



# EY UK 2021 Transparency Report

November 2021



Building a better  
working world



# Context

## **EY's purpose: *Building a better working world***

EY is committed to doing its part in building a better working world.

The audits delivered by EY people help build trust and confidence in business and the capital markets. EY auditors deliver high-quality, analytics-driven audits in the public interest with independence, integrity, objectivity and professional scepticism. In so doing, the EY organisation helps protect and promote sustainable and long-term value for stakeholders.

In the United Kingdom (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 4 July 2020 to 2 July 2021, unless otherwise stated. This reporting period is referred to throughout the report as FY21. The following reporting period is referred to as FY22.

## **Transparency**

This 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 period covered in this report spans the final months of the UK's transition and then ultimate exit from the European Union (EU). Accordingly, this report has been prepared under Article 13 of the EU Audit Regulation (537/2014), subsequently incorporated into UK domestic law by Section 3 of the European Union (Withdrawal) Act 2018.

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 (537/2014) is provided in Appendix 5.

## **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 is provided in Appendix 6.

## **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, and in accordance with its 'Governance reporting principle E2', the EY UK Board (the Board) confirms that EY UK has complied with the provisions of the Code. Appendix 4 provides a list of the Code's principles and provisions with a reference next to each requirement to show where we explain in this report 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. While we have not expressly implemented any of its provisions not separately encompassed within the AFGC, we continue to 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 Appendix 3 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.

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# Leadership messages

## Foreword from the EY UK Chair



**Hywel Ball**

EY UK Chair

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### Introduction

Welcome to our EY UK 2021 Transparency Report.

Since I wrote my foreword to last year's Transparency Report, six months into the COVID-19 pandemic, progress in terms of the UK vaccine roll-out and a return to economic growth has given us grounds for cautious optimism. Nevertheless the continuing impact of the pandemic on lives and businesses has been profound and, I believe, changes the future relationship between business and wider society.

We have also seen profound change in the way that we work and live. That is why I am incredibly proud, and grateful, to our people for their commitment on behalf of our clients, the Government and communities in which we operate, and each other. Their efforts have been all the more remarkable against a backdrop of home working, home schooling, caring for others, volunteering and living their lives in ways they would never have thought imaginable before March 2020. So I want to thank them all before I say anything else.

### Meeting society's expectations

The shared experience of the last 18 months means we will not return to the economy and society which preceded the pandemic. Expectations of business have grown, from employees, customers and clients and the governments around the world who have made dramatic interventions to support job retention and their economies. Those expectations are not limited to the recovery from the pandemic; the public expects business to be taking action to help address the biggest issues that our society faces, such as climate change and social and economic inequality.

In this context, EY's purpose, *Building a better working world*, provides us with more than just an attractive unifying phrase. It provides us with a key decision-making tool and a clear mission to play our part in solving the big challenges.

As we made key decisions to sustain our business through COVID-19, our purpose helped us find the right answer to difficult questions. It was why we committed to avoid using the Government's furlough scheme, to maintain our people's pay and jobs and to continue with the recruitment of more than 1,050 graduates and school leavers into the firm in FY21. It also underpinned our work to support the NHS, the Government and our clients as they managed the pandemic, and our work with our regulators to maintain the delivery of audits during lockdown.

As we look to the future, our purpose sits at the heart of our business strategy. We will position our business to help our clients navigate the challenging and fast-moving world in which they now find themselves. We will invest in the capabilities that enable us to do this and we will use our convening power to bring together stakeholders to identify solutions and action plans to address those issues which can only be tackled collaboratively.

### Addressing climate change

As an example of this, we will be playing an active part in the discussion of climate change surrounding the 2021 United Nations Climate Change Conference (COP26) in Glasgow in November. We recognise the important role which we play in supporting clients as they adapt their operations for a low carbon world. Our [Climate Business Forum](#) has

convened leading companies and young leaders to turn the UK's decarbonisation ambition for the Green Industrial Revolution into a clear set of actions that can be undertaken by UK businesses within the next 12 months, encourage alignment between the public and private sectors, and create a multi-generational response to the global challenge posed by climate change ahead of COP26. EY is also focussed on its own environmental impact globally, committing to being carbon negative in 2021 by reducing absolute emissions and offsetting more carbon than we emit. EY has published its [global plan](#) to achieve net zero in 2025.

