on all these matters, as well as many others. I hope that by reading the report you will have a better idea of who we are, how we operate and what we do to maintain the highest standards of audit quality.

I would be interested to receive feedback on this report and take questions about our UK business. Please contact me on: hball@uk.ey.com



Hywel Ball
EY UK Chair

Leadership messages (cont'd)



David Thorburn

Independent Non-Executive, Chair of the EY UK IOC

FY20 has been a year of unprecedented challenge for the firm as public scrutiny of audit quality has increased, regulatory intervention has continued to evolve and grow, and COVID-19 has had a major impact on clients, operations and the economy.

During the year we welcomed both Hywel Ball as the new EY UK Chair and UK&I Regional Managing Partner of the firm and Andrew Walton as the new UK Head of Audit. The Independent Non-Executives (INEs) see these two roles as critical in the firm's ability to respond to market uncertainties and the challenges we will face in the year ahead with the transition out of the EU and the implementation of audit reform. We believe that Hywel and Andrew, with their combined 64 years' experience as auditors, are very well suited to dealing with these challenges.

We have continued to follow the governance framework set out in previous Transparency Reports to fulfil our public interest responsibilities as set out in the Audit Firm Governance Code (AFGC).

The events of the past year for the profession have required us to respond quickly to the increasing demand for trust and confidence in business and the audit. This has been our key priority. We have monitored the implementation of existing audit quality initiatives and have helped to develop a comprehensive and prioritised set of additional audit quality actions intended to address client and audit risk and improve the firm's system of quality management.

The advent of COVID-19 during the year required us to increase significantly the number of meetings we attended. We focused on the impact of the pandemic on key audit risks such as asset valuations and impairments, going concern and the reliability of audit evidence.

We also focused our time on reviewing the firm's support of the Government's efforts to manage the crisis, EY UK's own financial resilience and the impact of the crisis on the firm's people.

I expand below on the other areas of INE focus during the reporting year. However, prioritising COVID-19 issues, as well as the proposals for operational separation from the Financial Reporting Council (FRC), inevitably limited our ability to address certain other matters. As an example, an anticipated revision to our governance framework will now be tackled in the current reporting period.

While it has been necessary for the INEs to provide rigorous oversight and challenge around the most important issues the firm faced, we have been careful not to overburden EY UK's leadership team as they focused on responding to the COVID-19 crisis and doing the right thing for their people, clients and business.

Audit quality

Consistent with previous years, we have continued our focus on overseeing the policies and procedures relating to audit quality. This year, we also increased our engagement and oversight of the Audit Quality Board (an executive committee), taking a proactive role in contributing to the evolution of the Audit Quality Strategy as well as the firm's response to the impact of COVID-19 on audit matters.

Risk and resilience

We have expended considerable effort on these topics during the past year, focusing on a number of aspects including:

- ▶ The financial impacts of the COVID-19 crisis on the firm, including treasury management.
- ▶ Reputational considerations across all the service lines.
- ▶ A review of the Three Lines of Defence model including the approach to risk management and the firm's control framework. This has resulted in additional resourcing for the risk and internal audit functions, a new approach to the management and reporting of our principal risks and a new enhanced organisational structure for the second line.

Stakeholder engagement

As in previous years, we have sought to engage actively with investors and audit committee chairs by hosting interactive roundtable discussions to address their priorities and areas of focus. In addition, we participated in the EY UK annual flagship client event, the Financial Reporting Outlook conference, and assumed an active role in the firm's annual Audit Quality Summit. A number of meetings were held with the FRC during the year on a variety of topics related mainly to either audit quality or audit reform.

Global network

Through my involvement in the Global Governance Council, the UK INEs continue to work with the global EY organisation, particularly focusing on the evolution of the Audit Quality Strategy.

Recent global and domestic events have highlighted the need for the delivery of consistent, high-quality audits throughout the EY network and we are closely monitoring the comprehensive set of actions being taken to build greater confidence in the audits performed by EY member firms globally.

The global organisation is implementing innovations in its risk and audit procedures regarding fraud, with a view to raising the bar significantly to go beyond currently accepted professional standards.

The year ahead

We are anticipating the year ahead to be another one of transition as we help the firm to implement the FRC's operational separation proposals and associated

governance changes, while continuing to provide oversight to the implementation of the Audit Quality Strategy.

We will continue our focus on financial resilience and the management of the firm's wider reputation as we face stronger headwinds from the economic crisis.

Conclusion

This message seeks to offer insight into the key areas of focus for the INEs against the backdrop of the crisis, but should not be considered as an exhaustive list. We invite questions and/or feedback on any elements of it.

You are welcome to contact any one of us at:
david.thorburn@uk.ey.com; tonia.lovell@uk.ey.com;
peter.westmacott@uk.ey.com



David Thorburn

Independent Non-Executive, Chair
of the EY UK IOC

Leadership messages (cont'd)



Andrew Walton

EY UK Head of Audit

“
We are committed to working with the FRC, government and other stakeholders to enhance not only the audit product, but also corporate reporting and the entire business ecosystem in the public interest.

It is a privilege to assume the role of EY UK Head of Audit as of 1 July 2020. I'd like to thank Hywel for the outstanding leadership he has provided to the audit practice during his tenure and entrusting me to build on his legacy.

During my career I can't think of a more challenging backdrop than the one we face today. However, with challenge comes opportunity – the opportunity to restore societal trust in audit and personal pride in the profession. It is critical to me that now, more than ever, we commit to delivering consistent, high-quality audits.

Committing to provide the highest quality audits

We have a public interest responsibility to provide confidence in the capital markets, to safeguard capital and to hold directors to account. Delivering audit quality is therefore our number one priority and we continue to invest heavily in the training and professional development of our people.

We recognise this year that certain of our previous audits – Thomas Cook Group Plc (2017 and 2018 year ends), NMC Health Plc (2018 year end) and London Capital & Finance Plc (2017 year end) – have had public investigations announced. We will ensure that any lessons learnt from these are incorporated in our audits going forward.

We acknowledge that we need to deliver top-quality audits with more consistency, and this is at the heart of our re-designed Audit Quality Strategy. More information on this can be found in Section 2: Trust in audit.

Meeting the needs of external stakeholders

There have been a number of high-profile corporate failures, both globally and here in the UK, which have understandably resulted in extended public and regulatory scrutiny into the role of the auditor, and ultimately, the purpose of the audit. We recognise that, as an industry, we still have work to do in order to meet the evolving expectations of our external stakeholders.

The set of users who rely on our work is broad, and public expectation is widening. We have an opportunity now for the audit product to adapt and grow to meet the needs of a wider body of stakeholders.

Embracing our responsibilities on climate change

Internal and external stakeholders alike are mounting pressure on businesses to provide clear updates on environmental, social and governance (ESG) factors, which is also reflected by a changing regulatory environment.

As a profession, we have an important role to play in the battle against climate change. We must challenge directors to meet their responsibility for accurate disclosure of the climate risks that they face, reporting of progress against targets, and thorough consideration of management judgements.

We are committed to training our people to recognise, challenge and address sector-specific climate risks within our audits. We will take the insights from the FRC's ongoing thematic on climate change to align our approach with best practice in this area.

Increasing challenge within the audit

We recognise FRC commentary that firms continue to fall short on the demonstration of professional scepticism – compromising audit quality. We have invested significant time and thought into addressing this issue, which starts with our firm culture and tone at the top.

Providing the tools and resource to challenge management appropriately and constructively is an area of renewed focus as we reiterate its importance during the audit process; a message reinforced throughout the year during specific mandatory training, our annual Audit Quality Summit, webcasts, calls and leadership messaging.

We have also emphasised to partners that leadership is committed to stand behind our audit teams if it is necessary to delay the signing of audit opinions due to the challenges brought about by COVID-19, or as a result of late delivery of information relevant to the audit, to allow teams to complete the work required to perform high-quality audits.

Quality powered by technology

We believe that the future of audit lies in the greater use of technology and digital methodology, and we continue to invest in our digital audit programme. The power of our global technology has proved itself invaluable as we responded to remote auditing as a result of the restrictions from COVID-19.

We have worked hard to produce the suite of digital tools that we now have at our disposal: our AI 'bots' save our audit teams hours of otherwise menial administration time every week and our analysers manipulate vast amounts of data, allowing our teams to sift through entire populations of transactions to find anomalies. We also have a strong pipeline of digital tools currently in development and are excited to roll them out in the coming year.

Use of technology allows streamlining of routine procedures, standardising testing programmes where appropriate, and releasing time for our people. This allows teams to concentrate their expertise on technical, judgemental and highly complex areas of the audit.

The power of the multidisciplinary model

The structure of our business has proved a source of strength amidst the COVID-19 crisis. The access to specialists and expert knowledge that our multidisciplinary model provides has allowed us to respond appropriately to new and enhanced risk arising in impairment reviews and going concern evaluations. We have drawn on expertise in restructuring, debt strategy and credit modelling – to name but a few.

People at the heart of audit quality

An engaged and collaborative workforce is paramount to our ability to deliver exceptional audit quality on a consistent basis. As we navigate the remote working challenges presented by COVID-19, this is now more important than ever. I am incredibly proud of the way that our people have responded to the pandemic. Their flexibility, resilience and support for one another really sets our people apart as we continue to discharge our duties during these unprecedented times.

Looking forward

We have taken a multi-year approach to our audit strategy in order to bring about long-term sustainable change, helping us to realise our ambition of having a high degree of confidence that we will have no audit failures across all of our audits. Further detail is provided in our second annual Audit Quality Report.



Andrew Walton

EY UK Head of Audit

Leadership messages (cont'd)



Christabel Cowling

Audit Partner, EY UK Head of Regulatory & Public Policy

Audit reforms

In last year's Transparency Report I said that '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'. What a prescient statement to make. Despite the enormity of the challenges of COVID-19, we have confronted them and been true to our word.

We have continued to engage with the Government as it deliberates the findings of earlier reviews into auditing and other aspects of the UK's business ecosystem, including corporate governance and reporting. Indeed, throughout the past year, expectations of the purpose and quality of auditing remained in the public eye – and rightly so.

The potential outcome of these reviews could be significant, including recommendations made by Sir Donald

Brydon in his report *Quality and Effectiveness of Audit* such as the introduction of an Audit and Assurance Policy, Resilience Statement and Internal Controls on Financial Reporting.

We support these and other recommendations, and we have submitted our plans on how we intend to separate audit operationally from the rest of our business in the UK.

We are an advocate for the effective accountability of management and directors, including audit committees, because they are responsible for the accuracy of corporate information upon which shareholders and other stakeholders rely. The package of reforms the Government is expected to develop in the autumn of 2020, including those above and others made by Sir John Kingman, Sir Tony Redmond and the Competition and Markets Authority, will provide a crucial opportunity to strengthen the UK's business ecosystem. As we near the end of the Brexit transition period, these developments could not be more apposite and timely.

Auditing in a pandemic

Despite the ongoing effects of COVID-19 on the conduct of our audits including remote working and the wellbeing of our people, the need for assurance to help inform investment decisions and manage risks – in both the private and public sectors – has never been greater or more challenging. We have addressed these challenges head-on, as Hywel and Andrew explain in their messages.

In my role as the Chair of the Policy & Reputation Group, we have also worked alongside the other large firms to facilitate discussions between government, regulators and other stakeholders to find ways of supporting the capital markets, upon which jobs, tax receipts and pensions depend. This contributed to the introduction of temporary provisions and regulatory concessions to accommodate the requirements of corporate reporting and auditing during lockdown, without compromising the quality and reliability of these activities.

Looking forward

In recognition of the growing impetus to introduce audit reforms, and the importance of audit quality, we have published our second annual Audit Quality Report. I recommend that you read this alongside our Transparency Report.

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

Christabel Cowling

Audit Partner, EY UK Head of Regulatory & Public Policy

Leadership messages (cont'd)



Lisa Cameron

EY UK General Counsel and Risk Management Managing Partner

Responding to the COVID-19 pandemic

As a firm, we acted quickly and responsibly when the effects of the global pandemic were felt across our business and that of the entities we audit.

Our Crisis Management team was activated from the beginning of February and met frequently in the initial weeks of the crisis. A COVID-19 Sub-committee of the EY UK Board was established to manage the firm's response to the pandemic and recovery issues arising from it.

A working group, reporting to the COVID-19 Sub-committee, was also formed to consider a wide range of issues arising from the move to home working over an extended period of time and plans for the firm's return to office working, as well as more immediate COVID-19 issues.

Our COVID-19 principles are to:

- **Do the right thing for our people** – by keeping our people and partners, and their families, well and safe.

- **Do the right thing for our clients** – by maintaining client service, and actively looking for opportunities to support our clients.
- **Do the right thing for our business** – preserving long-term business health, including financial strength.
- **Empower our people and partners** – to make sensible decisions.

I am exceptionally proud of the way all our people and partners have worked together to adapt to the unprecedented challenges presented by COVID-19.

Responding to evolving regulatory and societal expectations

We continue to respond to legal and regulatory changes, to serve the companies that we audit and the public interest. Our approach to risk management has played an essential part in ensuring that our people are supported to take on the right clients, maintain independence and objectivity, and comply with changing regulation and our own quality standards.

We are focusing on strengthening our Three Lines of Defence model, our control environment and our management of risk through a series of change initiatives. In the first line of defence, this has included identifying opportunities to enhance our frameworks in respect of client service delivery, and the way we identify and manage new business opportunities.

We have also undertaken an operational review of our second line of defence and identified several opportunities to further support the functional structure.

Values and behaviour

The EY Global Code of Conduct reflects our culture based on our values and purpose. The Code was recently revised to reflect advancements in technology and how we use them, to reinforce the importance of upholding the Code, and to update the resources available to our partners and staff if they find themselves in a difficult situation. We have re-focused on our 'Speak Up!' approach – to remind all our people and partners that they have a personal responsibility to report all instances of non-compliant and unethical behaviour, without fear of reprisal.

As part of that process, we updated both the UK whistleblowing guidance to ensure that our policy is accessible and user-friendly for everyone in the firm and also our report-handling processes to ensure that all matters are investigated with the same rigour and consistency.

Continued preparations for Brexit

We continue to prepare for the possibility of a 'no deal' Brexit by developing a full risk mitigation programme and broad communications strategy. Ahead of the UK's new trading relationship with the EU on 1 January 2021, our preparations remain well advanced and we will ensure that we can continue supporting our clients and our people with minimal disruption.

A handwritten signature in dark ink, appearing to read 'Lisa Cameron', written in a cursive style.

Lisa Cameron

EY UK General Counsel and Risk Management Managing Partner

Section 2

Trust in audit



Trust in audit

FRC inspections of corporate audits:

71%
of inspected audits were graded as requiring no more than limited improvements.

78%
of the FTSE 350 audit inspections met that standard.

Number of **Root cause analysis reviews** performed, increased from 43 to **51**

Audit partner and staff survey



of our auditors believe the teams they work with have sufficient resources to enable them to deliver quality audits
FY19: 33%, FY18: 51%



of our auditors believe they receive sufficient training and development to enable them to deliver quality audits
FY19: 77%, FY18 78%



of our auditors believe EY places sufficient emphasis on audit quality
FY19 and FY18: 90%



of our auditors consider delivering quality audits to be a priority
FY19 and FY18: 96%

The 2020 survey comprised 1,315 respondents. It shows, amongst other things, that we have to improve our level of resource.

Whistleblowing: **92%** of in-house survey participants would speak up if they saw something wrong

Audit Quality Board activities:

Met formally 11 times.	Convened separate discussions on COVID-19 risks and mitigations.	Held six additional resourcing-specific meetings.	Supported the recruitment of more than 600 audit staff.
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Culture

In Section 2, we first discuss culture. We then cover an overview of our Sustainable Audit Quality (SAQ) programme, the activities of the Audit Quality Board (AQB) and the oversight provided by the INEs. We then move on to root cause analysis (RCA) before focusing on our audit quality priorities and a number of areas of focus. The section ends with a review of audit quality indicators (AQIs) that were agreed with the Policy and Reputation Group (PRG). We include our internal and external inspection results, external investigations, results from our partner and staff surveys, training and our investment in audit quality.

We understand that a commitment to audit quality starts at the top of our organisation with the tone set by our leadership team and partners. A consistent message sets our culture, and helps our people to understand that their shared commitment is central to everything that we do at all levels of our organisation.

Our leadership team is clear and unambiguous that audit quality is the number one priority for our auditors, and this is reinforced by their commitment to performing quality work, complying with professional standards, adhering to policies and leading in a way that upholds our shared values.

To support this commitment, we have aligned our approach to partner and staff recognition and advancement, with audit quality considered in the evaluation and reward of all professionals.

We recognise the challenge from the Financial Reporting Council (FRC) to go further, to build upon our strong culture of collaboration, and ensure that the tone from the top continually supports a culture of providing rigorous challenge to companies' management. Our leadership team is clear that they will support audit partners in holding robust discussions with the entities we audit and in resigning from appointments when the directors do not respond appropriately to audit challenge. We are supporting colleagues at all levels with a comprehensive training programme around professional scepticism.

In these challenging and unprecedented times, we have continued to position ourselves as a business around our organisational purpose – building a better working world.

Our whole firm understands the importance of our auditors' role in building a better working world by continually serving the public interest. Our auditors, in turn, understand that every audit they undertake is an opportunity to build trust and confidence at a time when it is most needed.

We consider our culture of belonging to be the means to unlocking our organisational purpose. By creating a shared set of inclusive values and behaviours, we ensure our people feel engaged, supported and valued for their individual differences. The benefits are far-reaching and tangible, enabling our audit practice to attract and retain high calibre employees who are able to bring a breadth of perspectives and skillsets to the companies that we audit.

We have long since acknowledged the importance of monitoring our organisation's culture and completed our first culture specific survey of our UK firm in 2017. We most recently deployed our Cultural Fitness diagnostic tool in December 2019, enabling our people to give feedback on the values and behaviours that they experienced within the business.

Our people told us that they like our focus on inclusivity, collaboration and people-centricity, but that we have more to do to ensure the equitable management of workloads and that our people feel sufficiently valued for their contributions. We use questions on speaking up as a proxy measurement of both employees' psychological safety and business risk, and note that 92% of our survey participants would speak up if they saw something wrong. We recognise that FY20 has presented enormous challenges for our staff and are working with them to respond to the impact of COVID-19 on their work and home lives. Refer to Section 1: Leadership message.

EY Sustainable Audit Quality (SAQ) programme

We set a clear focus on audit quality in everything we do. In this section, we discuss in more detail how we support this commitment. EY is a global network and the global SAQ programme is the key driver behind the continued delivery of audit quality at EY. This is discussed in more detail in Appendix A: Global network. Key to the success of our SAQ programme has been the continuous commitment of the firm's leadership to the investment in, and delivery of, this programme. In the UK, our SAQ programme, now in its seventh year, is part of this global initiative and continues to be led by Michael-John Albert.

We have made significant investments to improve quality, which in the UK is driven and overseen by our AQB. In FY20, the most significant change has been our development of a substantially revised multi-year Audit Quality Strategy which is now being rolled out. This supplements the initiatives that are part of the global SAQ programme. This strategy has been determined through a number of workshops, with significant input from the results of the RCA we carry out on both our best audits and those that do not meet our expectations, and subsequent challenge from our INEs. Alongside this, we have continued to deliver on our priorities identified in prior years and other areas of focus such as training, our financial services sector, and resourcing. This includes additional resourcing dedicated to the programme, as well as additional central technical support functions.

Our SAQ programme evolves in response to issues as they arise. As part of our global commitment to quality, we are already acting across the organisation to implement innovations in our risk and audit procedures regarding fraud. This is a topic of great current interest, as highlighted by Sir Donald Brydon.

The FRC has issued a [consultation](#) on the proposed revision of ISA 240 in order to clarify the auditor's responsibilities in respect of fraud to which we will be responding.

The UK firm is working closely with our global network to ensure we implement innovations in our risk and audit procedures. Our global SAQ programme has also had to adapt and respond to COVID-19, which has had a significant impact on our practice and the entities we audit. We discuss in this section how we have been addressing this challenge.

“

I am a partner in our banking practice and have been the UK firm's Audit Quality Leader for the last two years. As part of this role I have responsibility for leading our SAQ programme. In my 30 years' experience this is the most challenging time for the firm and for individual partners that I can remember — as a result of COVID-19 and all of its consequences, firm operational separation, heightened regulatory scrutiny, the need to restore trust in the profession, alongside a need for high-quality audits with no audit quality failures. We have responded well to the increased challenges imposed by COVID-19 and remote working. We know we have more to do to respond to the increased expectations of audit quality and the current environment and therefore we have revised our ambition and developed a new multi-year strategy which we explain further in this section. We are confident that this strategy, once implemented, will enhance our ability to achieve our ambition of having a high degree of confidence that we will have no audit failures across all of our audits.

Michael-John Albert
UK Quality Enablement Leader

Activities of the Audit Quality Board (AQB)

The AQB was established in 2014 to focus specifically on audit quality and lead the implementation of the UK SAQ programme. It is chaired by the UK Head of Audit, Andrew Walton. It consists of 10 management members including partners from the audit practice, our SAQ programme team and our Professional Practice team. The AQB met on all 11 of the scheduled formal meetings, these occurred on a monthly basis throughout FY20 (excluding August 2019). In addition, the AQB met on an ad hoc basis to discuss and address current and emerging issues.

- ▶ The AQB held three additional sessions to design the new long-term multi-year Audit Quality Strategy.
- ▶ An audit target working group was created in July 2019 to devise short-term responses to the revised FRC targets published in that month. The group designed and delivered a number of initiatives before 31 December 2019, including training, and additional support for teams on impairments and significant risks.
- ▶ As a result of a significant number of new wins and some challenges around recruitment in our UK business, there was a significant focus on resourcing throughout September 2019 to March 2020. In order to monitor this, the AQB held six additional resourcing-specific meetings during FY20, carrying out a bi-weekly review of the resourcing position and progress with the responses. The AQB was satisfied that the actions were completed by March 2020. At the end of FY20 we had over 600 more audit staff than at the start of the year.
- ▶ Four additional meetings to deal with the impact of COVID-19 were held through March and April 2020 to discuss the associated risks, and how these would be monitored and mitigated. Following these initial meetings, all COVID-19 related topics were included in the regular monthly meetings and supported by a newly developed 'C19 Dashboard', which is discussed further below in the section 'COVID-19 and maintaining audit quality'.
- ▶ An audit opinion sub-committee was created in March 2020 and met three times between March 2020 and June 2020. The sub-committee continues to meet in FY21 to address the risks arising from COVID-19 and the consultation process to be used to support our audit signatories in releasing their opinions. This is explained further in the section 'COVID-19 and maintaining audit quality' below.

Regular items at the monthly AQB meetings include updates on the SAQ programme, hot file reviews by our Audit Quality Support Team (AQST) and RCA, as well as independence reports (including the implementation of revised standards), developments in personal independence compliance, updates on higher risk entities we audit, and a review of audit quality

indicators. Some of the key AQIs currently being monitored include resourcing statistics, internal and external inspection results, and project management milestones. Additional attendees are invited to present to the AQB as and when required on given priorities throughout the year. In FY20 other topics considered by the AQB included the following:

- ▶ **Purpose-Led Outcome Thinking (PLOT):** The PLOT leader provided updates to the AQB twice on the progress of this initiative including results of surveys and training (refer to page 30).
- ▶ **Risk assessment:** We refreshed our approach to risk interviews with partners, which serve as a source of valuable information for risk management. The interviews helped to identify thematic issues that could be evaluated and built into the overall FY21 Audit Quality Strategy. They also enabled the identification of engagements needing additional ongoing support for the successful delivery of a quality audit. The results of these interviews were shared with the AQB.
- ▶ **Culture:** The AQB focused on culture throughout the year in many of its discussions on audit quality, including two deep dives on its global culture assessment and the culture of challenge in audit firms.
- ▶ **Talent:** Talent leaders joined the AQB five times to discuss matters such as student recruitment and our experienced hire onboarding process.
- ▶ **Government and Public Sector (GPS):** The leader of this business provided the AQB with updates on quality and delivery risks, and how these were being addressed. This was of particular interest following the delays to certain GPS audits as discussed in our 2019 Transparency Report. We made progress throughout FY20 with improved resourcing, additional training plans and additional support through AQST. However, we still have shortages to be addressed in this sector of the business.
- ▶ **Tax:** The AQB included the audit of tax on its agenda, as well as the consideration of establishing a tax oversight board to monitor audit's relationship with the tax practice. This board is due to be established in FY21.
- ▶ **FRC – high-quality audits:** In November 2019, the FRC released a letter detailing areas on which audit firms and teams should focus in order to achieve high-quality audits consistently. Work was undertaken to assess how we were already addressing these and what additional actions were required. These areas were also addressed in the refreshed Audit Quality Strategy.

Independent Non-Executives' oversight of audit quality

For the first three quarters of FY20, the chair of the AQB presented progress reports to INEs at the quarterly INE Oversight Committee (IOC) meetings, and an INE attended the AQB meetings.

With effect from May 2020 a new Audit Quality IOC (AQIOC) was established. Its monthly meetings, chaired by David Thorburn, supplemented the IOC meetings.

These AQIOC sessions are held after each AQB meeting (typically within one week) and give the INEs the opportunity to ask more detailed questions about the topics covered by the AQB and challenge on matters as

they see fit. The chairman and other members of the AQB attend these AQIOC meetings to respond to questions as necessary.

In FY20, our INEs reviewed and challenged the development of our redesigned Audit Quality Strategy, and how we plan to implement it. We will continue to seek challenge and input from the INEs on the implementation of the strategy throughout FY21 to ensure it is effectively addressing the RCA findings and driving improved audit quality.

Audit Quality Strategy

Audit Quality Strategy

We revisit and refresh the strategy each year to enable us to deliver the sustainable high-quality audits that stakeholders demand. For FY21 we have taken the opportunity to refresh our Audit Quality Strategy substantially. When formulating the new multi-year strategy, we have considered inspection findings and RCA outcomes, and used these to determine areas for additional improvement. We have also considered changes that will apply in future years, such as the implementation of the International Standard on Quality Management 1 (ISQM 1).

Our audit quality ambition is to have a **high degree of confidence** that we will have no audit failures across all of our audits.

The strategic priorities are aligned to the six pillars of our SAQ programme. These priorities are:



Each of these workstreams are discussed in more detail in our second annual Audit Quality Report, published alongside this document. We are focusing on three priorities in the current year. These each had a dedicated session at this year's Audit Quality Summit. Details of these three priorities are described on the next page.

1

Embed a culture of challenge and scepticism

As commented on by the FRC, this continues to be an area targeted for improvement by all firms in order to deliver high-quality audits. We have invested significant thought and time into improving our performance in this area, which starts with our culture and tone at the top. The messaging from leadership continually reinforces our need for rigorous challenge of management and demonstration of scepticism. This message is reinforced throughout the year via the Audit Quality Summit, training, calls and webcasts.

We have emphasised to our partners that the leadership team will support them by enabling them to build the audit teams they need to provide appropriate challenge. We communicated the importance of companies working to appropriate timetables to provide sufficient time for the audit of complex, judgemental areas and the support available to partners who need to delay reporting as a result of the late receipt of information relevant to the audit.

We also introduced additional training and guidance materials that teams can use to support their audits and demonstrate the scepticism required. These included an impairment review guide for companies to help our auditors approach this judgemental area with appropriate scepticism.

However, we know we have more to do. We have created a specific workstream that focuses on this area, which is also one of the key priorities for FY21 and beyond. This includes developing a revised scepticism framework and 'barometer', which is designed to support teams in their work alongside additional training and support.

2

Our PLOT for high quality outcomes

During FY17 we worked with a group of cognitive psychologists to build our EY Expert Model based on Purpose-Led Outcome Thinking and it has been a key part of our strategy since then. We have continued to monitor and improve on PLOT implementation and we consider this a key initiative that drives a high-quality audit. It was highlighted by the FRC as an area of good practice in their most recent audit quality inspection report on EY UK. It forms a separate workstream of our FY21 strategy. The aim is to drive PLOT implementation throughout every audit and at a more granular level through each identified risk and task carried out. This aim was included in the presentation at our 2020 Audit Quality Summit. For more information on PLOT see page 87.

3

Driving consistent quality control

One of the key findings from the latest FRC inspection published in July 2020 was the need to reinforce consistent quality control procedures on audits. While some examples of good practice were found, there were instances where improvement was needed. Therefore our FY21 strategy includes a workstream that focuses on this area. It includes several aspects of our quality control procedures such as detailed review procedures, the review carried out by engagement quality control reviewers and our AQST model.

Root cause analysis (RCA)

We increased the number of RCAs performed in the year from 43 to 51. We also made further improvements to our RCA processes, including increasing the use of engagement AQIs, and testing findings and actions with focus groups across the practice.

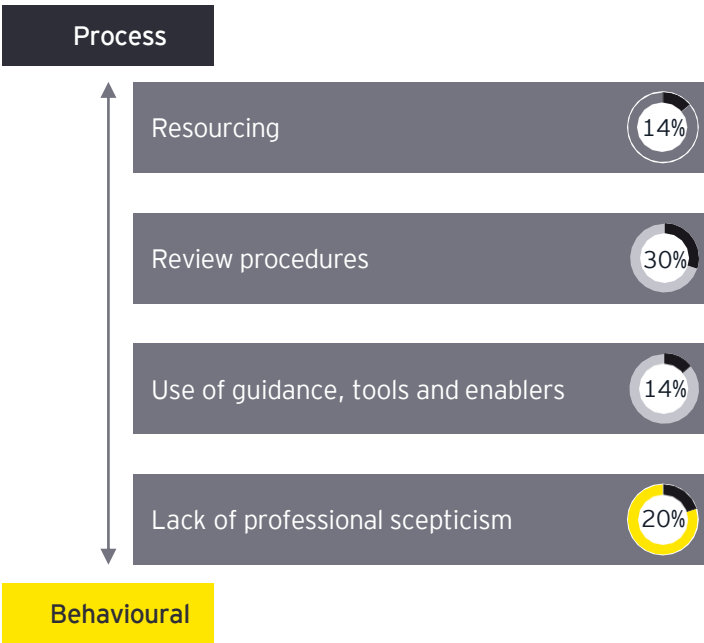
Such changes have enabled us to gain more insight into the key factors that drive quality findings, i.e., where there is room for improvement in our audit work, and also those that contribute to high-quality audits. The findings from our RCA are reported to internal and external stakeholders, including the AQB, INEs, FRC and the Institute of Chartered Accountants in England and Wales (ICAEW). In summary, these are:



Key messages from positive RCA	Key areas where need for improvement identified
High degree of executive involvement	Improve adequacy of review procedures
Good resourcing	Demonstrate professional scepticism
Strong team culture	Ensure resourcing is always appropriate
Effective project management	Ensure guidance and tools are better utilised

The detailed results of RCA on inspection findings are discussed in the public report available on the FRC website. These key themes are recurring issues impacting the quality of the audits we deliver year on year. To rectify this, we have taken these (and the positive findings) into account in developing the new Audit Quality Strategy. The key themes arising from positive findings are in line with expectations and largely in line with prior-year findings. We are pleased to see that these areas continue to support the delivery of high-quality audits.

The findings reported following the 2019/2020 RCA (51 engagements in total) were analysed and categorised into process-driven or behavioural aspects. Each of these have been considered and are key inputs into the Audit Quality Strategy, which includes workstreams focused on improving the consistency of our processes alongside the behavioural changes required.



Audit quality – priorities

Progress on FY20 priorities

Our priorities are designed and adapted throughout the year to meet the needs of the business and to address findings as they arise. The six priorities for FY20, and the progress we have made on these throughout the period, are set out below.

1 Update to control framework ISQM 1

Quality is central to EY's Assurance strategy, and our aim to be the pre-eminent and most trusted global Assurance practice. It is the single most important dimension for our decision making and is the key measure on which our reputation stands. Through our ISQM 1 implementation project we are reviewing all the processes and controls we currently have in place which support our quality, as well as implementing new, improved controls to enhance our quality. Our enhanced system of quality management will be the foundation on which our sustainable audit quality is built. There will be clear ownership responsibility and accountability for each control within our framework and constant monitoring will give us the information we need to improve continuously the effectiveness and efficiency of processes. Overall our system of quality management will improve the management of the business by proactively identifying and mitigating risks.

2 Audit Quality Support Team (AQST)

This remains one of our key processes to support our most complex audits (on a rotational basis). Our RCA on positive quality occurrences confirms that this is a key factor in driving a high level of quality delivery. As well as increasing the number of reviews in the last year, we aim to increase further our resources and the number of audits reviewed, and focus more in-flight reviews on topics where we have recurring findings from inspections.

3 Root cause analysis (RCA)

We invested in and made changes to the way we approach RCA this year, enabling us to undertake further detailed analysis to understand the reasons why quality findings are identified, and equally what factors contribute to a good quality audit.

We discuss RCA further in the section above.

4 Project management

Our EY Global Milestones programme is now in its fourth year. RCA findings continue to show that early planning and executive involvement through effective use of milestones is a contributing factor to a positive quality outcome. Performance against the deadlines is monitored centrally and reported to the AQB. We are in regular contact with teams who fall behind their milestones and offer support where appropriate to ensure audit quality is maintained.

Throughout FY20 we continued to include more audits in the Milestones programme. The Milestones functionality, which is embedded in our EY Canvas audit software, has been enhanced for FY21 to automate some of these processes and provide additional structure to the time phases of the audit. This should drive further improvements in our processes by reducing the administrative requirements of our audit teams. For more information on the Milestones programme see page 87.

5 Promote desired culture and behaviours

Promoting desired culture and behaviours remained a key priority through FY20 and has been factored into a number of the areas of the FY21 Audit Quality Strategy. Most notably, we continue to focus on PLOT and the positive impact this has on our engagements. We assessed the implementation of PLOT in the year and ran refresher training in some locations where necessary.

6 Centres of Excellence (CoEs)

At both global and regional levels, we continue to expand and drive adoption of CoEs (also referred to as 'centralised teams') that focus on providing high quality, efficient and insightful support to audit teams. These centralised teams align to four main constructs, underpinning our data-driven, high-quality-audit ambition:

- ▶ Data & Analytics CoEs
- ▶ Audit Execution CoEs
- ▶ Audit Support CoEs
- ▶ Audit Specialist CoEs

This strategy is improving audit quality through the standardisation of end-to-end processes, the specialisation of staff and enhanced quality monitoring. It is also accelerating both the development and adoption of vital audit technologies, such as data extraction and transformation utilities, databases of enriching data from external and open data sources, and analytics to keep improving internal delivery processes.

We have also successfully launched our CoEs for Client Due Diligence (CDD). The firm-wide transition to a centralised operating model for CDD has driven a robust and efficient anti-money laundering (AML) process. Over 5,000 companies have already been served using this CoE.

We are continuing to investigate the potential for growth in such centralised teams.



Other areas of focus

Financial services sector

The financial services sector continues to be an area of focus for regulators. 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 individual entities we audit where relevant. This interaction is important to EY UK as it allows us to obtain regulators' views on macro issues and insights on risk matters or areas of concern for specific clients to feed into our risk assessment.

The sustained economic slowdown triggered by the COVID-19 outbreak has affected the financial services sector, putting negative pressure on interest margins. It has also led to an increase in credit risk and a potential spike in claims,

including for health, credit and event cancellation insurance. The UK Government and banks have implemented various measures to help individuals and businesses minimise the adverse economic effects of COVID-19, e.g., mortgage payment holidays and cash loans for affected businesses.

The environment and the measures implemented have an impact on firms' expected credit losses. We therefore appreciate the need for well-balanced credit assessments in accordance with the accounting principles of the international financial reporting standard on financial instruments (IFRS 9), as well as expanded financial statement disclosures to describe the inherent uncertainty around estimates based on forward-looking information. We have had regular meetings with the PRA and the major financial institutions to discuss such challenges and issued additional guidance to audit teams.



COVID-19 and maintaining audit quality

FY20 was an unprecedented year when the effects of the global pandemic were felt across our entire business, and that of the entities we audit. The AQB, along with the rest of the firm, acted quickly in response – and specifically to address the risks to audit quality. We have supported our focus on maintaining audit quality by applying guidance

from our global organisation, and by working with other UK firms and regulatory bodies to develop UK-specific guidance, which we have rolled out to our UK business. All staff and partners were kept informed about the firm's response and the support available through regular calls and other forms of communication.

Navigating through the COVID-19 crisis

Leading through the crisis

- ▶ Additional governance structures were introduced immediately to make decisions on key quality matters, including the supplementary AQB Sub-committee on audit opinion signings.
- ▶ A 'C19 Dashboard' was developed to identify indicators of potential areas of stress in the audit business as a result of the pandemic. This is updated and circulated to the AQB every two weeks for review and appropriate responses determined where necessary. It covers resourcing, technology, Professional Practice Directorate (PPD) status indicators, and results of 'detect controls' testing around the compliance of new COVID-19 consultation requirements.
- ▶ Additional partner calls were held to keep all individuals responsible for signing audit opinions informed on the policies and procedures in place and the guidance being provided. At the height of the pandemic these were held weekly.
- ▶ Webcasts for companies were arranged to support their understanding of COVID-19 audit impacts and the importance of good quality information being provided to the audit team to support the timely and effective delivery of the audit.
- ▶ EY Health held webcasts to support our people in looking after their wellbeing in times of change.

Impact on audit opinions

- ▶ In line with the guidance developed by the FCA, FRC and PRA, EY UK implemented a moratorium in the two weeks immediately following the announcement of the pandemic, during which time no opinions were issued.

- ▶ After this, all opinions issued (except for a limited number of group reporting engagements) were required to go through our PPD consultation processes prior to issuance.
- ▶ With effect from June 2020, as a significant portion of those signing audit opinions had been through a consultation and the effects of COVID-19 were becoming clearer, we introduced a different risk assessment process for unlisted audit teams with a lower risk around the impact of the pandemic and expecting to issue a standard opinion, which excluded the requirement for a consultation to occur before issuing an opinion.
- ▶ This remains in effect and we have brought in additional temporary resources to help the risk assessment team handle the extra workload. All other audit teams continue to consult with PPD before an opinion is issued.

Guidance provided to our people

- ▶ Updated guidance on a variety of topics such as going concern assessments, group audits, subsequent events disclosures, audit opinion considerations, remote working and stock counts was issued to assist teams in considering the impact of the pandemic on their audits. We also issued guidance on specialist areas including economic assumptions, oil and gas prices, financial instruments and pensions.
- ▶ One of our webcasts addressed considerations when dealing with materiality judgements at this time.
- ▶ Given increased reports of cyber breaches and attacks during the pandemic, we issued additional guidance on how these matters should be considered in making a risk assessment.
- ▶ Specific risk assessment tools were designed to help teams to consider the impact of the pandemic on audit planning and accounting implications.

The resilience and teaming of our staff, partners and clients have been monitored throughout these challenging times as we have continued to discharge our duties.

We have offered a range of support to our teams during this period, including ergonomic assessments for over 3,000 people and office equipment for over 2,500 people.

A review of our going concern assessment procedures by the FRC noted that we had a number of examples of good practice in response to the pandemic. We are maintaining and improving on these areas of good practice.

We are exceptionally proud of the way all our partners and people continue to respond to the unprecedented challenges presented by COVID-19.

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 policies, templates and guidance that have been designed to help execute these responsibilities and document how we have done so.

Our EY Canvas audit technology enables cross-border teams to work consistently, transparently and securely together on audit planning, execution, reporting and collaboration with the companies that we audit. Our tools enable documentation of the group auditor's oversight of work performed by both firms within our EY network and other audit firms. For the fourth consecutive year the FRC has included examples of good practice in this area within its public report. However, for the second year this has also been noted as an area for improvement. We have delivered additional training in group auditor oversight, and our FY21 Audit Quality Strategy will include targeting further improvements in this area so we drive consistent good practice.

As explained on page 27, we have implemented a number of measures to maintain audit quality throughout the emergence of COVID-19. In relation to group audits, we have sent additional guidance to all teams explaining expectations and the support available for group teams, be they primary or component, particularly around remote group oversight and risk assessment.

We have formed this guidance as a global effort thereby helping cross-border teams to ensure audits could be delivered in the most effective manner without compromising quality. We continue to support our global teams in their efforts while the impact of the pandemic evolves.

Training

Our investment in training continues to support our audit quality ambitions. All partners and staff are set minimum continuing professional development (CPD) requirements in relation to accounting and audit topics. Individuals involved in audits regulated by the US Public Company Accounting Oversight Board (PCAOB) undertake specific training covering the relevant audit and accounting standards.

Training curricula are reviewed each year to reflect the current needs of the business, taking account of inspection findings, new audit and accounting standards and other regulatory changes.

In FY20, the themes covered by our training also reflected the COVID-19 outbreak. They included the review of audit work papers, challenging management, professional scepticism and judgement. The 2019 Summer Academy audit training included sessions on the impact of the evolving regulatory landscape and corporate governance changes on the audit.

In 2020, learning themes covered updates to International Standards on Auditing (UK) in relation to Going Concern and Accounting Estimates and the new UK Ethical Standard. We also continued to make a significant investment in training partners and staff on revisions to our Global Audit Methodology to reflect the roll out of our data-driven audit approach.

Like many organisations, the 2020 pandemic led us to revisit how we train our people in a virtual environment. Due to our previous significant investment in this area, we were well equipped to shift learning from the physical classroom to the virtual, while still offering content 'on-demand' to optimise learning effectiveness.

Performance for people

Implementing new standards

In response to the revised ISA (UK) 540, Auditing Accounting Estimates and Related Disclosures, and to supplement the training provided we have established a coaching network covering all our offices. The purpose of this coaching network is to support our audit teams in understanding what is required under the revised ISA and to ensure that they make use of the available EY UK coaching kits. These coaching kits are used in a planning team meeting for at least one audit engagement for each Responsible Individual.

We began training on the revised ISA (UK) 570, Going Concern in 2019, issuing additional guidance for teams to use to facilitate their discussions and documentation in advance of implementation of the new standard. With the onset of COVID-19, our focus on going concern increased further to ensure we understood and rigorously challenged the entities we audit on their going concern assessments.

We continue to issue training to audit teams on the revised standards and the expected impact to audit teams.

Linkage between performance and reward

We take results from audit quality reviews seriously and ensure we maintain a fair balance between rewarding high audit quality and imposing penalties for 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. We also have an upward feedback mechanism for all audit partners and associate partners, to allow their teams to give feedback anonymously on quality and other aspects, which plays a part in year-end assessments. A review by the FRC of our processes commented on the link between audit quality and partner remuneration as being an area of good practice.

In FY20, we also gave audit quality performance awards to selected staff as part of their compensation. This is enabled by our performance review system (LEAD), which includes quality grades for staff. For levels above manager, inspection review results have a direct impact on the quality grades linked to individuals' compensation. We continue to improve our processes to ensure all staff fully understand the quality grades they are assigned through appropriate discussions and documentation.

In addition to linking quality to monetary rewards, we have other recognition schemes to highlight and congratulate individuals for demonstrating good examples of quality performance. These include our 'audit culture coins', which we have doubled in the year, and other 'thank you' schemes that are encouraged on an individual basis.



Audit Quality Indicators (AQIs)

In 2014, through the Policy and Reputation Group (PRG), the six largest audit firms identified the key factors contributing to audit quality. The firms identified a number metrics as Audit Quality Indicators (AQIs) and we endeavour to include these in our report as recommended by the FRC and PRG. We summarise these metrics below.

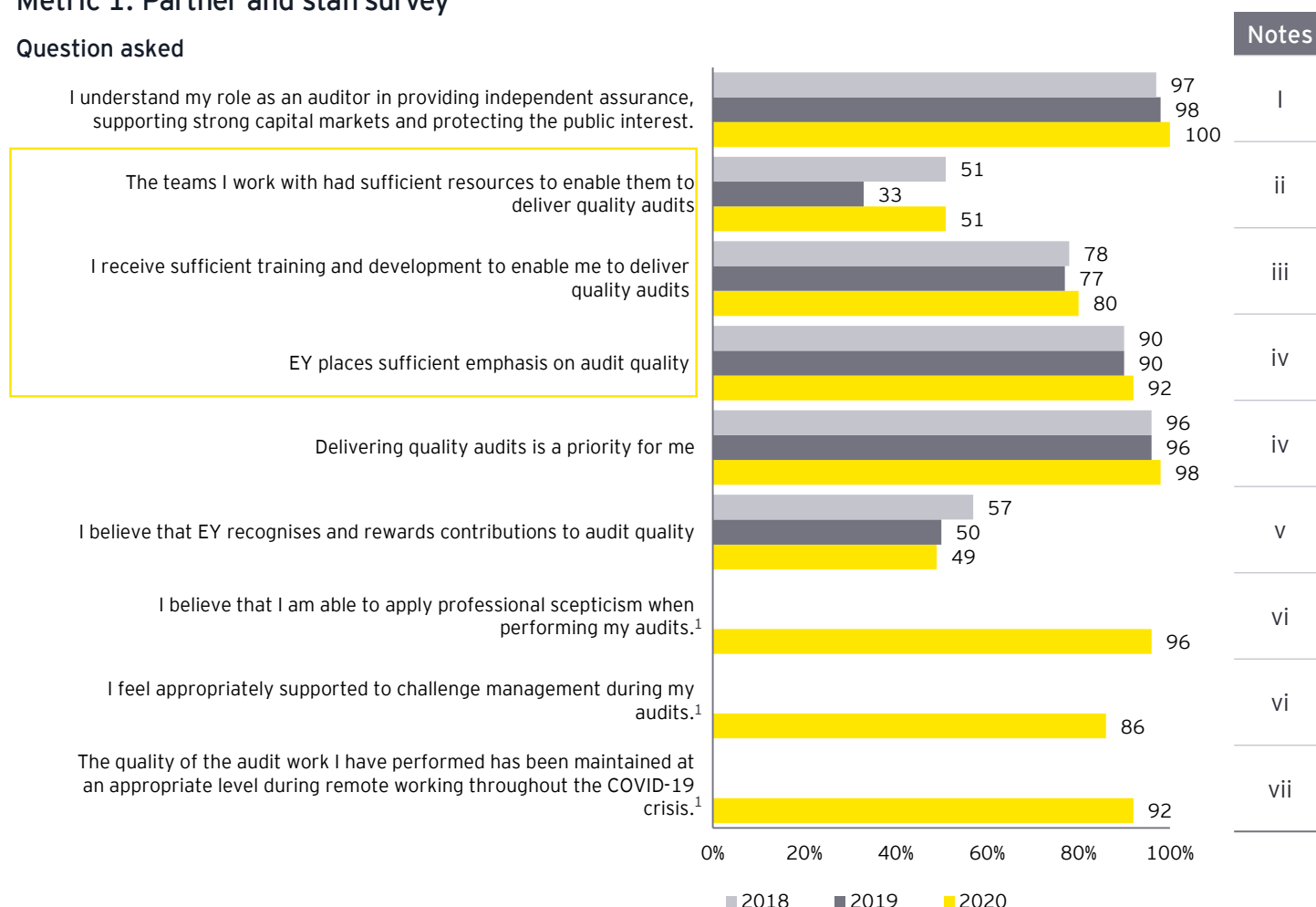
As part of our revised strategy, we have created a workstream to improve the monitoring of our AQIs so that we can intervene in audits when risks are identified. We expect this process to continue to develop over time and aim to include further AQIs in future Transparency Reports.

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's feedback about how we deliver Sustainable Audit Quality (SAQ). We therefore conduct an annual Audit Quality Survey, which gives us a selection of AQIs as set out below. The items highlighted in yellow are those that the PRG has agreed will be disclosed.

We take the opportunity to ask additional questions in our annual survey. Some of these we have run consistently over the three years, as disclosed below, and others have been introduced to reflect current topics.

Metric 1: Partner and staff survey

Question asked



¹ New questions to the survey as of 2020

For this year's survey, we offered a five-point range for most questions – from strongly agree to strongly disagree. We include as positive responses in 2020 the responses for strongly agree and agree. In prior years, respondents were only offered an agree or disagree option. The survey was run in September 2020.

Notes:

- i. We have been increasing our focus on the importance of understanding purpose during the last two years as well as sharing with our partners and staff details of the ongoing reviews into the audit profession. We are exceptionally proud of this result.
- ii. While we have experienced an increase in positive responses to this question, the result is still below where we want it to be. During FY20 we have carried out the actions we set out in our 2019 Transparency Report. These include substantial recruitment so that we have over 600 more audit staff at the end of FY20 than we did at the start. Alongside this we resigned from a number of audits, innovated further and invested in Centres of Excellence (CoEs). As noted in this report the AQB has been reviewing resourcing regularly. We know that carrying out work remotely and dealing with the additional challenges of COVID-19 on audits have required extra work and this has negatively impacted how our people are feeling. We are reviewing all responses to determine what, if any, additional actions we should take. These actions will be incorporated into the pillar of our redesigned Audit Quality Strategy focusing on attraction, recruitment and retention of our staff.
- iii. We are pleased to see the largely positive view of our training has been maintained despite the challenges of moving the programme to virtual delivery in the latter half of the year.
- iv. We are pleased that our people show such a strong regard for delivering high-quality audits and that they see EY placing emphasis on that.
- v. We use the quality survey to ask our people whether they believe EY recognises and rewards contributions to audit quality. We have seen no improvement since last year in this response and recognise we need to do more in this area. In recent years, we introduced Audit Quality Culture Coins and included specific quality grades as part of the annual review process. This year, we gave more weight to quality when determining variable pay awards. Going forward, we have a workstream within the Audit Quality Strategy focused on attraction, recruitment and retention of staff which is linked in with our overall talent strategy.
- vi. Given the importance of challenging management and the application of scepticism we introduced questions in this area. Embedding a culture of challenge and scepticism is one of our three key priority workstreams for FY21. It is good to see that already 96% of our people believe they are able to apply professional scepticism, however, providing challenge requires resilience and we want to make sure partners and staff are appropriately supported. Although 86% provide a positive response to this question, we aim to increase the feeling of support through our dedicated professional scepticism workstream.
- vii. It is good that 92% of our people agree that the quality of their work has been maintained while operating remotely during the COVID-19 crisis. Where people disagreed with the statement they were invited to comment on what else we can do to address this and we are carefully reviewing these responses to determine any further actions we should take.

Metric 2. External investigations

Number of cases in the last 12 months in which the FRC's conduct committee or the disciplinary committee of any other regulatory body has found against the firm or one of its members

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.

There were no cases found against the firm or any of its members by the FRC conduct committee or the ICAEW disciplinary committee during the year.

EY UK is currently subject to the following public investigations by the FRC:

- ▶ The audit of Thomas Cook Group Plc for the 2017 and 2018 year ends.
- ▶ The audit of NMC Health Plc for the 2018 year end.
- ▶ The audit of London Capital & Finance Plc for the 2017 year end.

We are disappointed that circumstances have arisen which have resulted in these investigations being opened by the FRC.