## Delivering value for all our stakeholders

Success for EY UK is about more than our financial performance. It is rooted in a belief that we can only succeed in the long term if we are demonstrably delivering value for all our stakeholders. Our first annual [Impact Report](#) (EY UK 2021 Impact Report) lays out the value created for our people, our clients and the companies we audit, and society, as well as for the partnership. We hope it will be useful to stakeholders of all types as they seek to understand EY. It will also be the vehicle, in future years, by which we report on delivery of our societal value strategy, which will seek to focus EY's efforts on those issues and areas where we can have the greatest impact.

## Restoring trust and confidence in audit and our profession

Our Transparency Report, the report which you are now reading, is also firmly rooted in our purpose. Our role as auditors and our commitment to delivering high-quality audits in the public interest is one of the most powerful manifestations of our purpose. By providing confidence in the capital markets, our work enables businesses to transact, investors to invest, and jobs and prosperity to be created. It allows economies to grow and develop.

This report is intended to enable you to form a view of how we are meeting our obligations as auditors. It will give you an in-depth view of our audit quality as assessed by our regulator and our own measures, our investment in audit quality including the EY commitment to investments of c.\$2 billion globally in the next three years to improve audit quality, and our commitment to the public interest. The report will give you the details of our governance and how we assess the culture of our audit business. It will show you how seriously we take those obligations, and the EY UK Head of

Audit, Andrew Walton, gives more detail on these matters in his statement. We will also be publishing, at the same time as the Transparency Report, our [Audit Quality Report](#) (EY UK 2021 Audit Quality Report) which provides still greater detail.

One of the most significant changes made at EY UK in the last year has been our work towards the establishment of a UK Audit Board (UKAB) with a majority of Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by building a culture of challenge and strengthening oversight. Its creation, on 1 July 2021, is a major milestone in our voluntary implementation of the Financial Reporting Council's (FRC's) principles for the operational separation of our audit business from the rest of the firm. Combined with our sustained investment in audit quality, we hope these measures will continue to build trust and confidence in UK audit.

To that end we have played an active role in the ongoing debate on trust in business and what is required to restore it. While auditing and assurance have an important role to play, holistic and cohesive reform of corporate governance, reporting and regulation is also necessary. Key proposals in the UK Government's consultation *Restoring trust in audit and corporate governance* (BEIS<sup>1</sup> consultation), could, if implemented effectively, make an important contribution to this task.

The UK has led the world in the development of accounting standards and corporate governance, which adds to its attractiveness as a place to do business. As the needs and expectations of society evolve, it is natural that further reform is required and we will continue to play our part in that process. We will, where we believe it is necessary to enhance audit quality and protect the public interest, continue to highlight where we believe proposals may lead to unintended consequences or adverse outcomes. In some instances this may be unpopular, but we believe that honest and frank engagement with consultations is crucial to their success.

In addition to our implementation of operational separation, we have made further enhancements to our governance. This has drawn on the experience of the last year to put in place an enhanced framework for robust challenge and agile decision-making in the firm. As part of this, we have redesignated our existing Independent Oversight Committee (IOC) as our Public Interest Board (PIB). More details on these changes are contained in Appendix 3 of this report.

<sup>1</sup> Department of Business, Energy & Industrial Strategy

I would like to take the opportunity at this point to thank EY UK's Independent Non-Executives (INEs), David Thorburn, Tonia Lovell and Sir Peter Westmacott, for their continued oversight of EY UK and its strategy. I would also like to welcome our new Non-Executives – Mridul Hegde and Philip Tew.

We are committed to high standards of corporate governance and to that end we will be actively engaging with the FRC's consultation on revisions to the AFGC. We believe that this is an important consultation and we will be seeking to ensure that it recognises the strengths of both the partnership model and the global EY network in delivering sustainable high-quality audits and other services in the public interest.