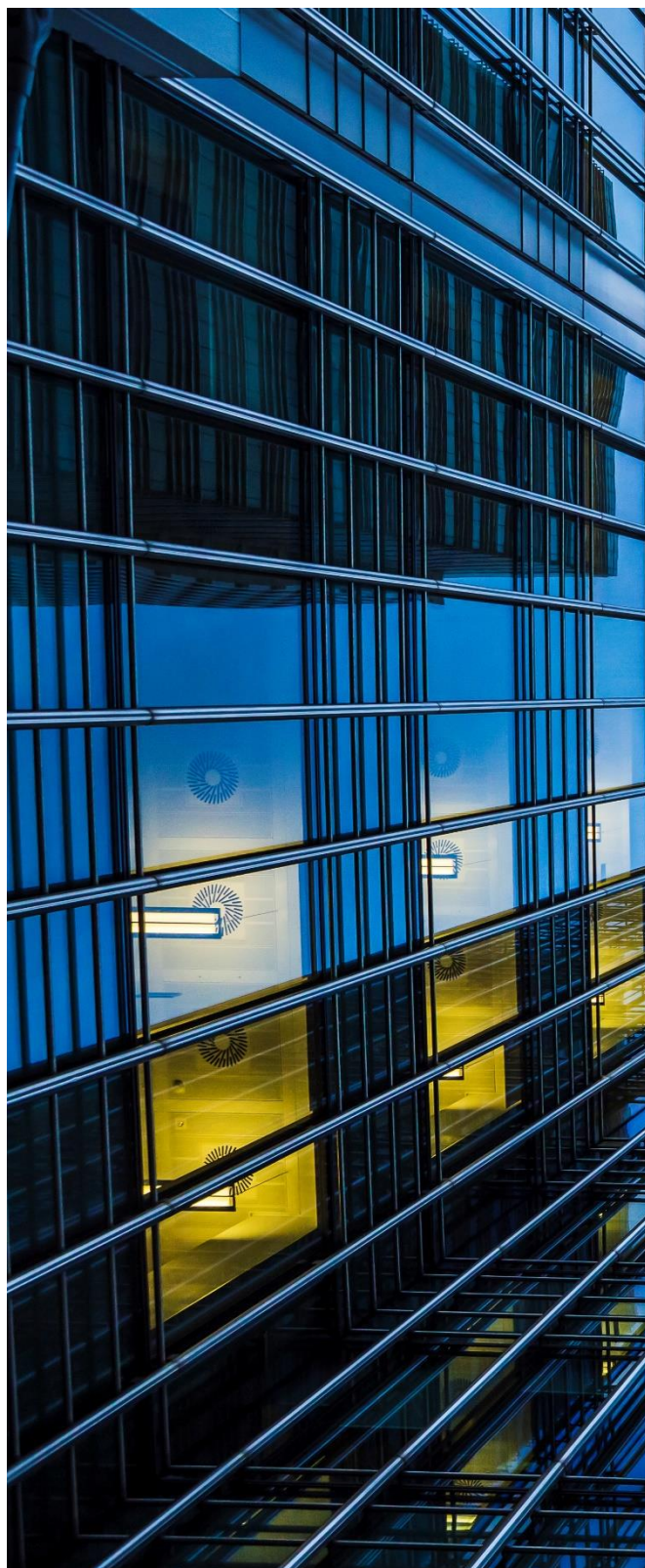
We are committed to working with the FRC to understand any findings that may arise from these investigations and ensure they are addressed.

[FRC Enforcement Report.](#)

Metrics on quality reviews

EY UK is subject to external inspection by the FRC, the ICAEW's Quality Assurance Department (QAD) and the PCAOB.

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

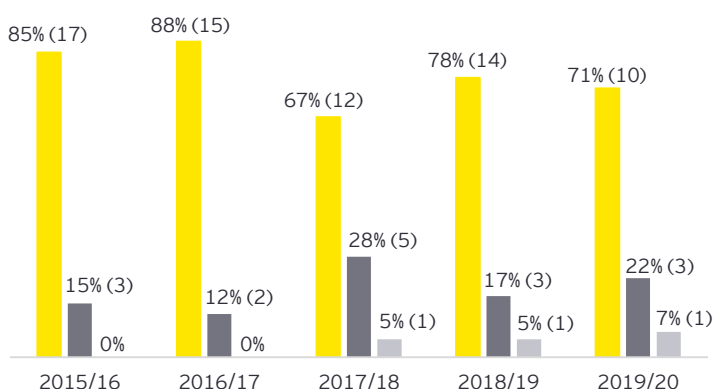


Metric 3: Results of FRC reviews of the firm

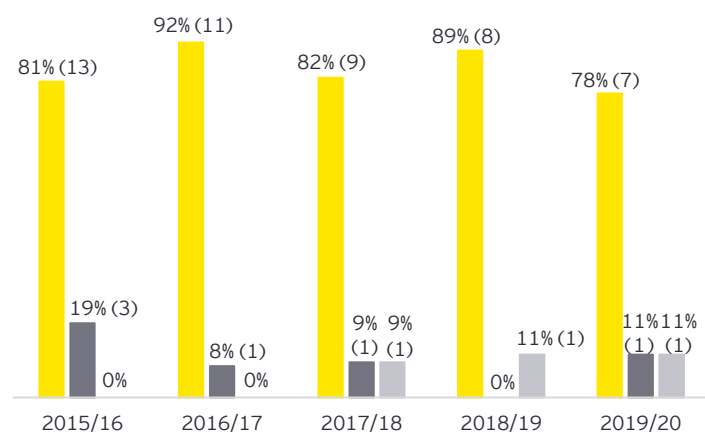
The FRC rates audits in three categories in its public inspection reports as follows: 'good or limited improvements required', 'improvements required' or 'significant improvements required'.

The FRC published its report on its latest inspection of EY UK in July 2020. A summary of the results is set out below. For full details of the FRC's findings and our responses refer to the [FRC website](#).

All reviews



FTSE 350



■ Good or limited improvements required
■ Improvements required
■ Significant improvements required

The FRC inspected 14 of our audits, of which 71% were graded as requiring no more than limited improvements. Included within the overall sample were nine FTSE 350 audits, of which 78% met that standard. The results of the FRC's inspection demonstrate that we can perform high-quality audits. However, we recognise that we need to do this more consistently.

We are disappointed that our overall results are not better and are committed to improving them. We have set a clear and unambiguous tone from the top that audit quality is the number one priority for all of our auditors and our approach to partner and staff recognition and advancement reflects this primacy of audit quality. As set out in the firm's response within the FRC's report and explained on page 21 we have undertaken a major redesign of our Audit Quality Strategy. We see this new strategy as fundamental to achieving our audit quality ambition to have a high degree of confidence that we will have no audit failures across all of our audits.

The FRC highlighted in its report good practices in the areas noted below.

Good practices identified on individual audits inspected:

- ▶ Effective group audit oversight over the work of component auditors.
- ▶ Goodwill impairment assessments.
- ▶ IFRS 9 implementation audit work.
- ▶ Audit of fair values.
- ▶ IT audit testing of data migration.
- ▶ Engagement quality control reviews.

Good practices identified within EY UK's firm-wide procedures:

- ▶ Partner and staff matters including incorporation of audit quality results into partner remuneration and assessment of individuals' readiness for promotion to manager.
- ▶ Acceptance and continuance procedures: involvement of the Board in monitoring and oversight of high-risk entities.
- ▶ Audit quality initiatives including a formal Milestone programme for the phasing of the audit and the firm's initiatives to ensure audit teams understand the broader importance of audit and how their specific input contributes to audit quality.
- ▶ RCA process, including timing of reviews and use of questionnaires designed by behavioural specialists.

The FRC also highlighted areas for improvement.

Areas identified for improvement from the inspection of individual audits:

- ▶ The consideration and challenge of management's impairment assessments in relation to goodwill and other assets.
- ▶ Group audit teams' oversight of component audit teams.
- ▶ Consistent quality control procedures on audits.

We carried out root cause analysis and have established improvement plans in these areas which are reflected in our redesigned Audit Quality Strategy and the related initiatives discussed on page 21, and our second annual Audit Quality Report. Our specific actions addressing the FRC findings are identified in our responses in the FRC public report, which is available on the [FRC website](#). These include:

- ▶ Initiatives that focus on embedding a culture of challenge.
- ▶ The application of our EY UK audit team behavioural model (e.g., focusing team behaviours on planning, allocation of work and senior team involvement).
- ▶ Training.
- ▶ Updated policies and guidance.
- ▶ Sharing of good practice examples.
- ▶ A focus on clear and concise writing skills.
- ▶ Adoption of data-driven approaches in complex areas of management judgement.

- ▶ Initiatives focused on project management.
- ▶ Applying the expertise of our AQST, who conduct in-flight reviews.

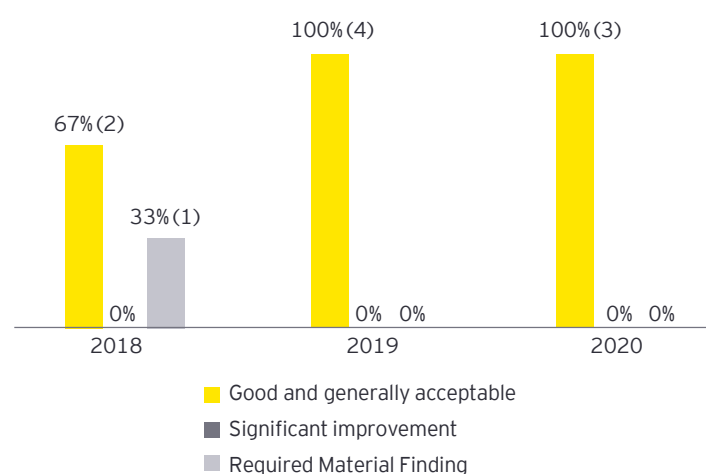
In terms of firm-wide procedures, the FRC identified room for improvement in relation to aspects of staff appraisals, the monitoring of audit quality initiatives by those independent of the audit practice, the culture of challenge within the audit practice and aspects of our RCA processes. Our responses in the FRC's public report identify our actions to address these findings.

Our firm-wide controls are fundamental to our ability to perform high-quality audits and we are further strengthening these to ensure our quality management system meets the requirements of ISQM 1, the quality management standard for assurance engagements, which we expect to be applicable in 2022.

Regulator inspections of public sector appointments

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' are monitored by the ICAEW's QAD.

During FY20, the FRC inspected three of our March 2019 year-end public sector audits. The results are set out below:



In addition to the financial statement audits, the FRC reviewed each engagement's Value for Money (VFM) conclusion. All three conclusions were rated 'Good' or 'Generally Acceptable'.

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

In March 2020, the FRC issued a thematic review report on the topic of 'The use of technology in the audits of financial statements'. We have analysed its findings, noting the audit quality reminders, opportunities and challenges highlighted in the report. We were pleased that the FRC continues to recognise the audit quality benefits from appropriate use of technological resources and can identify many of our own areas of good practice in the thematic review.

The FRC also published a discussion paper on 'Technological Resources: Using technology to enhance audit quality' in March 2020 as a follow-up to the thematic review. EY UK was pleased to be able to provide our written response to this discussion paper, and we welcome further discussions with the regulator on this important topic.

In May 2020, the FRC issued a thematic review report on AQIs. This is timely, given that one of our strategic initiatives is to develop improved AQIs and monitoring. We are grateful for the input from the FRC and are pleased to see that our firm already applies some of the examples of good practice listed. We will use the report to ensure we are capturing and monitoring key data to further support teams in delivering high-quality audits. The AQIs we currently monitor are reported to the AQB and the INEs. This will continue, and we are investigating the potential for further automated processes that can be tailored to suit the needs of users across the business.

In 2020, the FRC has commenced a thematic review on climate change covering reporting by companies and the work undertaken by auditors. We are awaiting the FRC's final report but are responding to the feedback received to date.

We have also engaged with the FRC on its review of audit firms' procedures in relation to going concern in light of the COVID-19 situation, and the FRC provided feedback from this review on its website in July 2020. The FRC is currently undertaking a further review in this area.

Metric 4: Results of PCAOB inspections of the firm

EY UK is inspected every three years by the PCAOB. In accordance with its three-year cycle, the PCAOB was due to inspect the firm during 2020. However, in the light of the COVID-19 pandemic, the PCAOB has decided to defer this inspection to 2021.

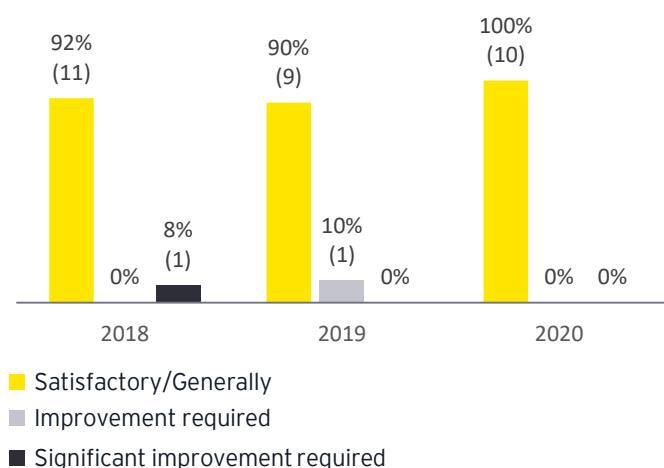
Its last inspection commenced during May 2017. The PCAOB chose three engagements to review and deficiencies were reported on two audits. One of these deficiencies related to our evaluation of the effectiveness of managements' review controls and the other to our evaluation of the aggregate significance of control deficiencies we had identified. We remediated the findings on both audits. In addition to the public report, the PCAOB also provided a private report setting out deficiencies in the firm's wider quality control processes. We implemented a plan to address those issues and the PCAOB has determined that the firm has addressed the issues to its satisfaction.

Metric 5: Results of ICAEW's Quality Assurance Department reviews of the firm

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 2019. The resulting report, issued in the spring of 2020, noted: 'The firm has continued to maintain a generally good standard of audit work. All files were satisfactory or generally acceptable and our follow up review demonstrated that the firm had fully addressed our previous concerns.'

The results of the QAD inspections are set out below:



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

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.

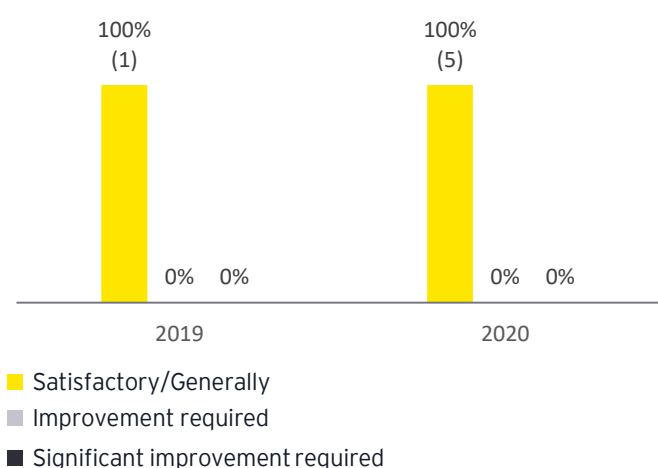
The QAD report states: 'We did not identify any significant thematic issues in our reviews this year.' Although no thematic findings have been identified, we have begun root cause analysis on a sample of the 'generally acceptable' engagements to identify actions that can be taken to improve audit quality further.

We are pleased that 100% of our audits were graded as satisfactory or generally acceptable.

Regulator inspections of public sector appointments – QAD

This is the second year that the QAD has inspected public sector engagements that fall outside the remit of 'major local audits'. During the year to June 2020 the QAD inspected five of our 2018/19 public sector audits. The QAD report issued in summer 2020 noted: 'The quality of the firm's audit work on both the financial statements and VFM conclusion continues to be of a good standard, with no significant issues identified on any of the files reviewed.'

The results of the public sector QAD inspections are set out below:



The VFM conclusions for each inspected audit were also reviewed and all five VFM conclusions were rated 'Satisfactory' or 'Generally Acceptable'.

**Metric 6: Results of internal quality reviews:
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 2020 are primarily audits of December 2019 accounts, although we ensure our sample covers a range of audits, not just those with December year ends. Public sector reviews are undertaken later in the calendar year due to predominantly March year ends.

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

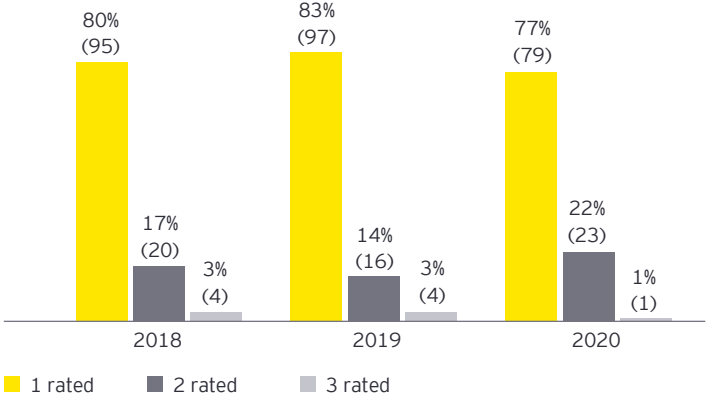
The review process is intended to cover every Responsible Individual (RI) – partners and associate partners authorised to sign audit reports – at least every three years, and every FTSE 350 audit every six years. Other audits are selected for review to cover a cross-section of the audit practice. However, the selection is weighted towards those engagements with higher risk factors. In the current year we reviewed 103 engagements.

In light of the challenges of COVID-19 in 2020, all reviews have been performed remotely but still maintaining the principle of being conducted by professionals from outside the EY office being reviewed and moderated independently of the UK firm. Fewer reviews were carried out than originally planned and a lower number than in prior years (103 in 2020, down from 117 in 2019).

At a minimum, for audits with material findings arising from our internal reviews, EY UK develops and implements a remedial action plan specific to that engagement. Root cause analysis (RCA) is performed for all engagements with material findings, as well as samples of both 2-rated and ‘best in class’ engagements. A quality improvement plan is also developed for EY UK, which draws on the RCA process. 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 29.

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.

Audit Quality Review (AQR) results



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

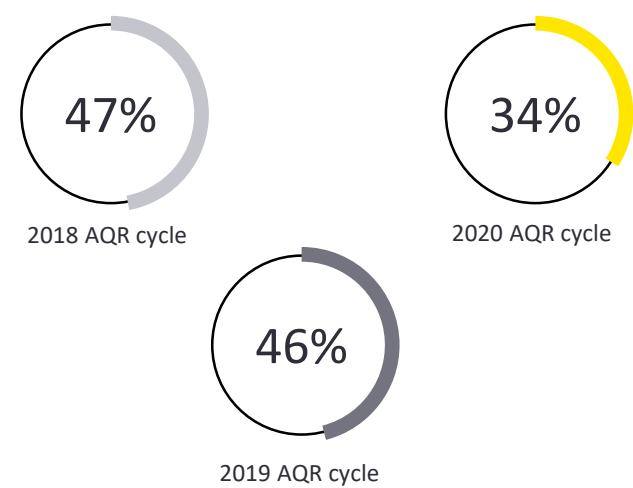
We are pleased with the reduction in category 3-rated engagements identified in the FY20 AQR season. This year we have identified just one engagement with material findings, where the 3-rating was driven by insufficient audit work performed over investments.

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

Disappointingly we have seen a reduction in engagements with zero or minor findings and a move towards engagements with more than minor findings. We have undertaken a major redesign of our Audit Quality Strategy. We see this new strategy as fundamental to increasing the number of engagements with zero or minor findings.

Metric 7: Percentage of Responsible individuals subject to quality reviews



The reduction in reviews in 2020 reflects both COVID-19 and fewer RIs being in cycle for their three-year reviews. In addition, we reviewed 88% of our public sector engagement leads between 1 September 2019 and 30 September 2020, 47% in the 12 months to September 2019 and 60% in the 12 months to September 2018. This year the results include the FY19 public sector reviews undertaken in late September 2019 (finalised after the completion of the 2019 Transparency Report) as well as the FY20 public sector reviews finalised in September 2020.

Metric 8: Investment in audit quality

Number of hours training undertaken per person (partners and qualified staff) in the Audit division with a description of the training and development programme available for assurance people.

In the last three calendar years, we have delivered the following minimum mandatory structured training hours for each individual, at each rank, principally relating to audit and financial reporting:

	FY20	FY19	FY18
Senior 2 (newly qualified)	81	81	95
Senior 3 (experienced)	39	38	50
Manager	47	44	54
Senior manager	31	29	41
Director/Partner	31	29	41

In FY20, our people undertook 600,000 hours of mandatory technical training. This includes training related to professional qualifications, but does not include any other personal development training or learning such as our milestone training, EY Badges or non-technical business skills training, to which all of which our staff have access.

Metric 9: Narrative description of investment in audit innovation

This is commented on throughout Section 2.

Metric 10: Investor liaison – Qualitative description of investor liaison

This is commented on under Stakeholder engagement on the following page.

Stakeholder engagement

EY UK continually seeks to engage with its external stakeholders. Being able to hear a range of views help us to build a more trusted audit product that not only meets public expectations but also underpins the capital markets and helps the UK economy to be an attractive place for investment.

Investors

This year we sought to deepen our engagement with the UK institutional investors on topics of interest to them:

- ▶ In September 2019, EY UK launched its inaugural investor stewardship insights report. The report contained research designed to enable a better understanding of how UK-based asset managers and asset owners are currently reporting on and engaging with their investee companies.
- ▶ In November 2019, we hosted our annual Dialogue with Investors, welcoming 17 institutional investors representing over almost £3 trillion assets under management. This interactive dialogue with our INEs and senior leadership covers a range of topics, including audit reform, our firms' incentive structure and culture.
- ▶ In June 2020, we collaborated with the Investor Forum to convene a workshop with 15 investors to discuss the implications of COVID-19 on going concern.
- ▶ In June 2020, we published our second investor stewardship report focused on the vital role that asset owners have in driving effective corporate governance and transparent reporting.

Audit committee chairs

We recognise that the relationship between auditors, audit committees and investors plays a vital part in driving an effective accountability framework. Against the backdrop of COVID-19, it was particularly important for us to understand audit committee chairs' focus areas in terms of reporting, at a time when investors and wider society are looking for more transparent disclosures.

- ▶ In April 2020, David Thorburn, along with the EY UK senior leadership, met with the Audit Committee Chairs' Independent Forum (ACCIF). The dialogue was extensive and touched on various topics, including how the audit firm is responding to COVID-19, going concern, reporting deadlines and audit reform.

Regulators and policymakers

This year we participated in an open dialogue with policymakers and regulators. Our engagement enables us to contribute constructively to key policy and regulatory matters and offer support to initiatives where needed.

- ▶ In June 2020, we invited the Department for Business, Energy & Industrial Strategy (BEIS) and the FRC to speak at our annual Regulatory and Public Policy Planning Day. The internal meeting provided an opportunity for EY UK partners to gain a better understanding of our regulators' and policymakers' priorities first-hand.
- ▶ From March 2020, we also engaged with the FRC, FCA, PRA/Bank of England and BEIS through the Policy and Reputation Group. The PRG hosted regulatory calls attended by both regulators and government. The meetings were focused on the challenges to auditing and reporting during COVID-19 and how we could help provide support to the capital markets.
- ▶ Quarterly, we spoke to the FRC Financial Reporting Lab, actively seeking to participate in its projects. Our discussions enable us to gain a better understanding of the Lab's key areas of interest in terms of its reporting and thematic reviews. This engagement offers us the opportunity to share observations on what we are seeing in the capital markets.

UK Centre for Board Matters

Our UK Centre for Board Matters is a programme for Non-Executive Directors (NEDs), which delivers insights on the current issues and trends facing UK businesses. This year we pivoted our activities to respond to the global pandemic and launched a webcast series, which looked beyond COVID-19 and offered insights into non-financial risk, the role of corporates and considerations for interim results post lockdown. The series convened a panel of experts to discuss the topics that mattered to NEDs and we had 478 attendees, of which 65% were NEDs. Two key podcasts included:

- ▶ Future of Audit – we convened the key architects of independent reviews to look at how boards should prepare for changes recommended in those reviews and how to regain public trust in the audit process.
- ▶ Board Diversification – addressing the growing calls for diversification in light of the global Black Lives Movement, how this translates to the boardroom and the Parker Review six months on.



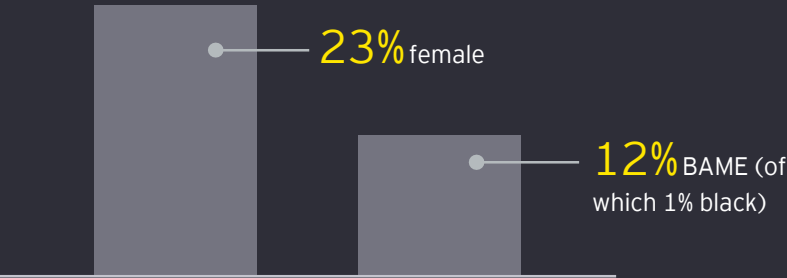
A full-page background image with a strong blue tint. It shows a perspective view of a long, wide walkway with a perforated metal floor. The walkway is flanked by two modern buildings with glass and metal facades. At the far end of the walkway, a person is standing on a set of stairs, looking towards the camera. The sky is visible at the top of the frame.

Section 3

Our people

Our people

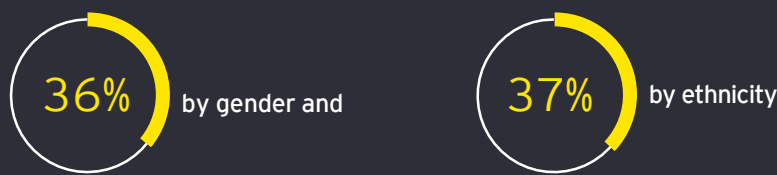
We aim for the UK firm to have **40% female** and **20% BAME** partners by July 2025. At the end of FY20 those percentages stand at:



Our **Race Fluency** and **Allyship** training enables a deeper understanding of race.

The EY UK Board and service lines include D&I representatives.

Our 'mean average' pay gaps are:



Across the whole UK firm in 2019.

Mental health support includes:

- ▶ Employee-led Mental Health Network.
- ▶ Psychological Care Pathway.
- ▶ Fast-track psychiatric referral process.

Apprenticeships:

We offer a broad mix of apprenticeship programmes, including:

- ▶ Digital and Technology Degree Apprenticeships, to allow students to specialise in data analytics or software engineering.

LEAD (Leadership Evaluation and Development) continues to support career development and performance management:

New for FY20 is a Quality and Risk Management assessment, introduced via LEAD, using a compliance scale. This measures whether the actions of managers:



Diversity and inclusiveness

EY UK's approach to talent is a key part of driving our success as a business. We strive to achieve positive change with a diverse and inclusive culture where everyone feels they can belong, and industry-leading career development opportunities for all our people. Examples of initiatives that help us to achieve these aims include:



- ▶ An in-year target to improve female partner representation by two percentage points, and black, Asian and minority ethnic (BAME) partner representation by one percentage point, and for this to increase annually until 2025.
- ▶ Continual monitoring of the diversity of recruitment at every level of the firm, from apprentices to partners.
- ▶ Data analysis to highlight monthly variations in work allocation rates, from gender and ethnicity perspectives.
- ▶ Regular UK and global people surveys to assess the firm's culture (e.g., values, behaviours and inclusivity).
- ▶ Continuous tracking of underperformance, promotions, pay and bonuses.

We made a public statement on our commitment to antiracism, including [seven firm-wide commitments](#), in response to the Black Lives Matter movement. We are investing in **Race Fluency** and **Allyship** training, to enable all of our people (especially white colleagues) to develop a deeper understanding of the topic of race. The aim is to drive change at an organisational and individual level.

We are increasing the firm's diversity pipeline, recognising that we need to accelerate progress towards our public target of almost doubling the proportion of female and ethnic minority talent in the UK partnership. We aim to achieve a head count that is 40% female and 20% BAME by July 2025.

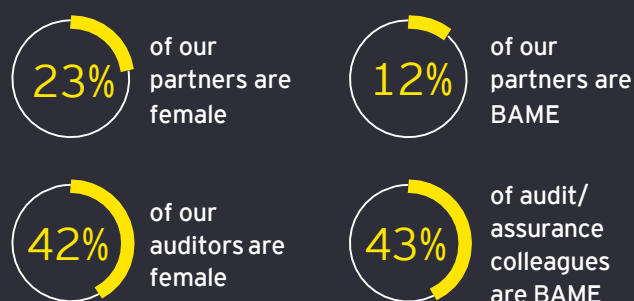
Holding ourselves to account

Our governance structure includes an EY UK LLP Board sub-committee that meets three times a year to help establish EY UK's strategy and policy. Its composition includes senior members of the Diversity & Inclusivity (D&I) team. Each service line also has a D&I partner sponsor and an activation group.

Management information and forecasting tools are used to enable regular reporting of employees' performance against targets throughout their employment lifecycles.

Performance is considered as part of the usual quarterly business review cycle, alongside all scorecard metrics, with service line leaders held to account by the managing partner and chief operating officer.

EY UK's diversity at the end of FY20



We also recognise the importance of building a diverse talent pool of auditors at the more junior levels, so we can encourage, develop and promote them into more senior roles. We do this by offering invaluable experience, training and support, so they have the opportunity to develop their careers at EY UK. However, we have a lot of work to do in certain areas. In July 2020, 39% of our auditors at staff/assistant grades were BAME, but only 22% were partners/associate partners.

Increased transparency in pay gap reporting

For the last two years we voluntarily published our ethnicity pay gap alongside our gender pay gap. We plan to do the same again this year and include our black pay gap data as well. We will also voluntarily publish our equivalent of CEO pay ratios for FY20/FY21.

Our 'mean' pay gaps for gender and ethnicity, across the whole UK firm in 2019, were 36% and 37% respectively. For the full report please follow this [link](#).

Overall, while we are moving in the right direction, we are unsatisfied with the pace at which we are closing our pay gaps. We are continuing to focus on increasing representation across all levels in the firm, including developing a new D&I Strategy which aims to radically accelerate our progress.

Creating a culture of belonging

The firm is clear about the importance of cultural and behavioural change, and although performance targets are necessary to drive growth, we do not prioritise targets at the expense of understanding the underlying barriers to diversity and inclusion. The firm is committed to achieving a culture of equality.

This goes beyond race and gender, to create an environment that is fair regardless of people's differences. It covers everything from career paths and training, to recruitment and everyday actions and behaviours. It's our vision to inspire everyone to be their authentic selves, so that we build a world where diverse minds thrive. We use the National Equality Standard (NES) to scrutinise the equity of our planning, policies and processes.

Impact of the COVID-19 pandemic

The pandemic has raised awareness of the need for our people to be mindful of each other, and that often it is the more privileged among us who are the most able to cope with developments such as remote working.

One of our responses is to host employee forums where we all share our experiences in a safe environment, so we can support each other and cope better together. Our storytelling campaign *Strong when we belong* covers the experiences of many of our people via a monthly newsletter. This has proved to be the most successful internal communications campaign run by the UK firm to date.

Another initiative is the provision of future monthly updates to our Audit Quality Board (AQB) to flag potential issues with colleagues' mental health. The number of occupational health appointments is also reported quarterly to the AQB, to ensure we have the resources to provide appropriate help and support to our staff if needed.

Strong disruptive voice

With our purpose, building a better working world we seek to have a strong and disruptive voice. Our antiracism commitments are one example of this. We are the corporate partner to the Parker Review, calling for a greater representation of 'people of colour' on FTSE boards and leading a working group to activate the necessary changes. This year we worked with Cranfield University to publish the annual Women on Boards report, which examines the impact of targets on female representation.

Mental health

At EY UK we take a holistic approach to our people's physical, mental, social and financial wellbeing. Mental health is integral to this and in that regard we provide:

- **Employee-led Mental Health Network:** a buddy scheme that enables peer learning and support.
- **Psychological Care Pathway:** 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 for by our insurer.

As part of our firm-wide health knowledge programme we run webinars that have covered topics such as healthy performance and resilience. We introduced additional webinars on anxiety and burn-out to address the needs of our people during the COVID-19 lockdown and beyond.

Recruitment

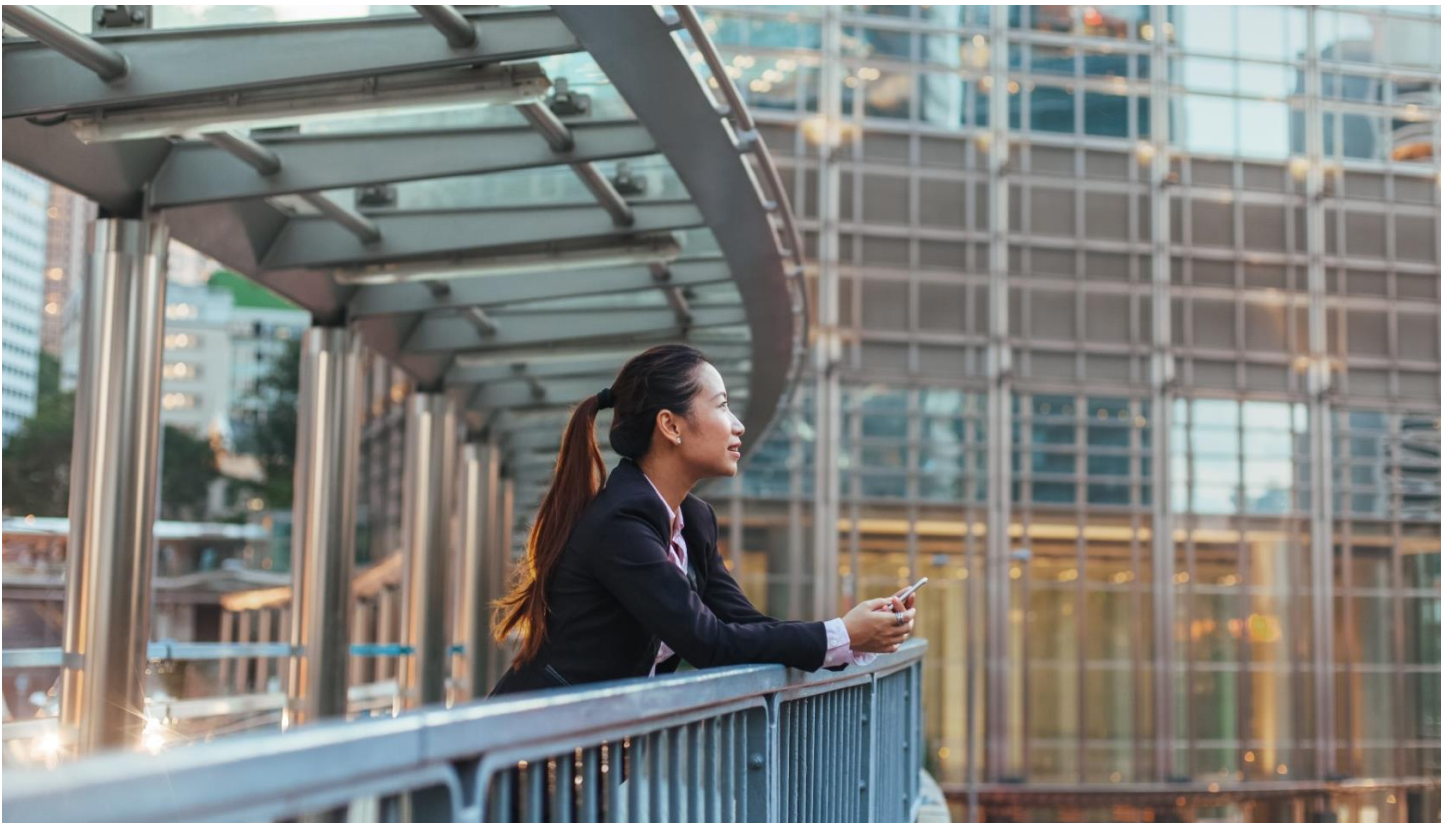
Throughout 2020 we continued to focus our attention on female candidates, and from a BAME perspective we have focused primarily on black talent. We have built strategic partnerships to support our priorities around diversity and inclusion with various organisations, e.g., Young Diverse World Changers, Upreach, Black Young Professionals and Bright Network, to deliver recruitment campaigns tailored to the needs of our target audience.

Knowing that the presence of relatable role models plays a big part in hiring and retaining underrepresented groups, we set ourselves a target to have 50% female representation at our EY experience days and attraction events – and we are proud to have achieved this. Our student recruitment process continues to be neutral and fair for all regardless of gender, ethnicity or social background. For example, we have introduced a tool called Rare that helps to reduce the risk of any type of bias in the recruitment and interview process.

Apprenticeships and insight programmes

We continue to offer a broad mix of apprenticeship programmes, including Digital and Technology Degree Apprenticeships that allow students to specialise in data analytics or software engineering, preparing them for the workforce of the future.

We ran two targeted first-year programmes that offer a chance to gain insights and access to our firm: *Discover EY – Women in Business* and *Discover EY – Black Heritage in Business*. We also ran 80 events on building confidence in the recruitment process and numerical test ability at universities and schools for female and black candidates. Our webinar series with Young Diverse World Changers reached 500 black students, providing an open forum for our potential black applicants to discuss their experiences of institutionalised racism with our student recruitment team. When COVID-19 struck, we were able to turn our face-to-face experience days and undergraduate programmes into virtual events – allowing the seamless recruitment of over 1,300 students to continue.



Building fulfilling careers

Our performance review system LEAD (Leadership Evaluation and Development) supports our people's career development, as well as performance management. In FY20, we moved to three LEAD cycles (rather than four) with a defined theme for each: expectations, career and feedback conversations.

The LEAD structure of counselees, counsellors and counsellor connect groups (CCGs) is critical to driving a culture of ongoing feedback, performance evaluations and coaching-led support. The CCG meetings in each of the three FY20 cycles are led and facilitated by senior business leaders.

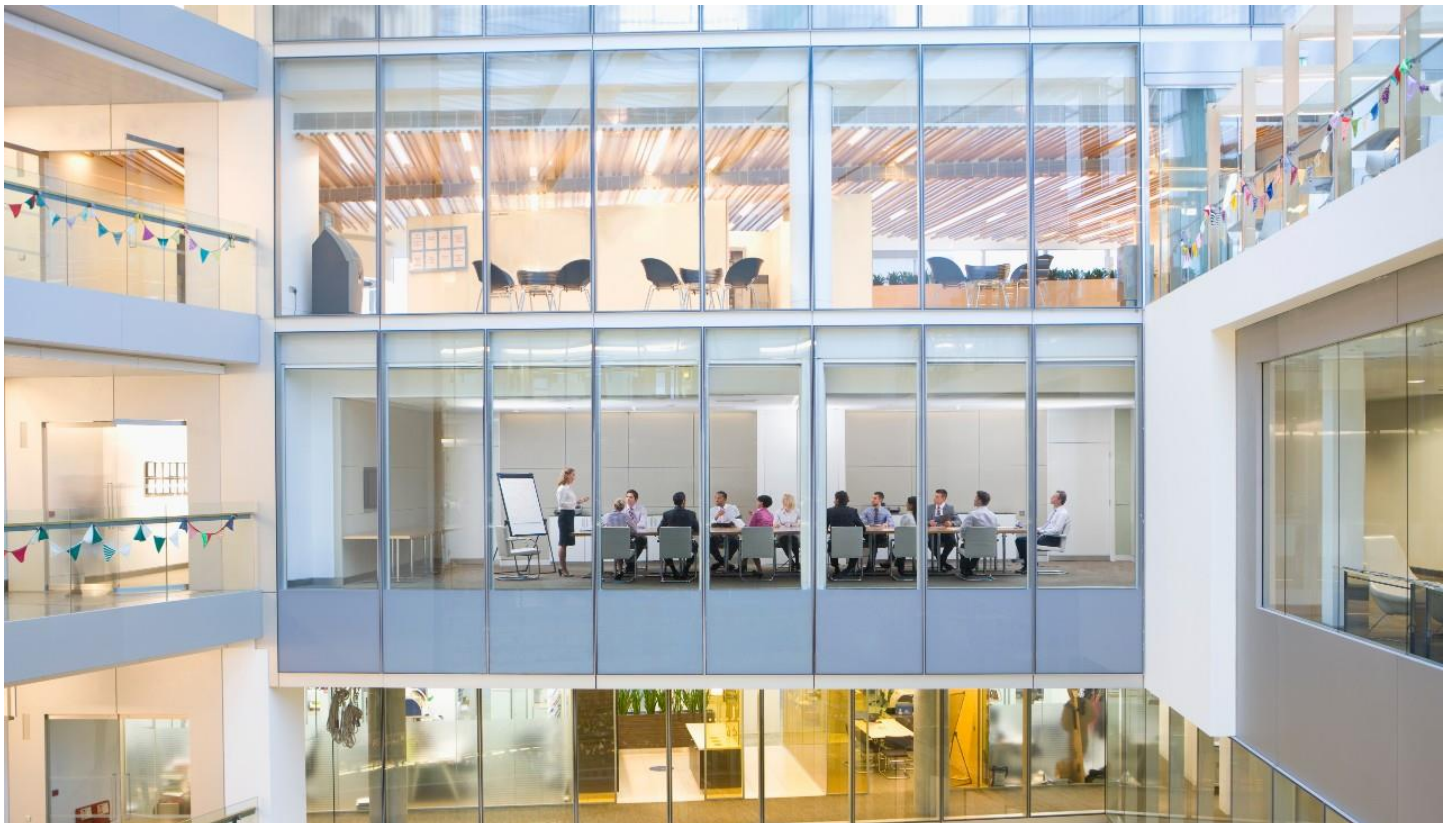
Our vision for LEAD is to:

- ▶ Empower all our people to contribute to the development of others through regular feedback.
- ▶ Build EY leaders through regular coaching and evaluation.
- ▶ Support counsellors to have better conversations and manage challenging situations.

Our counsellors undertake *Counsellor Excellence* training (new for FY20). This is a blended learning course (self-study and virtual classroom) targeting counsellor relationships, techniques and methodologies for counsellors to support their counselees through their careers. In response to the additional pressures from COVID-19, a counsellor one-stop-shop was developed to support counsellors with resources and LEAD activities.

In FY20 a new Quality and Risk Management assessment was introduced via LEAD, using a compliance scale. This specifically measures:

- ▶ Whether the actions of managers and senior managers contributed to an engagement team's poor internal or external file inspection results.
- ▶ Whether managers and senior managers, whose actions contributed significantly to EY's quality initiatives, are appropriately recognised in LEAD.
- ▶ Whether the overall performance evaluation appropriately reflects the individual's behaviour relative to quality and risk measures during the evaluation period.



A person is paragliding over a vast landscape filled with numerous wind turbines. The paraglider is silhouetted against a bright, hazy sky, with their orange and red parachute arched above them. The wind turbines are arranged in rows across the horizon, and the overall scene is bathed in the warm light of a low sun, creating a high-contrast, atmospheric effect.

Section 4

Risks

Risks

We operate a Three Lines of Defence model to manage and mitigate risks:

- ▶ Front-line staff
- ▶ Experienced risk managers
- ▶ Annual internal audit of critical risks

The Board has overall responsibility for risk management and internal control:

- ▶ Assessment and management of risk is supported by a Risk Oversight Committee.
- ▶ Internal controls are reviewed at least once annually.

Internal Audit:

Aligned with the firm's business risk profile and other current strategic issues.

Includes other sources of assurance e.g., the EY Global Internal Audit.

We apply EY Global Policy on conflicts:

Formulated on the principles of international and local professional rules on ethics.

Which forms the framework for client and engagement acceptance and continuance.

The EY Global Code of Conduct, FY20 refresh:

- ▶ A behavioural and ethical framework on which EY member firms and people base their decisions and actions.

The EY Global Policy on Reporting Non-Compliance with Laws and Regulations:

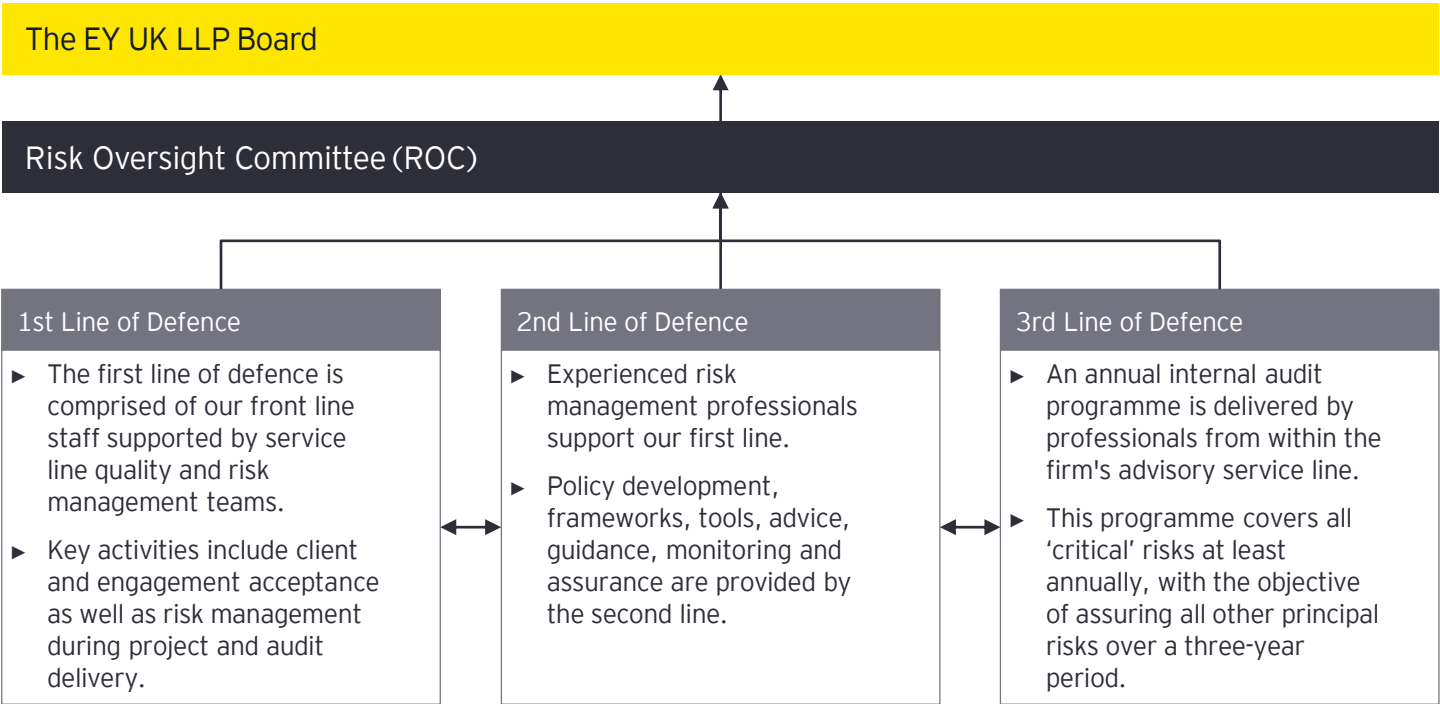
- ▶ Reflects a standard issued by IESBA.
- ▶ Provides a framework to guide the actions of accountants when deciding how best to act in the public interest, when they become aware of actual or suspected non-compliance with laws and regulations.

Managing risk

The environment in which we operate creates a broad range of diverse risks for the firm. 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. We also invest in initiatives to promote enhanced objectivity, independence and professional scepticism in the delivery of our audits.

Our Three Lines of Defence model

We operate a Three Lines of Defence model, illustrated below.



The EY UK LLP Board (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. The 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.

The ROC's work this year has included:

- ▶ Oversight of the continued development of the firm's risk management framework and strengthening of the Three Lines of Defence.
- ▶ Reviewing internal audit planning and the results of audits executed during the year.
- ▶ Reviewing continuing progress in the strengthening of our financial crime control environment.
- ▶ Monitoring regulatory developments and their impact on the firm.
- ▶ Reviewing the firm's response to COVID-19 and the risks arising.
- ▶ 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.

Proactively strengthening our Three Lines of Defence

During the year we continued to strengthen our control environment and management of risk through a series of proactive change initiatives.

We identified, on a risk-based approach, several opportunities to support our client-facing staff (first line of defence) to make the right decisions during their day-to-day work. These include, for example, restructuring the way we accept clients and engagements, further strengthening our frameworks around client service delivery, and improving the way we identify and manage new business opportunities. We are currently developing these enhancement opportunities, and will start to implement them during the current financial year.

Our second line of defence adapts to our regulatory environment. The firm has undertaken an operational review of our second line functions, identifying several opportunities to enhance the functional structure and optimise roles, responsibilities and staffing levels. These enhancements will be implemented within FY21.

During the last year, the second line of defence performed a viability assessment modelling a set of hypothetical internal and external risk events, to understand their potential impact on the firm's finances.

Another project will improve the management and reporting of our principal risks. This will be achieved by using the latest datasets and predictive methods to raise management awareness as and when required, with the aim of preventing risks from taking effect. This updated reporting approach will go live during FY 21.

Since 2018 we have significantly strengthened the firm's Internal Audit – the third line of defence – as demonstrated by an increase in internal audit activity. This rose to the hourly equivalent of 600 days in FY20 (up from 200 days), with a further increase to 900 days approved for FY21.

Agile risk management support by our Internal Audit function

EY UK's Internal Audit team, led by an experienced associate partner from our Enterprise Risk team, conducts annual internal audits that are aligned to the firm's business risk profile and other current strategic issues facing senior management. This activity also draws on other sources of assurance, e.g., from EY Global Internal Audit.

During 2020 the Internal Audit team reviewed: client acceptance, the EU General Data Protection Regulation (GDPR), anti-money laundering (AML), independence, tax service quality, health and wellbeing and managing strategic investments, together with various targeted pre- and post-implementation reviews of the Mercury programme.

The programme is approved by the ROC and revisited regularly throughout the year, to ensure it remains responsive to the firm's changing risk profile. This was evidenced in March 2020 when the programme had to take account of the impact of COVID-19, including the risk implications and impact on the control environment, of EY UK staff having to work remotely.

As the global pandemic evolves and strategic, financial and operational priorities are reassessed by the firm, the internal audit plan and delivery will have to respond accordingly. It is vital that the Internal Audit function remains agile and provides assurance over the highest risks.