### **Our people's importance to our success**

EY UK's success, and our ability to provide the services required by our clients and the companies we audit, is grounded in the quality and engagement of our people. This is true every year but is all the more worthy of emphasis in a year that brought such rapid, unexpected and substantial change to our working and private lives. In this context, physical and mental health and wellbeing have been even more than usual, and we have put both at the heart of our leadership activities and communications. That will continue to be the case as we move into a hybrid-working pilot phase, during which we will engage with our people to understand how they wish to work in the future. As a major UK employer, with more than 36% of our people based outside London, we are very conscious of the role we play across the country and the role we play in preparing professionals for careers in finance and management. We will continue to work with national and regional governments to promote economic growth and prosperity across the UK.

Our employee networks have also been an important source of community and connection for our people. They are an important part of the firm's significant commitment to Diversity and Inclusiveness (D&I). They provide a valuable sounding board for management and a source of challenge, which we welcome, as we seek to ensure that we are creating an organisation where everyone can belong.

### **Conclusion**

We hope that you find our Transparency Report a useful document and one which gives greater understanding of EY. We are keen to receive any feedback and to respond to any questions which you may have about our firm. Please contact me on: [hball@uk.ey.com](mailto:hball@uk.ey.com).

# Leadership messages

## Foreword from the EY UK Independent Non-Executives



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## Introduction

This has been another challenging year for the firm against the backdrop of the pandemic, the changing regulatory requirements and the implementation of the FRC's operational separation principles.

In the INEs' message in last year's Transparency Report, we outlined the impacts of the pandemic and our, and EY UK management's, response. That response continued throughout this year, together with commencing the implementation of operational separation. Good progress was made in putting in place a new governance framework to reflect the requirements of operational separation. This will continue to evolve in the year ahead and be kept under review with the ongoing changes to regulatory requirements.

This year we dedicated more time to engagement with internal stakeholders, engaging with the United Kingdom & Ireland (UK&I) Regional Partner Forum (RPF), EY Voice (forum of employee representatives elected from across EY UK) and the D&I and Race & Ethnicity networks.

Unfortunately, our ability to meet with external stakeholders was impacted by the pandemic. However, we had very useful discussions with the Audit Committee Chairs' Independent Forum (ACCIF).

We also participated in EY UK's 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 also held with the FRC during the year.

## Looking back

### Audit quality

We are satisfied that the additional audit quality actions undertaken during the year, which were intended to address

client and audit risk, mitigate the impacts of the pandemic and improve the firm's system of quality management, were implemented effectively.

Safeguarding audit quality in a remote-working environment remained a top priority and our oversight and challenge activities included:

- ▶ Monitoring resourcing levels, which included monitoring employees' mental health and the audit tender pipeline.
- ▶ Overseeing the work of the Audit Quality Executive committee (AQE) (previously the Audit Quality Board), including the ongoing development of remote audit procedures, approach to letter-box audits and close monitoring engagements, as well as key audit risks impacted by COVID-19.
- ▶ Engaging with EY Voice and the UK&I RPF on the topic of culture, focussing on both the audit and non-audit businesses.

The FRC's quality inspection results in respect of first year audits that had been executed under COVID-19 restrictions are an encouraging indication that the firm has responded appropriately to the challenges of the pandemic.

We take a proactive role in contributing to the evolution of the Audit Quality Strategy. Our ability to do this was enhanced by the introduction in May 2020 of separate monthly Audit Quality IOC (AQIOC) meetings, which gave us the opportunity to be more involved in the topics covered at the AQE. Through ongoing membership of the Global Governance Council (GGC) by David, we continued to work with the global EY organisation, particularly focussing on measures being taken on assessing and responding to fraud risk, enhancing engagement risk assessment and leveraging data and technology.



## Other areas of INEs' focus

Other key areas of INEs' focus related to helping the firm secure its reputation more broadly (including in its non-audit businesses) and reducing the risk of firm failure. This involved oversight and challenge in relation to:

- ▶ The application of ethical standards
- ▶ The work of the Reputation and Conflicts Panel (RCP)
- ▶ Root cause analysis (RCA) of instances of poor audit quality and other reputational matters that arose during the course of the year
- ▶ The effectiveness of internal controls, including progress against compliance with International Standard on Quality Management (UK) 1 (ISQM 1) and the work of the Internal Audit function
- ▶ The firm's approach to the three lines of defence model and treasury management
- ▶ The evolution of the risk profile and changes to principal risks and network risks reported by the global EY organisation
- ▶ The outcomes of the viability assessment and scrutinising the firm's crisis management capabilities
- ▶ Audit partner remuneration and incentive structures
- ▶ Partner conduct matters and the actions taken by the firm in response

We consider the introduction of the new Managing Partner, Risk Management role to be a positive development in strengthening the firm's overall risk and control framework.