Notable areas of progress by the Internal Audit team during 2020 include:

Driving innovation through the use of tools and technology
<p>We are embedding the use of analytics and technology to provide risk and assurance insights. For example, a tracking tool was developed to enable a follow-up exercise to be undertaken twice a year, to ensure that internal audit recommendations and agreed actions are implemented by management. In addition, following completion of the 2020 internal audit plan, a dashboard was prepared to identify key trends emerging across the firm.</p> <p>The results of the follow-up actions and emerging themes analysis were reported to the ROC, Independent Non-Executive Oversight Committee (IOC) and the Board.</p>
Commitment to continuous improvement
<p>We are developing a Quality Improvement Programme, following a self-assessment of internal audit effectiveness, and a separate assessment against the Internal Audit Code of Practice issued by the Chartered Institute of Internal Auditors (IIA) in January 2020.</p> <p>The FRC noted that we have adequate internal audit arrangements in place. The few comments indicating areas for improvement have been rolled into the Quality Improvement Programme, with progress monitored by the ROC, IOC and the Board.</p>
Alignment with internal audit standards
<p>During 2020 the ROC performed its annual review of the Internal Audit Charter, and assessed the performance of the Head of Internal Audit.</p>

Independence

EY UK’s independence function continued to build on existing policies and procedures by further embedding its controls and processes to meet the firm’s ethical and regulatory requirements. A key event was the FRC’s publication of its revised Ethical Standard in December 2019. This has had a significant impact on the scope of services and relationships EY member firms may have globally with the entities we audit in the UK.

Managing potential and actual conflicts of interest

The size of EY UK, and the range of services we provide, means that the firm may on occasion be acting for two different parties in such a way that conflicts could arise. This could constitute a potential threat to EY UK’s objectivity, integrity, confidentiality and/or reputation, as a provider of services to the entities we audit. The significance of this threat may vary widely, depending on the different circumstances. However, our process for checking potential conflicts is integral to our engagement acceptance procedures, and fundamental to managing all levels of risk, enabling us to comply with our ethical obligations.

Conflicts can arise during client engagements, as well as in any situation where we enter into business relationships with a client (e.g., 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's Ethical Standard has the concept of an ORITP. We seek to consider all ethical and conflict issues through ORITP testing.

These tests examine relationships and perceived or actual conflicts. We also consider the Audit Firm Governance Code (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 in relation to conflicts of interests.

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

There are EY Centres of Excellence (CoEs) around the world comprised of teams of experienced individuals. EY UK remains actively involved in developing the global conflicts policy and guidebook, and in ensuring the quality of conflicts identification and management.

Any significant conflicts involving EY UK clients are escalated to the EY UK Ethics Partner and UK Head of Risk Management. They involve relevant service line leaders and service line quality leaders, who are members of, or have direct access to, the Board and 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 must always take place. Client engagement teams are required to remain alert to potential conflicts of interest that might arise during an EY UK engagement, and to carry out secondary conflict checks where necessary.

When an actual or potential conflict of interest is identified, our 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 either not to accept the engagement that would create the conflict, or to cease the activity that is causing the conflict. Certain engagements could result in an unmanageable conflict of interest with a counterparty of a company we audit. In this situation the engagement would be declined by the firm. In FY20, some of our professionals were required to undertake mandatory conflict of interest training covering 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 an RCP to act as the conscience for the firm, and to provide informed views on reputation and conflict-related matters through ORITP tests. The RCP met approximately twice a month in FY20. Our INEs have oversight of the RCP's deliberations.

The RCP enhances and complements the existing process for addressing conflict matters. It 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 on the firm's conflicts policies and procedures.
- ▶ Engaging with other member firms and EYG, to ensure we comply with UK standards on conflict management.

Other policy updates

EY member firms are committed to complying with all laws and regulations, and our risk management policies are regularly reviewed and updated. In FY20:

- ▶ EY UK continued to focus on its GDPR programme, to reflect the UK Government's approach to data protection regulation.
- ▶ EY has robust controls in place to minimise the risk of money laundering and terrorist financing. Anti-bribery and corruption (ABC) controls continue to evolve, and all relevant staff receive regular training in financial crime prevention and reporting.

Ethics and whistleblowing

The EY Global Code of Conduct (the Code), which was refreshed in FY20, provides a behavioural and ethical framework on which EY member firms and people base their decisions and actions. All EY UK joiners watch a video on 'living the Code of Conduct'.

They are required to 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 to be in breach of the Code.

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

At EY UK, we have measures in place for our people to make a whistleblowing report in confidence and anonymously. In FY19 the UK whistleblowing guidance was updated to ensure it is fully accessible and user-friendly for everyone in the firm. It explains clearly and directly:

- ▶ The types of behaviour that should be reported.
- ▶ How to make these reports.
- ▶ What the firm does to protect whistleblowers.

We have also improved our procedures for the investigation and handling of whistleblowing reports, to ensure consistency of process and record-keeping.

On an annual basis we 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 reminder was issued in June 2020.



Principal risks

The relevant teams in EY UK confirm annually that the firm's principal risks are identified properly and controls are in place to monitor them. Controls and mitigants are regularly reassessed throughout the year. The process includes a robust assessment of the principal risks that would threaten the firm's business model, future performance, solvency or liquidity, and the sustainability of the audit practice of EY UK.

	Principal risks	Risk tendency	Risk drivers	Actions to mitigate risks
1	Strategic investments do not generate an adequate return	Stable	<p>EY UK continues to invest in new assets and services aligned to our strategic objectives, which may be developed in-house or through acquisition. It also invests in a range of strategic alliances with other service providers.</p> <p>The risk exists that the investments will not provide the required return if:</p> <ul style="list-style-type: none"> ▶ Strategic investments are made without a clear business case or governance being established. ▶ The firm is not able to deliver on strategic investments in line with expectations. ▶ Unanticipated challenges in the delivery or maintenance of the investments occur. 	<p>EY UK 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>The returns on these investments are monitored continuously and any necessary action is taken by management.</p> <p>Use of appropriate methodologies is required for the development of new assets and services.</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>
2	Our business model becomes unsustainable	Increasing	<p>The delivery of EY UK 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, particularly given the changes to working practices caused by COVID-19 events, and the heightened risk that components of the model may be adversely affected by local outbreaks of the pandemic. ▶ 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.</p> <p>Methodologies and approvals processes are in place to manage complex engagements, from inception to fruition.</p> <p>Ongoing review at an engagement level allows for continuous monitoring of pricing, scope and margin.</p> <p>We continue to invest in assets, Centres of Excellence, and alliances to grow our delivery capability.</p> <p>Our recruitment strategy is continually adjusted, so we have the right talent and globally aligned talent pathways to deliver the services our clients need, while being commercially aware.</p> <p>This is reflected in our strategy, recruiting the sort of talent that will enable us to continue using technology to transform traditional services and launch new offerings as we extract maximum value from our US\$1bn technology investment plan.</p>

	Principal risks	Risk tendency	Risk drivers	Actions to mitigate risks
3	Our services are not adaptable to changing market conditions	Increasing	<p>EY UK may not adapt sufficiently quickly to 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, recession post lockdown, exacerbated by Brexit) and market changes (e.g., client demands changing as a result of COVID-19 and lockdown, channel shift, regulatory change and competition including new market entrants). ▶ We do not have the right skills, experience and capacity, and are unable to reskill or hire sufficiently quickly. ▶ Major accounts, market segments or sectors significantly reduce their spend as a result of recession, or structural changes such as those accelerated by the pandemic. 	<p>Service line management teams monitor the impact of macroeconomic and political uncertainties to:</p> <ul style="list-style-type: none"> ▶ Respond to changing macro conditions in an agile way (e.g., through the establishment of a COVID-19 Sub-committee). ▶ Prepare ourselves for new competitors, or adjusted business models of old competitors. ▶ Identify future trends in client needs (e.g., digitalisation and artificial intelligence) and align our investment strategy accordingly. ▶ Amend our recruitment, training and performance management strategies so we can deliver the services our clients need in the future (e.g., NextWave). ▶ Reporting and reviewing processes that highlight revenue and missed opportunities.
4	We are not appropriately managing our cost base	Increasing	<p>EY UK's cost base includes everything required to deliver services to clients. The largest components are people, technology, property/facilities and global-network-related costs. Potentially some or all of these costs may rise faster than the firm's revenue base, as a result of market forces and inadequate management of our service delivery and overheads.</p> <p>External factors, particularly responses to regulation and laws, may drive higher indirect costs.</p>	<p>EY UK 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 costs. ▶ Monitoring of developments in regulation and legislation to track and forecast indirect costs.
5	We are negatively impacted through association with the global network of EY firms	Increasing	<p>The potential exists for reputational damage to affect the UK firm as a result of a failure on the part of another member firm in the EY global network. This might take the form of:</p> <ul style="list-style-type: none"> ▶ Inappropriate conduct or a compliance breach. ▶ A service failure that has implications for engagements managed globally by the UK firm. 	<p>There is ongoing monitoring and engagement, at a global level, between the firm's Legal and PPD teams, to understand the implications of activities in other EY member firms and their regulatory environments.</p> <p>Additionally, the UK firm – like all other EY member firms – manages service quality at engagement and service line levels.</p> <p>Our quality and risk management teams provide further support and guidance to manage and mitigate risks.</p>

	Principal risks	Risk tendency	Risk drivers	Actions to mitigate risks
6	We accept an inappropriate client or engagement	Increasing	<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 monitor clients and engagements continuously throughout the life of the client relationship or engagement and take appropriate action. ▶ Are not aware of changing stakeholder expectations as to the clients for whom we work, or the types of engagements that we perform. 	<p>Stringent policies and procedures are in place to prevent the acceptance of inappropriate clients or engagements:</p> <ul style="list-style-type: none"> ▶ Strengthened Independence and Global Conflicts Policy to prevent conflicts of interests and other independence issues. ▶ Mandatory use of the Business Relationship Evaluation Tool (BRET) for all third-party relationships. ▶ Ring-fencing of teams where appropriate. ▶ Mandatory use of the client and engagement acceptance tools and client continuance tools; assessment of centralising the process into a firm-wide Centre of Excellence. ▶ Strengthened control environment with respect to controls to prevent financial crime, including AML and ABC. ▶ Training, guidance and regular awareness campaigns in respect of areas of firm compliance on client and engagement acceptance. ▶ Use of the RCP to assess more reputationally risky engagements, as well as strengthened SQAE focus and accountabilities on Tier 1 engagements.
7	Audits are not performed or documented in accordance with auditing standards	Increasing	<p>Audit quality that falls below expectations might negatively impact our clients and the wider trust in our profession. This could be caused by:</p> <ul style="list-style-type: none"> ▶ Being insufficiently sceptical in areas of audit judgement. ▶ Inappropriately applying accounting standards to the client's fact pattern. ▶ Inadequate audit planning, whereby the risk of material misstatement is insufficiently addressed. 	<p>We have comprehensive and well-established internal quality and compliance procedures and support teams to address the risks of audit quality failure, including:</p> <ul style="list-style-type: none"> ▶ Staff and partner recruitment, development and assignment procedures. ▶ Global audit methodology and risk management policies accessed through an online portal. ▶ Quality review procedures over service delivery. ▶ Root cause analysis (RCA) of deficiencies identified, and the implementation of lessons learned. ▶ Fraud awareness training and requirements on responding to identified fraud.

Principal risks	Risk tendency	Risk drivers	Actions to mitigate risks
7 (Cont'd)		<ul style="list-style-type: none"> ▶ Not using a team with the right skills, experience and capacity. ▶ Failure to spot an emerging systemic risk or properly understand legal, accounting standards or changes to audit standards. ▶ Shortcomings in other EY network firms' work. ▶ Archived audit documentation not reflecting the work undertaken. ▶ Quality review/control processes are not adhered to. ▶ Clients setting unrealistic timetables, misleading the audit team and/or withholding information. 	<ul style="list-style-type: none"> ▶ 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. ▶ Appropriate budgeting and forecasting to meet audit operational needs. ▶ Independence framework implemented with controls covering adherence. ▶ Sustainable Audit Quality programme.
8 Clients are dissatisfied with the quality of work delivered	Increasing	<p>Delivering services that do not meet client expectations, which harms our reputation as a trusted service provider, and impacts on our ability to win further business. 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. ▶ Adopting an ineffective or inappropriate delivery approach. ▶ Failing to manage scope, deliverables, timescales, dependencies and assumptions at inception or during the engagement lifecycle (e.g., recognising the impact that events such as COVID-19 could have on the delivery of engagements). 	<p>Our firm seeks to ensure that we are delivering exceptional client service based on:</p> <ul style="list-style-type: none"> ▶ 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). ▶ Client and engagement acceptance and continuance processes to verify that we will provide the right service to the right client. ▶ Service-line-specific policies designed to assist client teams in understanding and managing the risk of poor quality or non-compliant service delivery (e.g., breach of independence). ▶ Quality review procedures over service delivery and continued enhancement of delivery tools, with particular reference, since March 2020, to the implications of lockdown and remote working.

	Principal risks	Risk tendency	Risk drivers	Actions to mitigate risks
9	The provision of service delivered is disrupted	Stable	<p>We might not be able to deliver engagements and services as expected due to the impact of certain internal or external events:</p> <ul style="list-style-type: none"> ▶ Inadequate technology, system and application performance and recovery, continuity and replacement procedures. ▶ Failure in the management of IT change. ▶ Failure in service delivery by another EY member, as part of the EY supply chain. ▶ Malicious physical acts or cyberattacks 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., as a result of a pandemic, terrorist attack, natural disaster, warfare or other events that prevent access to key EY buildings). 	<p>EY has a comprehensive risk management process 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 of systems in use globally, across all member firms. ▶ Use of up-to-date cyber defence systems, protocols and staff training. ▶ Physical access security across all EY office locations. ▶ Comprehensive contingency planning covering all service lines and functions. ▶ Continuously updated training materials and sessions to raise awareness of our staff regarding IT and cyber risk.

	Principal risks	Risk tendency	Risk drivers	Actions to mitigate risks
10	Talent (including partners and staff) is not attracted, integrated, retained and/or managed	Stable	<p>EY UK'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 unable to:</p> <ul style="list-style-type: none"> ▶ Offer attractive and flexible working arrangements, and fail to ensure people's health and wellbeing, recognising that post-lockdown, remote working is likely to remain a more significant component of people's working week. ▶ Provide attractive career paths with sufficient personal development and compensation. ▶ Engage people through effective leadership, management and support, particularly in circumstances such as COVID-19 where physical team interaction is not possible. ▶ Create and maintain a diverse and inclusive culture, open to all members of society without bias. 	<p>Processes and procedures are in operation at service line level to manage the recruitment, retention and management of staff. These include:</p> <p>Supporting personal development</p> <ul style="list-style-type: none"> ▶ Improved onboarding process and experience for new joiners. ▶ Individual counselling and 'buddying' programmes to develop the right talent. ▶ Implementation of a firm-wide harmonised learning and development strategy. ▶ Multi-year talent programmes, including diversity and inclusiveness initiatives. ▶ Strengthened induction and post-induction programmes, at staff and partner levels. <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 and 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.

	Principal risks	Risk tendency	Risk drivers	Actions to mitigate risks
11	Confidential information is misappropriated mishandled or corrupted	Increasing	<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 or by third parties acting under EY's direction. ▶ Authority and 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 cyberattack and/or data or code corruption). ▶ Data risks may be increased by hybrid working models where engagements are conducted both through on-site and remote working teams. 	<p>We have comprehensive and well established internal quality management procedures consistent with industry standards, best practice 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 regular training and reminders 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 service-line-specific incident training where required. ▶ Periodic testing of levels of staff awareness. <p>Policies and procedures</p> <ul style="list-style-type: none"> ▶ Information on governance policies and supporting guidance. ▶ 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"> ▶ Preventative software like SendProtect added relating to external emails. ▶ Reduced footprint of risk via full migration of laptop data to cloud through our Modern Workplace strategy. ▶ Enhanced IT Asset Encryption. ▶ Continued investment in cybersecurity controls. ▶ Ongoing monitoring and trend analysis of data incidents. ▶ Periodic testing of IT and cybersecurity controls. ▶ Dedicated team of cybersecurity experts who actively monitor, hunt and defend our system. ▶ Regular training and reminders to staff to remain vigilant for potential cyberattacks (including phishing).

	Principal risks	Risk tendency	Risk drivers	Actions to mitigate risks
12	We are found to be in breach of new or existing regulation	Stable	<p>The current regulatory and public policy landscape can result in frequent changes to regulation and legislation. These actions might become increasingly difficult to interpret and apply if:</p> <ul style="list-style-type: none"> ▶ We do not understand or are unaware of new and changing regulatory requirements and expectations, or changing interpretations thereof. ▶ Staff not fulfilling (or being unaware of) their role in risk management, and/or not understanding the risks the firm is exposed to. ▶ People not following internal policies and procedures, including our Code of Conduct. ▶ Failure to 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. They are supported in this by specialist risk management teams.</p> <p>This insight, combined with feedback from our regulators, INEs, EY Global Public Policy Committee and the UK PPD, and the monitoring of regulatory developments performed by second-line functions, are 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 programme provide further support and control.</p> <p>Compliance metric reports provide quality assessments for performance management reviews.</p> <p>The firm continues to invest in new tools and technologies to support our staff in monitoring regulatory developments.</p>

	Principal risks	Risk tendency	Risk drivers	Actions to mitigate risks
13	Externally imposed change to our existing business model threatens our ability to continue to deliver high-quality audits	Increasing	Government or regulatory action causes us to change our existing business model.	<p>Frequent interaction with government departments and regulators, and contributions to the continuing debate on the future of the Big Four and auditing, following on from the Kingman, Competition and Markets Authority (CMA), BEIS and Brydon reviews:</p> <ul style="list-style-type: none"> ▶ Continuous engagement with our regulators, to understand and respond to proposed changes that raise the bar on regulation. ▶ Monitoring of all changes to regulation, to identify the effects on the firm and translate them into changes to the firm's procedures and guidance, to ensure our people comply with these changes. ▶ Regular review of regulatory compliance by first- and second-line control functions. ▶ Close monitoring of potential threats to audit independence, which remains a key concern. ▶ Scenario and contingency planning.
14	Loss of public trust in the firm as a result of reputational damage	Increasing	<p>Reputational damage could be caused by:</p> <ul style="list-style-type: none"> ▶ Providing services to clients that would be viewed by some or all of our stakeholders as contrary to our public standing. ▶ Conduct by our people that 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 RCP. ▶ 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, and 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.

Compliance statements

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

As part of its annual procedures and in compliance with the AFGC, 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.
- ▶ Reviewing 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 the 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) Regulations 2020, and based on the practice review carried out in FY20, 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.



A close-up, high-angle shot of a person's hands working at a desk. The person is wearing a blue long-sleeved shirt and a black watch with a brown leather strap. Their right hand is holding a black pen, poised to write on a white spiral-bound notebook. Their left hand is also holding a black pen, resting it on a tablet. The tablet screen displays a bar chart with green bars. In the background, there are various papers, including one with a line graph and another with a bar chart. A pair of glasses is also visible on the desk. The overall scene suggests a professional or academic setting.

Section 5

Governance

Governance

As at 30 June 2020, of the

10 Board members: **6** were female **4** were male (including one BAME member)

The Board's collective attendance rate was **95%**

Examples of governance activities related to audit quality:

- ▶ The IOC met five times during the year, and the Board is satisfied that the INEs remained independent.
- ▶ The AQB met 11 times during the year, with additional ad hoc meetings as and when required.
- ▶ The ROC met nine times during the year.

INEs' duties, 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.

At 30 June 2020, EY UK had:

709 partners, compared to 735 in the prior year

147 partners based in the regions

21 offices across the UK, including Jersey and Guernsey

The Board established a COVID-19 Sub-committee whose activities include:

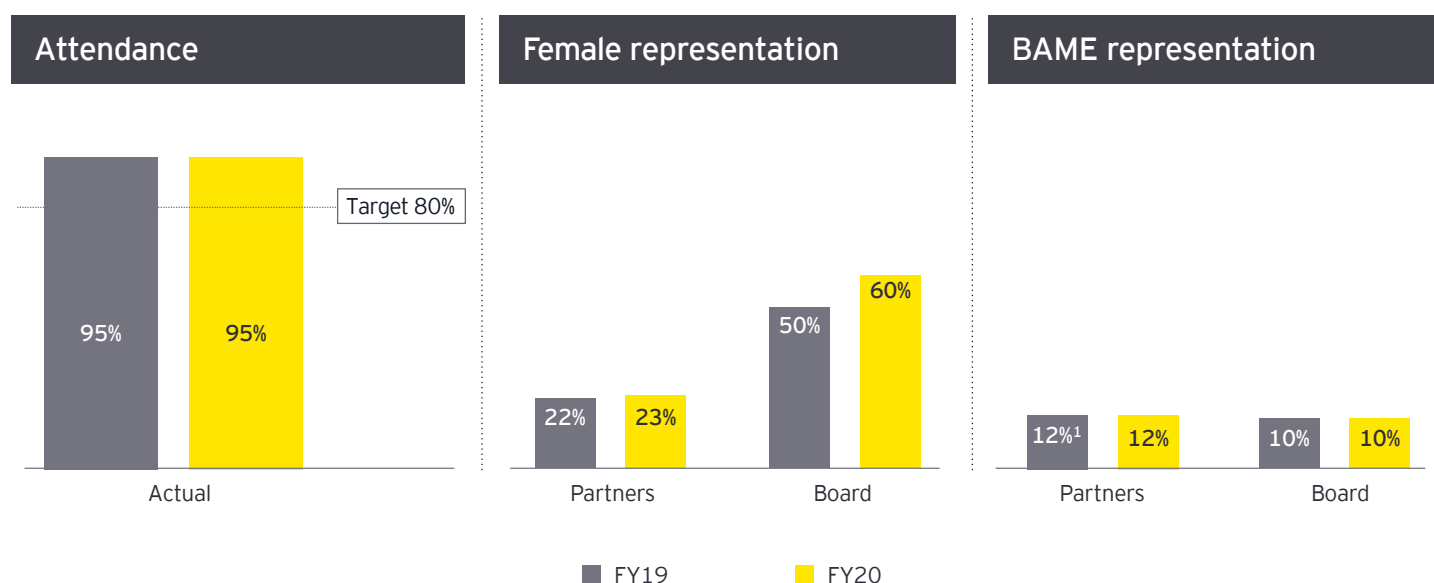
- ▶ Financial decisions and interventions recommended by the Chief Operating Officer and lead project team.
- ▶ COVID-19 related operational decisions recommended by the CMT and Return to Office and Extended Working from home Working Group.
- ▶ COVID-19 related people decisions as recommended by the UK&I and UK Financial Services Talent Leaders.

Key Performance Indicators (KPIs)

EY UK KPIs on firm governance

The Audit Firm Governance Code (AFGC) requires that firms determine governance KPIs and report against them. The EY UK LLP Board (the Board) previously agreed KPIs on firm governance and below we explain how we have achieved these KPIs in FY20.

KPI	FY20 achievement of KPI
Leadership – the Board should meet at least four times per annum. The gender and 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.	<ul style="list-style-type: none"> ▶ 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 2020, of the ten Board members, four were male (including one BAME member) and six were female, meaning that the Board met its gender KPI. ▶ Collectively, the Board had an attendance rate of 95%. Individual attendance rates are included on our website.



¹ The 2019 figures have been recalculated and may vary slightly from what we provided last year. This is due to correctional changes made by HR to the records, and changes in the number of people who declared their ethnicity.

Values

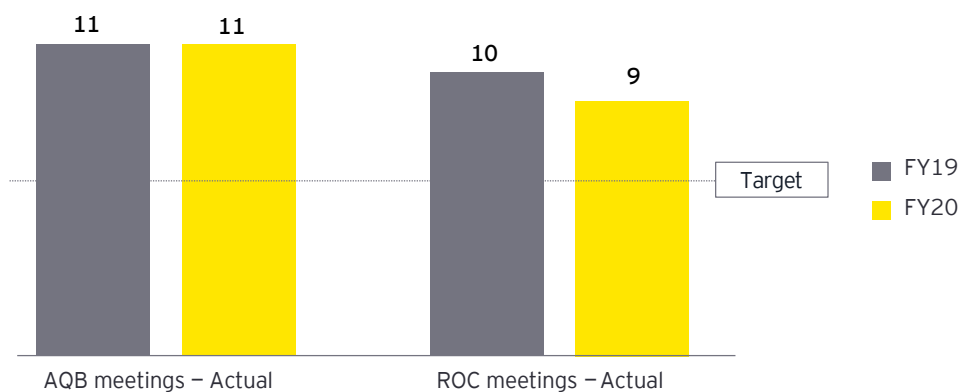
As part of the firm’s culture assessment, we hold an annual EY UK people survey, with the Board acting upon the cultural aspects of the findings. The survey assesses people’s views on the firm. The 69% engagement score¹ is derived by aggregating responses to questions across different areas including advocacy, satisfaction, commitment and pride.

A more comprehensive survey is also conducted every two years, with shorter ‘pulse’ surveys taking place in the

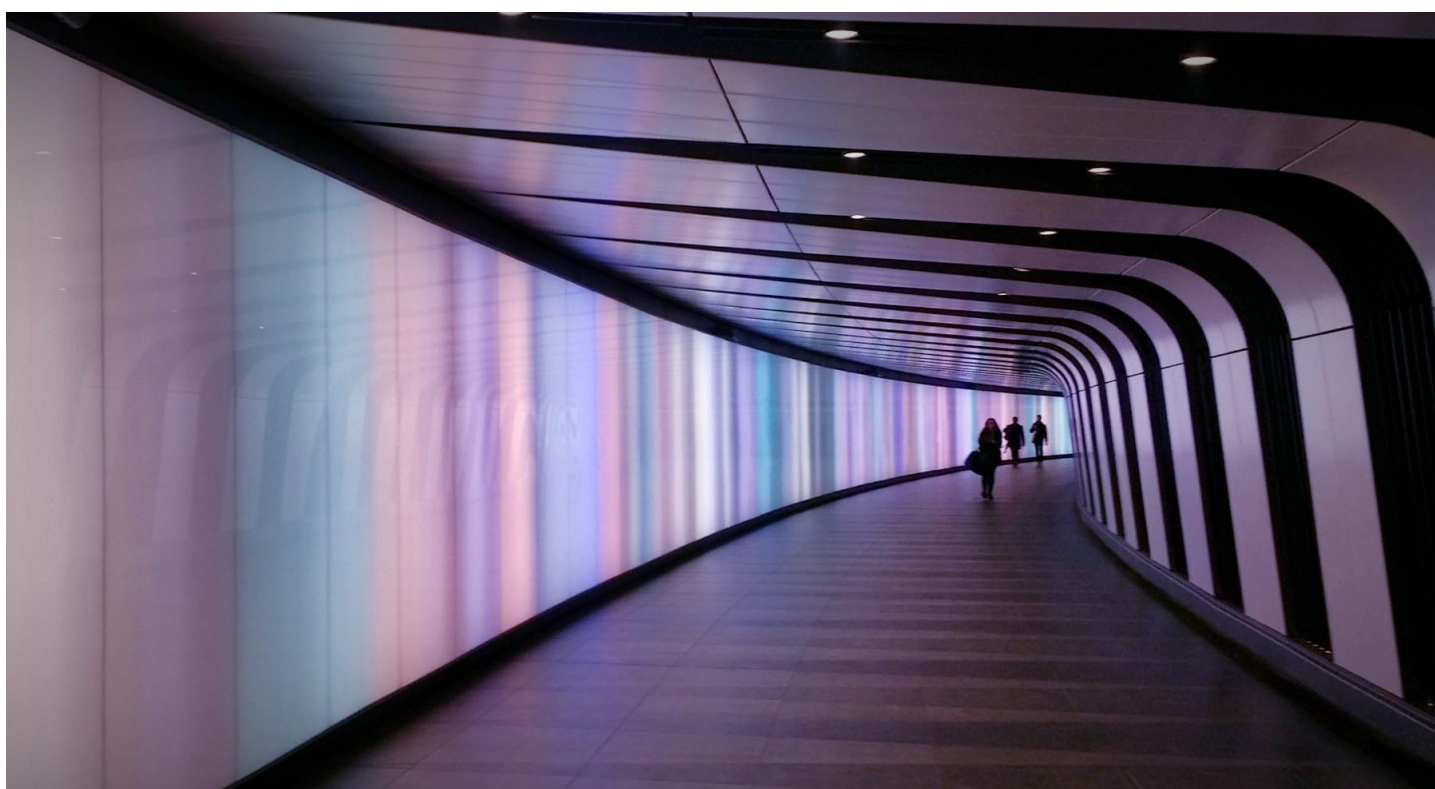
intervening years. The Board takes actions, as and when appropriate, in response to the findings of the survey (discussed throughout this report). The Board also receives reports on the UK firm’s compliance with the EY Global Code of Conduct, and responds accordingly.

KPI	FY20 achievement of KPI
<p>Independent Non-Executives (INEs): There should be at least three INEs, and the INEs Oversight Committee (IOC) should meet at least four times per annum.</p> <p>On an annual basis, the Board must satisfy itself that the INEs remain independent from EY UK.</p>	<ul style="list-style-type: none">▶ The IOC met five times during the year. The Board is satisfied that the INEs remained independent from EY UK throughout the year, as explained later in this section.
<p>Operations: The Audit Quality Board (AQB) should meet at least six times per annum to oversee the firm’s focus on sustainable audit quality.</p> <p>With respect to risk management, the Risk Oversight Committee (ROC) should meet at least six times per annum, with the goal of helping to ensure that there are no material failings or weaknesses in the firm’s internal controls.</p>	<ul style="list-style-type: none">▶ The AQB met 11 times during the year, with additional ad hoc meetings as and when required. The AQB’s role in overseeing the focus on sustainable audit quality is set out in Section 2: Trust in audit.▶ The ROC met nine 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.

¹ Results refer to the survey conducted in 2019.



KPI	FY20 achievement of KPI
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.	<ul style="list-style-type: none"> ▶ The Board approved the EY UK 2020 Transparency Report on 2 November 2020, and satisfied itself that it was fair, balanced and understandable, and complied with the AFGC, Article 13 of The EU Audit Regulation (537/2014), and the Local Auditors (Transparency) Regulations 2020.
Dialogue: The Board should satisfy itself, on at least an annual basis, that a formal programme of investor dialogue is occurring.	<ul style="list-style-type: none"> ▶ The Board is satisfied that, as set out in Section 2: Trust in audit, a formal programme of investor dialogue took place.



Legal structure

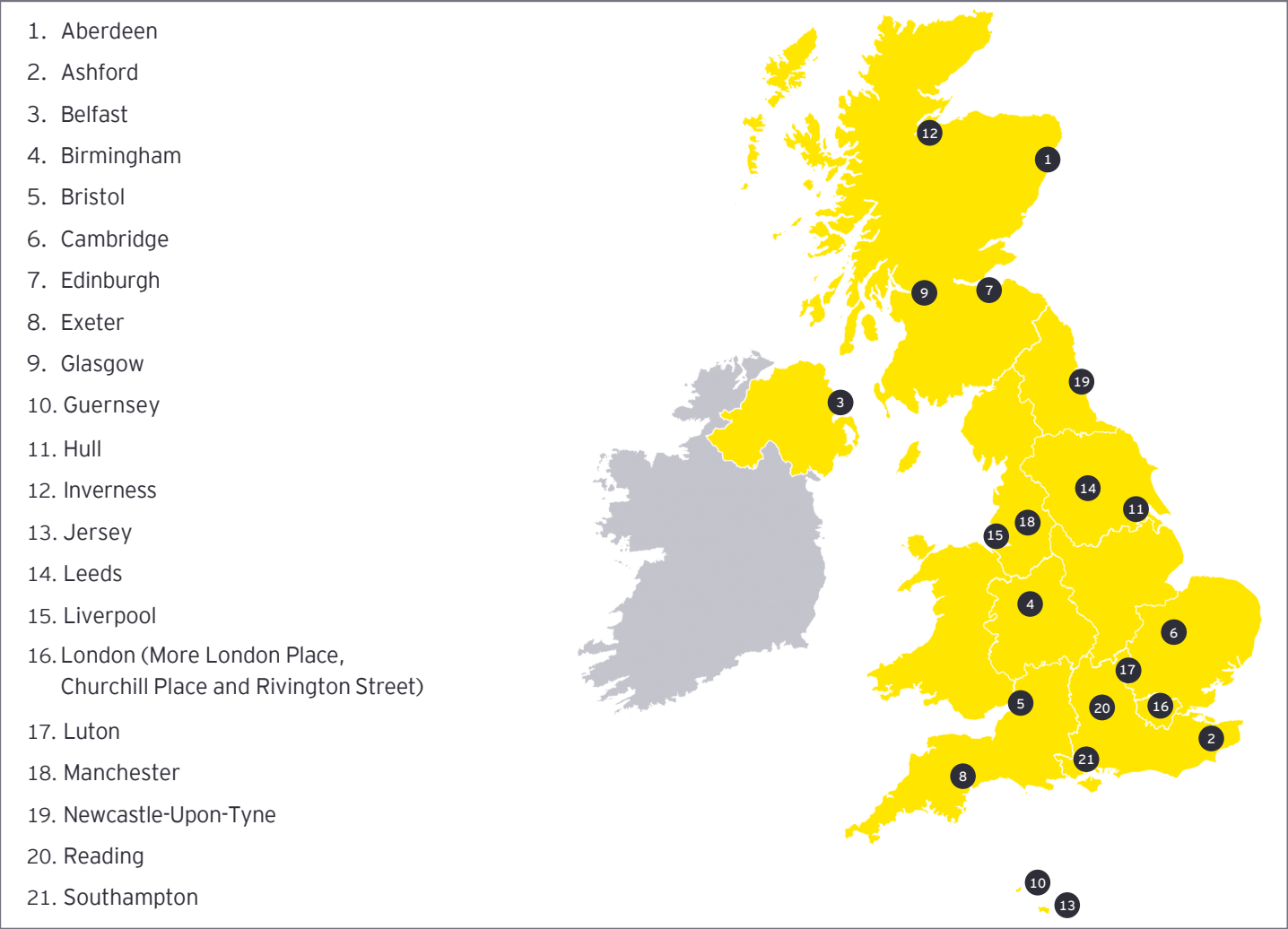
EY is the global organisation of member firms of Ernst & Young Global Limited. It includes Ernst & Young Europe LLP (EY Europe), which is authorised by the Institute of Chartered Accountants in England and Wales (ICAEW), and has voting control of EY UK. As a normal condition of authorisation, all partners 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 is subject to oversight by EY Europe. EY UK is covered by the governance arrangements established by Ernst & Young EMEA Limited and Ernst & Young Global Limited (refer to Appendix A for further details). The EY UK leadership is subject to regular review of its actions and its performance across all areas of business activity.

EY UK's management also 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.

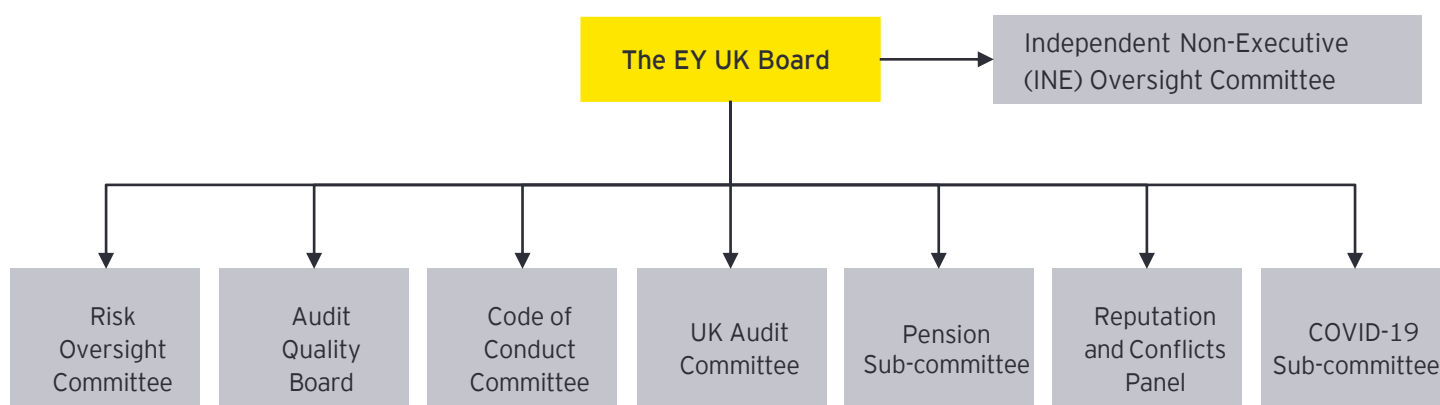
At 30 June 2020, EY UK had 709 partners in total, compared to 735 in the prior year, with 147 partners based in the regions. There are 21 EY offices across the UK, including Jersey and Guernsey.



Governance

The EY UK Board (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.



In FY20, the CMP of EY UK was 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, recommending 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 comprises the CMP and such other members as recommended by the CMP and approved by the Europe Operating Executive. These recommendations are based on the member's roles and expertise, and they will sit on the Board for a period that is appropriate to their experience and their other roles and responsibilities.

The Board held four main quarterly meetings during FY20 and, in addition, held other ad hoc Board meetings and conducted business through electronic forums.

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:

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

In its oversight role, the Board invites the representation of different facets of management, considers the performance of the service lines and exercises oversight more generally through the matters prescribed in its Standing Agenda.

Composition of the Board as at 30 June 2020

Board members	Title	Length of appointment to nearest year
Steve Varley (Chair)	EY UK Chair	9 years
Omar Ali	Managing Partner, UK Financial Services	5 years
Ian Baggs	EY UK Head of Financial Services, Assurance, Managing Partner	5 years
Hywel Ball	EY UK Head of Audit, Managing Partner, UK&I Assurance	5 years
Lisa Cameron	UK General Counsel and UK&I Risk Management Managing Partner	10 years
Christabel Cowling	Audit Partner, UK Head of Regulatory & Public Policy	2 years
Sue Dawe	Head of Financial Services, Managing Partner, Scotland	2 years
Debbie O'Hanlon	Managing Partner, National Markets	4 years
Lynn Rattigan	UK Chief Operating Officer	5 years
Justine Belton	UK Country Professional Practice Director and UK Audit Compliance Principal	1 year

Biographical details of each Board member and the attendance records for each of the governance bodies (as outlined in the governance structure above) are included on our [website](#).

Changes to the Board during and since the 2020 year end

As reported in last year's Transparency Report, Justine Belton was appointed to the Board on 1 July 2019 succeeding Robert Overend as the UK Country Professional Practice Director and UK Audit Compliance Principal.

With effect from 1 July 2020, Hywel Ball succeeded Steve Varley as Chair of EY UK and Andrew Walton joined the Board in line with his new role as EY UK Head of Audit. In addition, Jane Goldsmith joined the Board on 1 November 2020, as UK Managing Partner for Risk Management.

The Independent Non-Executive Oversight Committee (IOC)

The IOC's collective role is 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 AFGC principles. 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 membership of the IOC as at 30 June 2020 was as follows:

IOC members	Title	Length of appointment to nearest year
David Thorburn (Chair)	Independent Non-Executive, Chair of the IOC	3 years
Sir Peter Westmacott	Independent Non-Executive	3 years
Tonia Lovell	Independent Non-Executive	1 year

Biographical details of the INEs are included on our [website](#). Details of the attendance of the INEs at Board meetings are given on the same webpage.

Attendance of the INEs at Board meetings ensures that the INEs have visibility of the entirety of the business of EY UK. The appointment of three INEs and the position of the INEs within the governance structure of EY UK meet the requirements of the AFGC. 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 a entity we audit 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 EY UK Board 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.

Independence of INEs

Prior to appointment, INEs are interviewed by the EY UK's Ethics Partner and briefed on the ongoing independence requirements and any firm issues. The INEs are required to confirm their independence from the firm and the entities we audit 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 is 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 entities we audit:

- ▶ Generally, there are no restrictions on the types of relationships INEs may have with entities audited by EY 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 entity audited by EY. 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 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, the Ethics Partner regularly attends the quarterly meetings of the IOC, offering the INEs updates on EY UK's independence activities and current issues. The INEs also meet with the Ethics Partner to address 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 – 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 (NED) roles.

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

- ▶ David Thorburn: £140,000 (as IOC Chair)
- ▶ Tonia Lovell: £100,000
- ▶ Sir Peter Westmacott: £100,000

David Thorburn also receives an additional £100,000 for his INE role on the Global Governance Council.

INEs' activities

INEs are automatically appointed to the IOC, which forms part of EY UK governance structure, 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 in Section 1: Leadership messages.

Risk Oversight Committee (ROC)

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

The Board will select ROC members based on their roles and expertise, with their period of appointment reflecting this. The membership of the ROC as at 30 June 2020 was as follows:

ROC members	Title	Length of appointment to nearest year
Lisa Cameron (Chair)	EY UK General Counsel and EY UK&I Risk Management Managing Partner	4 years
Chris Bowles	Partner in Financial Services	3 years
Adrian Browne	Partner – Transaction Advisory Services (TAS)	1 year
Christabel Cowling	Audit Partner, EY UK Head of Regulatory & Public Policy	4 years
Stuart Thomson	Partner – Risk	2 years

Note: Adrian Browne stood down from the ROC effective 11 July 2019.

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 AQB members based on their roles and expertise, with their period of appointment reflecting this. The membership of the AQB as at 30 June 2020 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	5 years
Ian Baggs	EY UK Head of Financial Services, Assurance, Managing Partner	5 years
Justine Belton	EY UK Country Professional Practice Director and EY UK Audit Compliance Principal	5 years
Javier Faiz	Financial Services, Audit Chief Operating Officer	5 years
John Headley	Financial Services, Professional Practice Director	5 years
Michael-John Albert	UK Quality Enablement Leader	5 years
Robert Overend	UK Director of Audit Risk	5 years
Andrew Walton	UK Deputy Head of Audit	2 years
Marguerita Martin	UK&I Quality Enablement Leader	1 year
Manprit Dosanjh	UK Financial Services, Quality Enablement Leader	1 year
Ken Williamson	UK&I Professional Practice Director	1 year

As reported in last year's Transparency Report, with effect from 1 July 2019, Bob Forsyth stepped down from the AQB and Marguerita Martin, Manprit Dosanjh and Ken Williamson were appointed.

In addition:

- ▶ Hywel Ball stepped down as AQB Chair (given his appointment as CMP) with effect from 1 July 2020, with Andrew Walton taking on the AQB Chair role.
- ▶ Colin Brown stepped down from the AQB with effect from 23 June 2020.

COVID-19 Sub-committee (C19SC)

In response to the COVID-19 pandemic, and in the context of protecting the commercial, financial and reputational interests of the firm, the Board established a C19SC. The role of the C19SC is to review and make business decisions recommended by executive management of the UK firm, arising from the COVID-19 situation.

The activities of the C19SC include key:

- ▶ Financial decisions and interventions recommended by the Chief Operating Officer and lead project team.
- ▶ COVID-19 related operational decisions recommended by the CMT and Return to Office and Extended Working from home Working Group.
- ▶ COVID-19 related people decisions as recommended by the UK&I and UK Financial Services Talent Leaders.

In fulfilling its obligations, the C19SC considered the implications any resultant business decisions might have had on the financial and reputational risks of EY UK. The C19SC now meets (at the time of publication) fortnightly, and it reports to the Board and the INEs with a regular summary of significant matters and decisions ratified by the C19SC.

The Board selected the C19SC members based on their roles and expertise. The membership of the C19SC at 30 June 2020 was as follows:

C19SC members	Title
Steve Varley	EY UK Chair
Hywel Ball	EY UK Head of Audit, Managing Partner, UK&I Assurance
Omar Ali	Managing Partner, UK Financial Services
Lynn Rattigan	UK Chief Operating Officer
Justine Campbell	UK&I Talent Leader
Gavin Jordan	Financial Services UK, Chief Operating Officer
Jane Goldsmith	Financial Services UK, Talent Leader
Lisa Cameron	EY UK General Counsel and EY UK&I Risk Management Managing Partner
Ally Scott	Managing Partner, Scotland

Note: Steve Varley was a member of the C19SC until he stepped down as CMP on 1 July 2020.

Code of Conduct Committee(CCC)

The CCC acts on behalf of all EY UK partners in helping to ensure they adhere to the EY Global Code of Conduct. They meet at least four times a year. The Ethics Partner, Maurice Moses, was Secretary to this Committee and attended 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. The membership of the CCC as at 30 June 2020 was:

CCC members	Service line	Length of appointment to nearest year
Sarah Williams (Chair)	Assurance Financial Services	5 years
Kate Bamford	People Advisory Services (PAS)	3 years
Colin Dempster	Transaction Advisory Services (TAS) EY UK&I	5 years
Dave Hales	Assurance EY UK&I	5 years
George Hardy	Tax Financial Services	5 years
John R Liver	Advisory Financial Services	5 years
James Meader	Advisory EY UK&I	3 years
Tim West	Tax EY UK&I	3 years
Stephanie King	People Advisory Services (PAS)	1 year

Note: Rute Aparicio stepped down from the CCC on 30 June 2019 and Kate Bamford stepped down on 31 December 2019. Stephanie King was appointed as of 1 January 2020.

Reputation and Conflicts Panel (RCP)

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 employees. The RCP is chaired by the Regional Conflicts

Leader and includes members drawn from UK LLP leadership, including from:

- ▶ The Board
- ▶ The EY UK&I Regional Leadership Team (UK members only)
- ▶ The UK Financial Services Leadership Team

In FY20, 25 matters were brought to the RCP for consideration. Given the use of a pool of members for the RCP, attendance figures are not provided for this body, as the attendees necessarily vary between each meeting. However, Maurice Moses (as Chair) has attended all RCP meetings during FY20.

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 2020:

- | | |
|---------------|------------------|
| ▶ Lloyd Brown | ▶ Stuart Wilson |
| ▶ Chris Voogd | ▶ Sarah Williams |

In respect of FY20 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.

In FY20 the UKAC focused on:

- ▶ Revenue recognition and valuation of unbilled receivables.
- ▶ Completeness and valuation of provisions for professional liability claims and regulatory matters.
- ▶ Valuation of defined benefit pension liabilities.
- ▶ Accounting system migration (following the implementation of SAP during the financial year).
- ▶ Implementation of IFRS 16 Leases.

The Board will select UKAC members based on their roles and expertise, with their period of appointment reflecting this.

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 interests of the UK firm.

PSC members are appointed by the Board. At least three members will be members of the Board, with the other members being selected based on their roles and expertise with their period of appointment reflecting this.

PSC members as at 30 June 2020

- | | |
|-------------------------|-------------------|
| ▶ Lynn Rattigan (Chair) | ▶ Gavin Jordan |
| ▶ Taylor Dewar | ▶ Sue Dawe |
| ▶ Christabel Cowling | ▶ Juliana Oladipo |

Note: Gavin Jordan was appointed a member of the PSC as of 18 November 2019 and Angela Dawes stepped down from the PSC as of 9 March 2020.



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, a UK company limited by guarantee (EYG). 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 5: 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). The Areas comprise multiple Regions, which themselves consist of member 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&I Region, with the exception of its financial services practice, which is part of the EMEIA Financial Services Office (FSO), which is treated as a separate Region.

The UK FSO leader sits on the EMEIA FSO leadership team.

Ernst & Young (EMEIA) Limited (EMEIA Limited), an English company limited by guarantee, is the principal coordinating entity for the EYG member firms in the EMEIA Area. EMEIA Limited facilitates the coordination of these firms and cooperation between them, but it does not control them.

EMEIA Limited is a member firm of EYG, has no financial operations and does not provide any professional services.

Each Region elects a Regional Partner Forum (RPF), whose representatives advise and act as a sounding board to Regional leadership. The partner elected as Presiding Partner of the RPF also serves as the Region's representative on the Global Governance Council (see page 82).

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 EY UK. 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 Europe Operating Executive of EY Europe has authority and accountability for strategy execution and management. The EOE comprises: the Europe Managing Partner; the leaders for Accounts, Talent and Risk Management; the service line leaders for Assurance, Tax, Consulting, and Strategy and Transactions; 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.

Network arrangements

EY is a global leader in assurance, tax, strategy, transaction and consulting services. Worldwide, over 298,000 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.

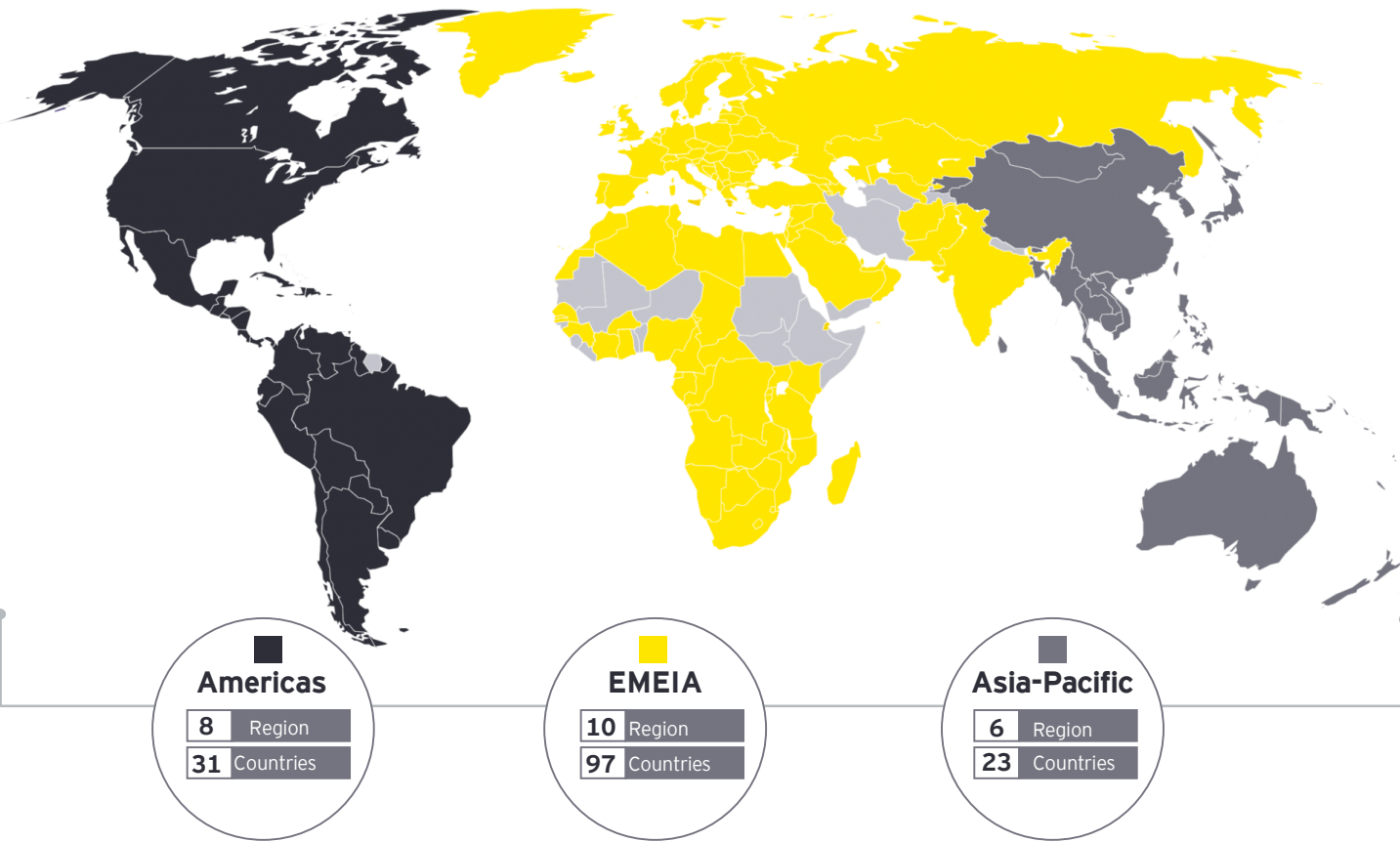
This integrated approach enables EY member firms to develop and draw upon the range and depth of experience required to perform such diverse and complex audits.