## Looking forward

Dealing with COVID-19 issues has meant that the speed of implementing changes to EY UK's governance framework was slower than we anticipated, as priority needed to be given to the wellbeing of the employees, audit quality and EY UK's resilience. However, we have entered the new financial year with the plan for operational separation and a new governance framework in place.

The newly constituted UKAB, which is chaired by David, will provide independent oversight of EY UK's pursuit of audit quality improvement. Its members include four ANEs and three executives. Its main role will be oversight of the firm's focus on delivering the highest levels of audit quality and reinforcing a culture of professional scepticism and challenge. The UKAB replaces the AQIOC.

Operational separation has also required the establishment of the Audit Board Remuneration Committee (ABRC) which, with effect from 1 July 2021, is responsible for overseeing the remuneration policy of the audit practice.

Separately, the IOC has been reconstituted as the PIB, chaired by Tonia. Its members include four INEs and three executives. The PIB will enhance the performance of EY UK (including the non-audit businesses) in meeting the principles in the AFGC. In particular, it will provide independent oversight of EY UK's financial resilience, governance and leadership, values and culture, and risk management and resilience.

We were pleased to welcome two new colleagues in July 2021. Mridul Hegde joins as an INE and ANE and Philip Tew as our doubly independent ANE. Their biographies are provided in Appendix 8. Following on from this change, three of the INEs (David, Tonia and Mridul) will have a dual role as members of both the UKAB and the PIB, while Sir Peter will dedicate his time to the PIB and Philip to the UKAB.

Our core priorities for the year ahead remain unchanged. We will continue to oversee the evolution of the Audit Quality Strategy and ensure that the firm lives up to its public interest obligations while maintaining financial resilience. Additionally, the UKAB and PIB will seek to enhance both external and internal engagement and will work with EY UK on its response to the FRC's consultation on the new AFGC. We will also closely monitor the impacts of operational separation.

## Conclusion

This message seeks to offer insight into the key areas of focus of the INEs this year but should not be considered as an exhaustive list. We invite questions and feedback on any elements of it. You are welcome to contact any one of us at: [eynonexecutives@uk.ey.com](mailto:eynonexecutives@uk.ey.com)



# Leadership messages

## Foreword from the EY UK Head of Audit



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Reflecting on my first year as EY UK Head of Audit, I first and foremost would like to thank our people for their extraordinary dedication and commitment to delivering high-quality audits in some of the most challenging circumstances I have seen in my career.

We have continued to develop our audit strategy in line with our purpose of delivering high-quality audits in the public interest and taking personal pride in audit. Our strategy is built to deliver sustained audit quality, create exceptional audit experiences and provide differential audits that meet the needs of stakeholders, all of which I elaborate on further below.

### Commitment to highest quality audits

In line with the ambitions we set in FY21, our Audit Quality Strategy is a multi-year plan to ensure we deliver consistently high-quality audits. Against the backdrop of the challenges brought about by the pandemic, we have made progress towards this goal in the past year, despite the majority of our audits being conducted fully or predominantly remotely. While acknowledging that there is still a great deal to do, our overall quality results for FY21, both internally and externally, indicate that we are headed in the right direction on this journey.

Reflecting the additional risks faced during the COVID-19 pandemic, we delayed over 450 audit opinions (both statutory and group reporting), standing firm even when the message was unpalatable to management, demonstrating our commitment to prioritising quality over speed.

Integral to our quality strategy is our audit culture. Scrutiny of our profession has shone a brighter light on the culture in audit firms and our decision to operationally separate our audit practice has given us a unique opportunity to evolve our culture to meet the specific needs of our stakeholders.

As discussed later in this report, we are working with our regulators and our people to articulate a culture that is right for us and which is clear on whose interests audits serve.