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.

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.

Figures are as of 1 July 2020



Global Governance Council (GGC)

The GGC is the main oversight body of EYG. It comprises one or more representatives from each Region, other member firm partners as at-large representatives and up to six Independent Non-Executives (INEs). The Regional representatives, who otherwise do not hold senior management roles, are elected by their RPFs for a three-year term, with provision for one successive reappointment. The GGC advises EYG on policies, strategies, and the public interest aspects of its decision making. The GGC approves, in some instances upon the recommendation of the Global Executive (GE), certain matters that could affect EY.

Independent Non-Executives (INEs)

Up to six 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 whistleblowing policies and procedures, and stakeholder dialogue and engagement in quality and risk management discussions. The INEs are nominated by a dedicated committee.

Global Executive (GE)

The GE brings together EY's leadership functions, services and geographies. As of 1 July 2020, it is chaired by the Chairman and CEO of EYG, and includes the 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, Consulting (previously Advisory), Strategy and Transactions (previously Transaction Advisory Services) and Tax; and one EYG member firm partner on rotation.

The GE also includes the Global Vice Chair of Markets, the Global Vice Chair of Transformation, the Chief Client Technology Officer, the Chair of the Global Accounts Committee, the Chair of the Emerging Markets Committee, as well as a representative from the Emerging Markets practices.

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

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

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

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

GE committees

Established by the GE and bringing together representatives from across the organisation, the GE committees are responsible for making recommendations to the GE. In addition to the Global Audit Committee, examples of other committees include Assurance, Consulting, Tax, Strategy and Transactions, Global Markets and Investments, Global Accounts, Emerging Markets, Talent and Risk Management.

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.

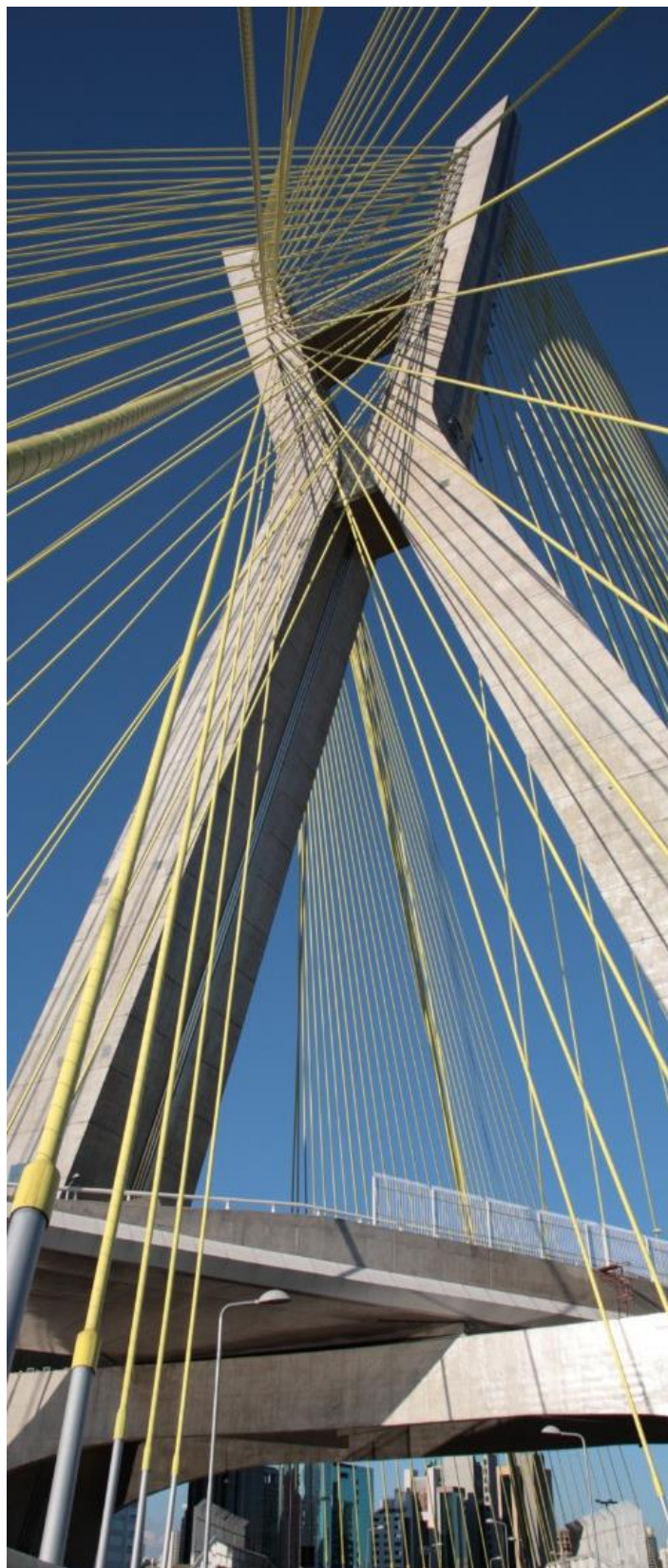
EYG member firms

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 (see page 88).

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 termination from the EY organisation.



Commitment to sustainable audit quality

Infrastructure supporting quality

Quality in our service lines

NextWave is EY's global strategy and ambition to deliver long-term value to clients, people and society. NextWave reconfirms EY's purpose, ambition, and strategy. EY's purpose of building a better working world continues to inspire EY people not only to serve clients, but also to use our knowledge, skills and experiences to support the communities in which we live and work. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies around the world.

Delivering high-quality audits and continuously improving what we do are fundamental to building a better working world. To do so, we recruit, develop and retain the right people; embrace innovation; encourage simplification; and monitor what we do closely. Serving the public interest through the delivery of high-quality audits consistently around the world is a top priority. Significant investments continue to be made to deliver state-of-the-art tools and develop EY people. EY audit teams embrace a digital-first approach and are supported by a more than US\$600m investment in new and emerging technologies.

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

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

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. They also perform various practice monitoring and risk management activities.

The Global PPD oversees the 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 matters and how to work effectively with audit committees

Risk Management

Risk Management oversees organisation-wide activities designed to help EY people meet global and local compliance responsibilities and support client-facing teams in delivering quality and exceptional client service. 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 identification and management of these risks, as well as other risks across the organisation as part of the broader Enterprise Risk Management (ERM) framework.

Member firm partners are appointed to lead risk management initiatives (supported by other staff and professionals), 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 through an ERM programme.

There were additional complexities in 2020 as the world dealt with the COVID-19 pandemic. This required a coordinated response across EY via activation of the Global Crisis Management Programme (GCMP). Every aspect and geography of the business was affected. The GCMP, led by the Global Risk Management Leader, involved EY's leadership on a frequent and consistent basis. The GCMP is an extensive programme that is reviewed regularly. It includes plans that cascade from the Global and Area levels.

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 those who work with EY. The Global Confidentiality Policy further details this approach to protect information and reflect the ever-changing restrictions on the use of data. This policy provides added clarity for those who work with EY and forms the fundamental 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 Global Code of Conduct require EY professionals to speak up on observing behaviour that is believed to be a violation of a law or regulation, applicable standard 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. This has been updated consistent with the EU General Data Protection Regulation (GDPR).



Cybersecurity

Managing the risk of major and complex cyberattacks is a part of doing business for all organisations. While no systems are immune from the threat of cyberattacks, EY UK is vigilant in the steps 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 access to systems and data. There is a dedicated team of cybersecurity specialists who constantly 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. They are also required to complete security awareness learning activities. Various policies outline 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 and of general security awareness practices.

Components of our audit quality control programme

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

- ▶ 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

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 member firms' 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; exceptional talent; 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 member firms' 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 'My EY' (formerly known as the EY Canvas 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 functionality, which helps audit teams stay on track with their audit execution and drive executive involvement. Finally, project management enhancements within Canvas empower audit teams to be focused on audit execution.

When Milestones, My EY, and the project management tools and enablement are used, engagement teams can more effectively execute audit tasks with appropriate scepticism and curiosity. As a result, audit quality is enhanced.

Other 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 EY teams.

There is 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.

Tone at the top

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

The EY approach to business ethics and integrity is contained in the EY Global Code of Conduct and other policies and is embedded in the EY culture of consultation, training programmes and internal communications. Senior management regularly reinforces the importance of performing quality work, complying with professional standards, adhering to our policies, and leading by example. In addition, EY assesses the quality of professional services provided as a key metric in evaluating and rewarding EY 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.

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
- ▶ Protecting data, information and intellectual capital

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

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

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 in addressing the report. The same procedures are followed for matters that are reported outside of the EY Ethics Hotline.

Our values: who we are



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 entities we audit. We bring together qualified teams to provide audit 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 NextWave, 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 an 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 the 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.

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 to provide reasonable assurance that EY UK and our people comply with applicable professional standards, internal policies and regulatory requirements.

The results of the AQR programme and external inspections are evaluated and communicated within EY UK to provide the basis for continual improvement in audit quality, consistent with the highest standards in the profession.

The Global Executive has responsibility for 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.

Update to the control framework – ISQM 1

In September 2020, the IAASB approved a quality management standard that includes significant changes to the way professional accountancy firms manage quality. The International Standard on Quality Management 1 (ISQM 1) will replace the current International Standard on Quality Control 1 (ISQC 1) and take a more proactive and risk-based approach. ISQM 1 will be effective as of December 2022 but remains subject to final approval by the Public Interest Oversight Board, in accordance with due process.

ISQM 1 will require firms to design, implement, monitor and assess the overall system of quality management (SQM) that provides reasonable assurance a firm will meet its quality objectives.

The standard includes more robust requirements for the governance, leadership and culture of professional accountancy firms, and a risk assessment process that evaluates risks to achieving quality objectives and identification of controls that address those risks. It also requires more extensive monitoring of the SQM to evaluate effectiveness and identify deficiencies that require corrective actions.

Many steps have already been taken to improve EY's SQM. An effective SQM is the foundation for EY's quality initiatives and is key to quality and operating effectiveness. The EY approach is to implement an SQM that is consistently applied across the entire network of member firms. This is especially important in a global economy where many audits involve the use of other EY member firms. A globally consistent SQM helps ensure engagement quality and consistent execution.

While the standard is effective as of December 2022, EY UK has commenced work to implement the new standard alongside EY's SQM transformation programme. Our initial steps have included:

- ▶ Identifying the functions and services lines that fall within the scope of ISQM 1.
- ▶ Establishing a programme governance structure to manage the design and implementation of an SQM that complies with ISQM 1 with representatives from the various functions and service lines.
- ▶ Identifying and assessing quality risks and documenting controls in accordance with the network-developed approach.
- ▶ Identifying network resources and requirements and how they are implemented or used by the country in their SQM
- ▶ Identifying enhancements to the control framework and assessing current controls for compliance with the new standard.

We believe that the requirements within ISQM 1 can help to improve quality at the firm and engagement level as an effective SQM is fundamental to achieving consistent engagement quality.

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 EY 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 consider 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.

Putting policy into practice

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

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

Performance of audits

There has been significant investment by 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 (ISA) and is supplemented in the UK to comply with the UK auditing standards and regulatory or statutory requirements.

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

EY GAM can be 'profiled' or tailored to present the relevant requirements and guidance, depending on the nature of the entity being audited, – e.g., there are profiles for listed entities (under Regulation (EU) 537/2014: public interest entities (PIEs)) and for those considered non-complex entities.

Following a successful pilot in 2019, EY GAM was updated to include the profession's first data-first approach to auditing,

which is called Digital GAM. Utilising the suite of EY Helix analysers, the flow of audit procedures, supplemented with new requirements and guidance, enhances the way EY member firms perform audits. The EY audit approach combines the vast amounts of financial and non-financial data available from an entity's systems with broad sources of knowledge to enable EY auditors to obtain sufficient and appropriate audit evidence. Through visualising whole populations of data and applying professional scepticism, EY auditors can provide an additional challenge to management's assertions to drive high audit quality.

Other enhancements have been made to address new standards, emerging auditing issues and matters, implementation experiences, and external and internal inspection results. Recently, EY GAM was updated for the requirements of ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* (effective for audits of periods beginning on or after 15 December 2019) and a suite of enablement to implement those requirements was issued.

In addition, current and emerging developments are monitored, and timely audit planning and execution communications are issued that emphasise areas noted during inspections as well as other key topics of interest to local audit regulators and the International Forum of Independent Audit Regulators (IFIAR). Specifically, with respect to the impact that COVID-19 is having on the global economy, guidance has been issued to address the accounting and financial reporting concerns that the entities EY member firms audit are facing, as well as audit considerations when performing audits in the current environment.

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 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 the My EY 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.

Digital GAM and data analytics

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

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

Formation of audit engagement teams

EY UK's policies require an annual review of partner assignments by our Assurance leadership and country PPD. This is carried out, among other things, to make sure that the professionals leading audits of listed entities and other public interest entities possess the appropriate competencies (e.g., the knowledge, skills and abilities) to fulfil their engagement responsibilities and are in compliance with applicable auditor rotation regulations.

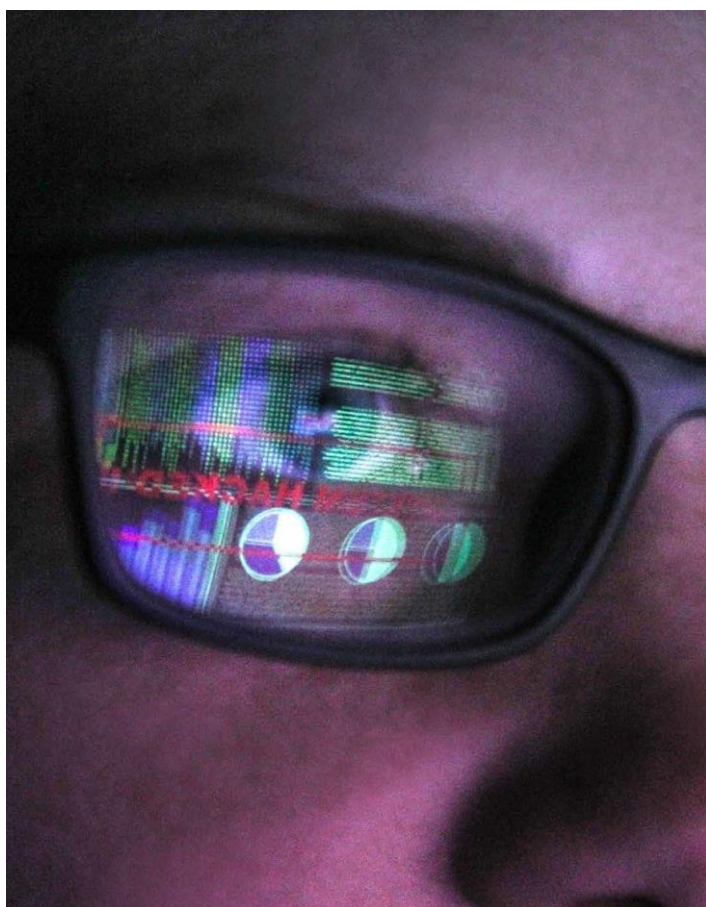
The assignment of professionals to an audit engagement is also made under the direction of our Assurance leadership. Factors considered when assigning people to audit teams include engagement size and complexity; specialised industry knowledge and experience; timing of work; continuity; and opportunities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

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

Fraud

Part of the EY commitment to quality is a policy of continuous improvement, which has resulted in innovations to risk and audit procedures regarding fraud. These planned innovations include:

- ▶ Leveraging the power of advanced technology through:
 - ▶ Mandating the use of data analytics for fraud testing.
 - ▶ Enhancing risk assessments and audit scoping by using more external data and information, such as social media.
 - ▶ Using electronic confirmations for audit evidence wherever possible, moving in time to matching the audited company's records of banking transactions with those provided by the bank.
- ▶ Mandating annual forensics training for all audit professionals.



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 technical accuracy and completeness. Senior audit executives and engagement partners perform a second-level review to determine the adequacy of the audit work as a whole and the related accounting and financial statement presentation. Where appropriate, and based on risk, 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. As the environment in which EY member

firms work has become more complex and globally connected, the EY culture of consultation has become even more important to help EY member firms reach the appropriate

conclusions for entities that they audit on a timely basis. Consultation requirements and related policies are designed to involve the right resources to support these appropriate conclusions.

The EY culture of consultation enables engagement teams to deliver seamless, consistent and high-quality services that meet the needs of audited entities, their governance bodies and all stakeholders.

For complex and sensitive matters, there is 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, EY 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 appropriately qualified 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 listed companies, certain public interest entities (Regulation (EU) 537/2014) and those audits considered to need close monitoring. Engagement quality reviewers are experienced professionals with significant subject matter knowledge.

They are independent of the engagement team and provide an objective evaluation of the significant judgements the engagement team made, and the conclusions reached in formulating the auditor's report. The performance of an engagement quality review, however, does not reduce the responsibilities of the partner in charge of the engagement for the quality of the audit and its performance. In no circumstances may the responsibility of either the partner in charge or 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. In all circumstances, the engagement quality review is completed before the date of the auditor's report.

The Regional AMP (or Regional Audit Leader) and country PPD approve 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.

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 an agreement is reached or a final decision is made.

Furthermore, if the engagement quality reviewer makes recommendations that the partner in charge of the engagement 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. Differences of professional opinion that are resolved through consultation with Professional Practice are appropriately documented.

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 the FRC Ethical Standard as well as the US Securities and Exchange Commission (SEC), where required. EY UK supports audit partner rotation because it provides a fresh perspective and promotes independence from company management, while retaining expertise and knowledge of the business. Audit partner rotation, combined with independence requirements, enhanced systems of internal quality controls and independent audit oversight, helps strengthen independence and objectivity, which are important safeguards of audit quality.

For public interest entities (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 lead or coordinate professional services to the PIE until after completing a cooling-off period. This period is five years for a lead audit engagement partner, three years for an engagement quality reviewer and two years for other partners subject to rotation.

Where the required cooling-off period for the lead audit engagement partner established by the local legislative body or regulator is less than five years, the higher of that cooling-off period or three years may be substituted for the otherwise required five-year cooling off period. This jurisdictional exception for the lead audit engagement partner may only be applied for audit periods beginning prior to 15 December 2023.

In addition to the audit partner rotation requirements applicable to company PIEs that we audit, EY has established a long association safeguards framework that, consistent with the requirements of the IESBA Code and Article 17 of EU Regulation 537/2014, includes consideration of the threats to independence created by the 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 a long association with the entities we audit 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 Regulations (implemented in the UK via The Statutory Auditors & Third Country Auditors Regulations 2017).



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 action 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 requirements and guidelines in the 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.

The engagements reviewed each year are selected through 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 unlisted 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 assurance engagements performed by audit engagement teams. These measure compliance with the relevant professional standards, and internal policies and procedures that should be applied in executing non-audit assurance 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. It also informs us of our compliance with regulatory requirements, professional standards, and policies and procedures.

AQR reviewers and team leaders are selected for their skills and professional competence in accounting and auditing, as well as their industry specialisation; they have often

participated 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 independent of the engagements and teams they are reviewing and are normally assigned to inspections outside of their home location.

The COVID-19 pandemic presented a particular challenge to the global AQR programme in 2020 as a result of restrictions on travel and face-to-face interaction. Utilising EY Canvas and other collaboration tools, the programme was completed effectively in EY UK.

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. These programmes provide important practice monitoring feedback for our continuing quality improvement efforts.

External quality assurance review

EY UK's audit practice is subject to annual inspection by the Financial Reporting Council (FRC) and ICAEW's Quality

Assurance Department (QAD). It is also inspected by the US 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 2019. The final report on the inspection was issued on 14 July 2020 and is disclosed in Section 2: Trust in audit.

We respect and benefit from the external inspection process. We thoroughly evaluate the points raised during the inspection in order to identify areas where we can improve audit quality. Engagements with significant findings are subject to the global root cause analysis (RCA) process. Together with the AQR process, external inspections provide valuable insight into the quality of EY audits. The insights enable us to effectively execute high-quality audits. Details of review findings publicly available can be found in Section 2: Trust in audit.

Information on the FRC, along with publicly available inspection reports, can be found at [frc.org.uk](https://www.frc.org.uk).



Compliance with legal requirements

The EY Global Code of Conduct provides clear guidance about EY 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 on certain unethical and illegal activities. It emphasises the obligation to comply with anti-bribery laws and provides a 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 EY people not to trade in securities when in possession of insider information, provides detail on what constitutes insider information, and identifies with whom EY 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 GDPR, and other applicable laws and regulations concerning data protection and privacy. EY also has Binding Corporate Rules approved by EU regulators 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 Record Retention global and related local policies apply to all engagements and personnel. These policies address 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

The EY Global Independence Policy requires EY UK and our people to comply with the independence standards applicable to specific engagements, e.g., the IESBA Code of Ethics and local country independence standards applicable. In the UK, the FRC's Ethical Standard is incorporated with the EY Global Independence Policy into the EY UK&I Independence Policy.

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 entities we audit; applicable firm and partner rotation requirements; fee arrangements; audit committee pre-approval, where applicable; and partner remuneration and compensation.

Failure to comply with applicable 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. The EY Global Independence Policy is readily accessible 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 in relation to which independence is required and the independence restrictions that apply. Most often, these

are listed entities we audit and their affiliates, but they can also be other types of attestation or assurance clients. The tool includes family-tree data relating to affiliates of listed

entities we audit and is updated by client-serving engagement teams. 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 already held 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 several 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 Independence Policy and process requirements, and to report identified exceptions, if any.

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

Independence compliance reviews

EY conducts internal procedures to assess member firm compliance with independence matters. These reviews include

aspects of compliance related to non-audit services, business relationships with the entities we audit and financial relationships of member firms.

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 GMS. For the 2020 testing cycle, EY UK tested more than 650 partners and other personnel.

Non-audit services

We monitor compliance with professional standards, laws and regulations governing the provision of non-audit services to entities we audit through a variety of mechanisms. These include the use of tools, such as PACE (see page 91) and our Service Offering Reference Tool (SORT) (see below), and training and required procedures completed during the performance of audits and internal inspection processes. We also have a process in place for the review and approval of certain non-audit services in advance of accepting the engagement.

Global independence learning

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

The annual independence training programme covers independence requirements focusing on recent changes to policy, as well as recurring themes and topics of importance. Timely completion of annual independence training is required and is monitored closely. EY UK supplements this programme

with local content to cover local independence requirements in accordance with the FRC Ethical Standard, where these differ from the EY Global Independence Policy.

In addition to the annual training programme, independence awareness is promoted through 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 on 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)

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

Audit committees and oversight of independence

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

Continuing education of audit professionals

Professional development

The 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 them grow and achieve their potential at a variable pace of progression that suits them.

The day-to-day experiences gained 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 that helps to transform knowledge and experience into practice.

Training is delivered through the award-winning Audit Academy, which combines on-demand e-learning modules with interactive physical and virtual classroom-based simulations and case studies, plus 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 financial statements prepared under International Financial Reporting Standards (IFRS), 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.

All of our people eligible for appointment as a local auditor receive ongoing public sector audit specific training in addition to what is described above.

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 EY resources and tools 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

LEAD is EY's framework that connects people's career, development and performance. LEAD is a key driver in creating a step-change in the experience of EY people. Through ongoing feedback, development, counsellor excellence and career conversations, LEAD aligns individuals with the NextWave strategy and enables people to focus on the future.

It is designed to support the growth and development of EY people at all stages of their career at EY. An individual's

personal dashboard provides an easy-to-interpret snapshot of their performance against the 'Leadership at EY' dimensions, including quality, risk management and technical excellence, and assesses performance against peers. Feedback received during an annual cycle is aggregated and used as an input to compensation and reward programmes.

Regular contact with a counsellor on topics such as diverse career journeys, applying emerging technology, experiencing new teams and learning helps to identify opportunities for further development and to build future-focused skills.

Revenue and remuneration

Financial information

Revenue, which excludes VAT, represents the combined, not consolidated, fair value of revenues provided to clients based on the stage of completion of each engagement. Revenue includes expenses billed to clients and also includes revenues related to billings to other EYG member firms. Revenue amounts disclosed in this report include revenues from entities we audit and non-audit clients.

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

Financial information for the period ended on 3 July 2020 expressed in £million.

Service	FY20 ¹		FY19 ¹	
	Revenue	Percent	Revenue	Percent
Statutory audits and directly related services for PIEs	152	6%	119	5%
Statutory audits and directly related services for entities whose parent is a PIE	64	2%	61	2%
Other audit services and directly related services for non-PIEs	328	13%	273	11%
Total audit revenues	544	21%	453	18%
Non-audit services provided to entities we audit	119	5%	118	5%
Total revenues from entities we audit	663	26%	571	23%
Non-audit services provided to other entities	1,883	73%	1,855	76%
Total revenue from the Channel Islands excluded from the categories above	21	1%	21	1%
Total revenue	2,567	100%	2,447	100%
UK Audit Profit²	62		68	

¹ FY20 revenues represent a 53-week accounting period and FY19 a 52-week accounting period.

² 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 Regulations requires disclosure of the turnover in the financial period of the local auditor in relation to performing local audit work as defined by the Regulations. For EY UK LLP, this revenue totals £13mn (PY: £15mn).

Our Audit practice will transition to an operationally separated business during FY21. In implementing the FRC's principles of operational separation, we expect changes will need to be made to transfer pricing arrangements between the audit business and the wider firm. This could have an impact on reported revenues and profits generated from audit activities in future years.

Partner remuneration

Quality is at the centre of the EY strategy and is a key component of EY performance management systems. EY UK partners 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 EY partners their professional obligation to maintain independence and objectivity. For audits conducted in accordance with the requirements of Directive 2014/56/EU, Regulation EU 537/2014 and the FRC Ethical Standard, 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 entities we audit. 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 performance evaluation, 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.



List of approved EYG member firms in an EU or EEA member state

As of 30 June 2020, the following EYG member firms are approved to carry out statutory audits in an EU or EEA member state:

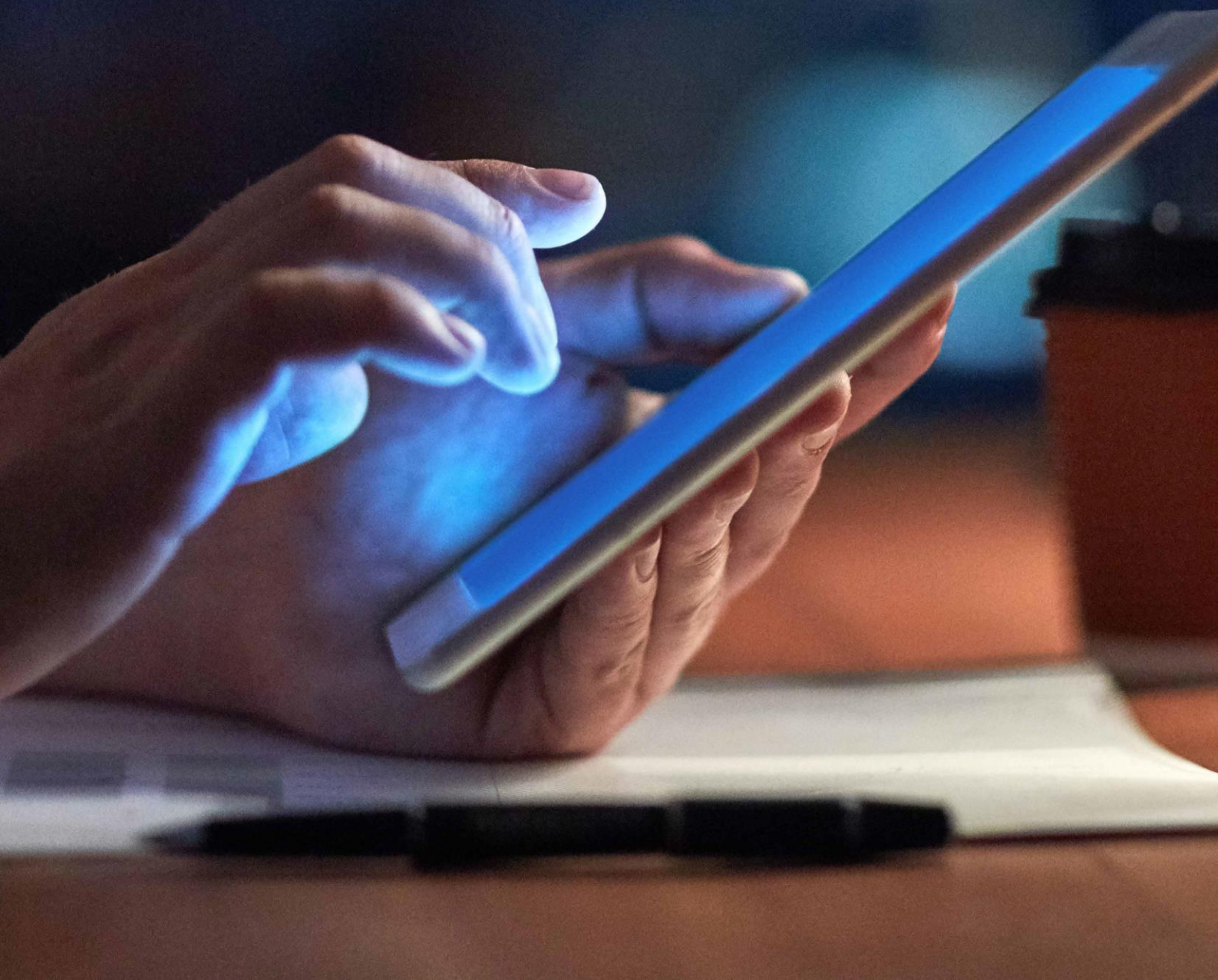
Member state	Statutory auditor or audit firm
Austria	Ernst & Young Wirtschaftsprüfungsgesellschaft mbH
Belgium	EY Assurance Services
	EY Bedrijfsrevisoren
	EY Europe SCRL
Bulgaria	Ernst & Young Audit OOD
Croatia	Ernst & Young d.o.o.
	Ernst & Young Croatia d.o.o.
Cyprus	Ernst & Young Cyprus Limited
	Ernst & Young
	Ernst & Young CEA (South) Services Ltd
	Ernst & Young CEA (South) Holdings Plc
Czech Republic	Ernst & Young Audit, s.r.o.
Denmark	EY Godkendt Revisionspartnerselskab
	EY Grønland Statsautoriseret Revisionspartnerselskab
	EY Net Source A/S
Estonia	Ernst & Young Baltic AS
	Baltic Network OU
Finland	Ernst & Young Oy
	Julkispalvelut EY Oy
France	Artois
	Auditex
	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

Member state	Statutory auditor or audit firm
Hungary	Ernst & Young Könyvvizsgáló Korlátolt Felelősségű Társaság
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 2020 for these EYG member firms resulting from statutory audits of annual and consolidated financial statements was approximately €2.8 billion.

Appendix B

Audit Firm Governance Code



Audit Firm Governance Code

As a firm, we are committed to the Audit Firm Governance Code (the Code/AFGC). In accordance with E.2 the Code, the firm has publicly reported in this Transparency Report how it has applied in practice and tone the principles of the Code and made a statement on its compliance with the Code's provisions, or given a considered explanation for any non-compliance.

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 2020 Transparency Report, the matter is addressed for the purposes of E.2 of the Code.

Principles and provisions of the 2016 AFGC LEADERSHIP	How EY UK is addressing the principles and provisions
A.1 Owner accountability Principle The management of a firm should be accountable to the firm's owners and no individual should have unfettered powers of decision.	Section 5: Governance Appendix A: EY Global network
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.	Section 5: Governance
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.	Section 5: Governance
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.	Appendix A: EY Global network
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.	Section 5: Governance Terms of Reference, Member biographies and Meeting Attendance documents on the website .
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.	Section 5: Governance Terms of Reference document on the website , 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.
A.2 Management Principle A firm should have effective management which has responsibility and clear authority for running the firm.	Section 5: Governance
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.	Terms of Reference document on the website .

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 Appendix A: EY Global network</p>
<p>B.1.1 The firm's governance structures and management should establish and promote throughout the firm an appropriate culture, supportive of the firm's public interest role and long term sustainability. This should be achieved in particular through the right tone from the top, through the firm's policies and practices and by management publicly committing themselves and the whole firm to quality work, the public interest and professional judgement and values.</p>	<p>Section 1: Leadership messages Section 2: Trust in audit Appendix A: EY Global network</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 The EY Global Code of Conduct is available from EY Global website. The Independent Non-Executives oversee compliance with it.</p>
<p>B.2 Governance Principle</p> <p>A firm should publicly commit itself to this Audit Firm Governance Code (AFGC).</p>	<p>Refer to paragraph at the beginning of this appendix.</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 Section 2: Trust in audit Appendix A: EY Global network</p>

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 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 Section 2: Trust in audit Section 5: Governance Meeting Attendance summary on the website.</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 Section 5: Governance Terms of Reference document on the website.</p>
<p>C.1.3 The Independent Non-Executives should report in the firm's transparency report on how they have worked to meet the purpose of the Code defined as:</p> <ul style="list-style-type: none"> ▶ Promoting audit quality. ▶ Helping the firm secure its reputation more broadly, including in its non-audit businesses. ▶ Reducing the risk of firm failure. 	<p>Section 1: Leadership messages Section 2: Trust in audit</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>


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-Executives 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 Member biographies on the website.</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 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 Terms of Reference document on the website.</p>
<p>C.3.1 Each Independent Non-Executive should have a contract for services setting out their rights and duties.</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 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 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>C.3.6 The firm should establish, and disclose on its website, procedures for dealing with any fundamental disagreement that cannot otherwise be resolved between the Independent Non-Executives and members of the firm's management team and/or governance structures.</p>	<p>Section 5: Governance</p>

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 Section 4: Risks Appendix A: EY Global network</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 4: Risks Appendix A: EY Global network</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 Appendix A: EY Global network</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 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, summarise the process it has applied and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review.</p> <p>It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary.</p>	<p>Section 1: Leadership messages Section 4: Risks</p>
<p>D.2.3 The firm should carry out a robust assessment of the principal risks facing it, including those that would threaten its business model, future performance, solvency or liquidity. This should reference specifically the sustainability of the audit practice within the UK.</p>	<p>Section 4: Risks</p>

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 messages 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 Section 2: Trust in audit Section 3: Our people Appendix A: EY Global network</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 (including 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 Section 4: Risks</p>
<p>The Independent Non-Executives should be satisfied that there is an effective whistleblowing process in place.</p>	<p>Independent Non-Executives satisfy themselves that the whistleblowing process is effective via attendance at UK LLP Board meetings at which reports on issues raised under whistleblowing policies and procedures are discussed.</p>
<p>D.4.1 The firm should report to Independent non-executives on issues raised under its whistleblowing policies and procedures and disclose those policies and procedures on its website.</p>	<p>See D.4 immediately above.</p>

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>Refer to the paragraph at the beginning of this appendix.</p> <p>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>Section 5: Governance</p> <p>Refer to individual code provisions and our website.</p>
<p>E.2.2 In its transparency report the firm should give details of any additional provisions from the UK Corporate Governance Code which it has adopted within its own governance structure.</p>	<p>No additional provisions of the UK Corporate Governance Code have been adopted beyond those that are reflected in the AFGC.</p>
<p>E.3 Transparency principle</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 Section 2: Trust in audit Section 3: Our people Appendix A: EY Global network</p> <p>For further information on the performance and position of the broader firm please also see the EY UK Annual Results 2020 due to be published on the EY UK website on 17 November 2020.</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>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 an extensive team of 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>Terms of References document on website.</p>

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 recognised financial reporting framework such as International Financial Reporting Standards or UK GAAP, and should be clear and concise.</p>	<p>Ernst & Young LLP financial statements available from Companies House (to be filed on 30 October 2020)</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>Ernst & Young LLP financial statements available from Companies House (to be filed on 30 October 2020)</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>Ernst & Young LLP financial statements available from Companies House (to be filed on 30 October 2020)</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 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. Independent non-executives 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 Section 5: Governance Contact details are available on the website.</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 Section 5: Governance</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>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.	Appendix A: EY Global network
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 audited Public Interest Entities (PIEs)
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

Provisions of the regulation	Where to find information on how EY UK complies with the regulation
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
i. Information concerning the basis for the partners' remuneration in audit firms.	Appendix A: EY Global network
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
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
ii. Revenues from the statutory audit of annual and consolidated financial statements of other entities.	Appendix A: EY Global network
iii. Revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm.	Appendix A: EY Global network
iv. Revenues from non-audit services to other entities.	Appendix A: EY Global network

A close-up photograph of a person's finger touching a tablet screen. The screen displays a vibrant bar chart with green, blue, and red bars. The background is dark and out of focus, showing some blurred light patterns.


Appendix D

Local auditors regulations

Local auditors regulations

Financial Reporting Council – The Local Auditors (Transparency) Regulations 2020

Provisions of the regulations	Where to find information on how EY complies with the regulations
a. A description of the legal structure, governance and ownership of the transparency reporting local auditor.	Section 5: Governance Appendix A: EY Global network
b. 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
c. 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 4: Risks Appendix A: EY Global network
d. 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
e. Confirmation that all engagement leads are competent to undertake local audit work and staff working on such assignments are suitably trained.	Section 2: Trust in audit 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 A: EY Global Network – Professional development ' receive sector-relevant training specific to their local audit work.
f. 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
g. 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.	Refer to website .
h. 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
i. 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
j. Information about the basis for the remuneration of partners.	Appendix A: EY Global network



Appendix E

EY UK audited Public Interest Entities (PIEs)

EY UK – EU PIE reports signed

29 June 2019 to 30 June 2020

- ▶ 3i Group plc
- ▶ 4imprint Group plc
- ▶ 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
- ▶ Aetna Insurance Company Limited
- ▶ Ahli United Bank (UK) PLC
- ▶ Allica Bank Limited (previously Civilised Bank Ltd)
- ▶ Alpha Plus Holdings Plc
- ▶ Artemis VCT plc
- ▶ Artesian Finance III plc
- ▶ ASA International Group plc
- ▶ Ashoka India Equity Investment Trust plc
- ▶ Associated British Foods plc
- ▶ Aston Martin Lagonda Global Holdings plc
- ▶ Astrenska Insurance Limited
- ▶ Avast plc
- ▶ AVEVA Group 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
- ▶ Beazley plc
- ▶ BFC Bank Limited
- ▶ BG Energy Capital plc
- ▶ Biz Finance Plc
- ▶ BlackRock Energy and Resources Income Trust plc (Formerly 'BlackRock Commodities Income Investment Trust Plc')
- ▶ BlackRock Frontiers Investment Trust plc
- ▶ BlackRock Greater Europe Investment 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
- ▶ Ciel No. 1 Plc
- ▶ CIS General Insurance Limited
- ▶ Clydesdale Bank PLC
- ▶ Coca-Cola European Partners plc
- ▶ Co-operative Group Holdings (2011) Limited
- ▶ Co-operative Group Limited
- ▶ Coutts & Company
- ▶ CRH Finance (U.K.) plc
- ▶ Darag Insurance UK Limited (formerly 'The Underwriter Insurance Company Limited')¹
- ▶ Darrowby No. 4 plc
- ▶ De La Rue plc
- ▶ De Montfort University
- ▶ Dignity Finance PLC
- ▶ Dignity plc
- ▶ Ecofin Global Utilities and Infrastructure Trust plc
- ▶ Edinburgh Worldwide Investment Trust plc
- ▶ Ei Group plc
- ▶ Endurance Worldwide Insurance Limited
- ▶ Energean plc

- ▶ EnQuest PLC
- ▶ EP Global Opportunities Trust plc
- ▶ Europe Arab Bank plc
- ▶ European Opportunities Trust Plc (formerly named 'Jupiter European Opportunities Trust PLC')
- ▶ EVRAZ plc
- ▶ F&C Investment Trust PLC (Formerly Foreign & Colonial Investment Trust PLC)
- ▶ 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 Plc¹
- ▶ Financial Guaranty UK Limited (formerly named 'FGIC UK Limited')
- ▶ First Hydro Finance plc
- ▶ Flood Re Limited
- ▶ FM Insurance Company Limited
- ▶ Forterra plc
- ▶ Fresnillo plc
- ▶ GCP Student Living plc
- ▶ Georgia Capital PLC
- ▶ Georgia Healthcare Group PLC
- ▶ Gore Street Energy Storage Fund plc
- ▶ Gosforth Funding 2015 – 1 PLC
- ▶ Gosforth Funding 2016 – 1 PLC
- ▶ Gosforth Funding 2016 – 2 PLC
- ▶ Gosforth Funding 2017 – 1 PLC
- ▶ Gosforth Funding 2018 – 1 PLC
- ▶ Great American International Insurance (UK) Limited (formerly 'Insurance (GB) Limited')
- ▶ Greene King Finance plc
- ▶ Gulf International Bank (UK) Limited
- ▶ Handelsbanken plc
- ▶ Havin Bank Ltd
- ▶ Hellenic Petroleum Finance PLC¹
- ▶ Henderson Diversified Income Trust plc
- ▶ Henderson European Focus Trust plc
- ▶ Heylo Housing Secured Bond Plc
- ▶ Hitachi Capital (UK) PLC
- ▶ Hochschild Mining PLC
- ▶ Hodge Life Assurance Company Limited
- ▶ ICG Enterprise Trust plc
- ▶ IMI plc
- ▶ Inceptum Insurance Company limited
- ▶ InterContinental Hotels Group PLC
- ▶ Invesco Income Growth Trust plc
- ▶ Invesco Perpetual UK Smaller Companies Investment 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 Green Investment Trust PLC
- ▶ Keller Group plc
- ▶ Lanark Master Issuer PLC
- ▶ Land Securities Capital Markets Plc
- ▶ Land Securities Group PLC
- ▶ Lannraig Master Issuer PLC
- ▶ London Stock Exchange Group plc

- ▶ Low & Bonar PLC
- ▶ Lowland Investment Company plc
- ▶ LSL Property Services plc
- ▶ Majedie Investments PLC
- ▶ Managed Pension Funds Limited
- ▶ Martin Currie Global Portfolio Trust plc
- ▶ McCarthy & Stone plc
- ▶ Methodist Insurance plc
- ▶ Miton UK Microcap Trust plc
- ▶ Mizuho International 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
- ▶ National Bank Of Kuwait (International) Plc
- ▶ National Deposit Friendly Society Limited¹
- ▶ National Westminster Bank Plc
- ▶ Nationwide Building Society
- ▶ Natwest Group PLC (Previously 'The Royal Bank of Scotland Group Plc')
- ▶ NatWest Markets Plc
- ▶ New Star Investment Trust Plc
- ▶ NEX Group Limited
- ▶ Nomura Bank International plc
- ▶ Nostrum Oil & Gas PLC
- ▶ Nottingham Building Society
- ▶ On the Beach Group plc
- ▶ PA (GI) Limited
- ▶ PageGroup plc
- ▶ PCF Bank Limited
- ▶ Pennon Group plc
- ▶ Perpetual Income and Growth Investment Trust plc
- ▶ Persimmon Plc
- ▶ Personal Assurance Plc
- ▶ Phoenix Group Holdings Plc
- ▶ Phoenix Life Assurance Limited
- ▶ Phoenix Life Limited
- ▶ Polypipe Group plc
- ▶ Premier Oil plc
- ▶ QIB (UK) plc
- ▶ RELX PLC
- ▶ RenaissanceRe (UK) Limited
- ▶ Renishaw plc
- ▶ RIT Capital Partners plc
- ▶ RM Secured Direct Lending Plc
- ▶ RM ZDP Plc
- ▶ RMAC No.1 Plc
- ▶ RMAC No.2 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 Limited
- ▶ Schroder & Co. Limited
- ▶ Schroder Asian Total Return Investment Company plc
- ▶ Schroder AsiaPacific Fund plc
- ▶ Schroder Income Growth Fund plc
- ▶ Schroder Pension Management Limited
- ▶ Schroders plc
- ▶ SCOR UK Company Limited
- ▶ 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 Five plc
- ▶ Silk Road Finance Number Four plc
- ▶ Skipton Building Society
- ▶ Softcat plc
- ▶ South West Water Finance plc
- ▶ Spire Healthcare Group plc
- ▶ Spirent Communications plc
- ▶ Spirit Issuer plc
- ▶ SSE plc
- ▶ Stagecoach Group plc
- ▶ Standard Life Assurance Limited
- ▶ Standard Life Pension Funds Limited
- ▶ Stanlington No.1 Plc
- ▶ Stewart Title Limited
- ▶ Stirling Water Seafeld Finance Plc
- ▶ Tate & Lyle International Finance PLC
- ▶ Tate & Lyle PLC
- ▶ Td Bank Europe Limited
- ▶ Temese Funding 2 Plc
- ▶ Temple Bar Investment Trust PLC
- ▶ Templeton Emerging Markets Investment Trust PLC
- ▶ The Bankers Investment Trust PLC
- ▶ The Co-operative Bank Finance p.l.c.
- ▶ The Co-operative Bank p.l.c.
- ▶ The Diverse Income Trust plc
- ▶ The Dominion Insurance Company Limited
- ▶ The Gym Group plc
- ▶ The Henderson Smaller Companies Investment Trust plc
- ▶ The Higher Education Securitised Investments Series No.1 plc
- ▶ The Independent Investment Trust PLC
- ▶ The Monks Investment Trust PLC
- ▶ The Rank Group Plc
- ▶ The Restaurant Group plc
- ▶ The Royal Bank of Scotland plc (Formerly Adam & Company PLC)
- ▶ The Sage Group plc
- ▶ The Scottish Oriental Smaller Companies Trust plc
- ▶ The Unique Pub Finance Company PLC
- ▶ The University Of Manchester
- ▶ 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
- ▶ Twin Bridges 2019-1 Plc
- ▶ UBS Asset Management Life Ltd
- ▶ Unum Limited
- ▶ USAA Limited
- ▶ Virgin Money UK PLC (previously known as CYBG Plc)
- ▶ Vodafone Group Plc
- ▶ Volution Group plc
- ▶ VTB Capital plc
- ▶ Warwick Finance Residential Mortgages Number Four Plc
- ▶ Warwick Finance Residential Mortgages Number One Plc
- ▶ Warwick Finance Residential Mortgages Number Three Plc
- ▶ Waterside Campus Development Company Plc
- ▶ Wausau Insurance Company (U.K.) Limited
- ▶ Wesleyan Assurance Society
- ▶ Wesleyan Bank Limited
- ▶ Wessex Water Services Finance Plc
- ▶ Winchester Street Public Limited Company²
- ▶ Witan Pacific Investment Trust plc
- ▶ Xaar plc

¹Reports signed period August to September 2020.

²Pending as at October 2020.

Ongoing audit engagements that were not signed in the period due to the impact of COVID-19.

Glossary

ABC	Anti-bribery and corruption
ACCIF	Audit Committee Chairs' Independent Forum
AFGC	Audit Firm Governance Code
AMP	Area Managing Partner
AQB	Audit Quality Board
AQIOC	Audit Quality IOC
AQIs	Audit Quality Indicators
AQR	EY Global Audit Quality Review programme
AQST	Audit Quality Support Team
BAME	Black, Asian and minority ethnic
BEIS	Department of Business, Energy & Industrial Strategy
Big Four	The four largest global accounting and auditing networks: Deloitte, EY, KPMG, PwC
BRET	Business Relationship Evaluation Tool
C19SC	COVID-19 Sub-committee
CCC	Code of Conduct Committee
CDD	Client Due Diligence
CCGs	Counsellor connect groups
CMA	Competition and Markets Authority
CMP	Country Managing Partner
CoEs	Centres of Excellence
CPD	Continuing professional development
D&I	Diversity and Inclusivity
EMEIA	Europe, Middle-East, India and Africa
EOE	Europe Operating Executive
ERM	Enterprise Risk Management
ESG	Environmental, social and governance
EY Foundation	An independent charity set up by EY in 2014
EY GAM	EY Global Audit Methodology
EYG	Ernst & Young Global Limited
FCA	Financial Conduct Authority

FRC	Financial Reporting Council
FTSE	Financial Times Stock Exchange
FY	Financial year
FSO	Financial Services Office
GAAP	Generally Accepted Accounting Principles
GCMP	Global Crisis Management Programme
GDPR	EU General Data Protection Regulation
GE	Global Executive
GGC	Global Governance Council
GIS	Global Independence System
GIIRS	Global Independence Incident Reporting System
GMS	Global Monitoring System
GPS	Government and Public Sector
ICAEW	Institute of Chartered Accountants in England and Wales
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
IIA	Chartered Institute of Internal Auditors
INE	Independent Non-Executive
IOC	Independent Non-Executive Oversight Committee
ISA	International Standards on Auditing
ISQC 1	International Standard on Quality Control 1
ISQM 1	International Standard on Quality Management 1
KPI	Key performance indicator
LEAD	Leadership Evaluation and Development
LLP	Limited liability partnership
Mercury	Globally integrated IT system

NED	Non-Executive Director
NES	National Equality Standard
NextWave	EY's strategy to create long-term value as the world's most trusted, distinctive professional services organisation.
NOCLAR	Non-compliance with laws and regulations
ORITP	The Objective, Reasonable and Informed Third Party
PACE	Process for Acceptance of Clients and Engagements
PAS	People Advisory Services
PCAOB	US Public Company Accounting Oversight Board
PIC	Global Public Interest Committee
PIE	Public interest entity
PLC	Public limited company
PLOT	Purpose-Led Outcome Thinking
PPD	Professional Practice Director/Directorate
PPEDDs	Partners, principals, associate partners and directors
PRA	Prudential Regulation Authority
PRG	Policy and Reputation Group
PSC	Pension Sub-committee
QAD	Quality Assurance Department of the ICAEW
QELs	Quality Enablement Leaders
RCA	Root cause analysis
RCP	Reputation and Conflicts Panel
RIIs	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
SQAE	Service Quality Assurance Executives

SQM	System of quality management
TAS	Transaction Advisory Services
The Board	The Board of EY UK LLP
The EU Audit Regulation	Regulation No 537/2014 of the European Parliament and of the Council of 16 April 2014
UK&I	United Kingdom and Ireland
UKAC	UK Audit Committee
UKCGC	UK Corporate Governance Code
UK-SOX	Internal Controls on Financial Reporting
VFM	Value for Money

Notes

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