In FY21, we looked to embed a culture of challenge and scepticism, using Purpose-Led Outcome Thinking (PLOT), a framework that focuses on the behaviours that drive high-quality audits (as described in Appendix 3: Audit quality) for high-quality outcomes and driving consistent quality control. In FY22, we will build on these areas by strengthening a culture of scepticism, conducting digital audits and improving the standardisation of our work. This will be supported by our Sustainable Audit Quality (SAQ) programme, which establishes a strong governance structure through six pillars designed to support an ongoing process of improvement.

### Our people are at the heart of audit quality

Delivering audit quality is underpinned by securing, training, and retaining the best talent. Across the UK, companies and auditors are experiencing higher levels of movement within the workforce following a reopening of the job market after a period of unusually low attrition. This, coupled with greater demands on auditors from extra work required as a consequence of COVID-19, means our teams have had to work longer hours than we, or they, would like. This effect is reflected in the lower audit quality survey scores received around resource levels. In response, we are actively recruiting more auditors across the UK and implementing measures to retain our existing talent. In addition, equipping teams with the right resourcing, tools and support to maintain professional scepticism and challenge management is fundamental to delivering high-quality audits.

The attractiveness of the profession is a critical issue, and therefore we are mindful of the need to provide our teams with the developmental opportunities, role-modelling, mentoring, and coaching to inspire and support the next generation of auditors.

In FY21, we set ourselves the aim of continuing our investment in the training and professional development of our people, which included the award-winning global EY Audit Academy, milestone events across EY (e.g., our new senior, manager and senior manager programmes), EY Badges (curated learning to develop future-focussed technology, leadership and business skills) and real-time global and regional learning in response to current and emerging issues.

Inspiring confidence in our people and empowering them to build careers they can be proud of is critical to maintaining the attractiveness of the audit profession.

## Restoring trust and confidence in UK audit

In the last year it has been important for us to listen and learn. The FRC's investigation into the 2017 Stagecoach audit has highlighted that regrettably, on that occasion, we fell short of the standards we set for ourselves, and the standards expected of us by the FRC and society. We have worked hard to rectify the issues identified, and no findings were raised in the FRC's review of our audit of the company for the 2020 year end, indicating that our efforts have been successful. We also await the outcome of ongoing investigations relating to Thomas Cook Group plc, NMC Health plc and London Capital & Finance plc. Learnings will be incorporated in all our audits going forward.

We will continue to work with the FRC and other stakeholders to ensure that our audits deliver on their public interest role of building trust and confidence in business and capital markets.

## Enhanced governance

This year has been significant in respect of the progress we have made with the operational separation of our UK audit practice.

The majority of our plans are expected to be implemented well in advance of the 2024 transition deadline. To this end, we now have a suite of boards and committees designed to safeguard audit quality, including the UKAB, the ABRC and the Accountable Executive Committee.

Through the oversight of independent ANEs, we will receive constructive challenge on how we can better serve the public interest. Our ANEs, some of whom have experience of working in businesses that have undergone a form of operational separation, will help us make the right decisions on behalf of our stakeholders.

## Regulatory inspection results and monitoring quality

We continue to make significant investments in audit quality and it's encouraging to see this reflected in ongoing improvements across a variety of internal and external measures.

We have seen improvement in our external quality gradings. In this year's FRC reviews (where selection focus is on PIEs through a risk-based approach) 79% of our audits selected had good or limited improvements required, up from 71% in the prior period. Furthermore, we had no audits requiring significant improvement (compared with one in the prior period). Additionally of 10 inspections by the ICAEW's Quality Assurance Department (QAD), nine were rated 1 or 2, however we did have one report rated a 4 (compared with none in the prior period).

The execution of the EY Global Audit Quality Review (AQR) programme by EY UK also provides an opportunity to review compliance with policies and procedures, professional standards and regulatory requirements, as well as enhance systems of quality control. This year 91% of our audits were graded at a 1 (compared to 77% in the prior period) with only 2% graded at the lowest grading of a 3 (1% in the prior period).

In addition to measuring progress through our inspection results, we also internally monitor audit quality indicators (AQIs) which cover Milestones performance (a programme to improve and monitor project management of our audits and drive executive involvement), people surveys and retention rates. As discussed later in this report, the FRC has commented on the use of these indicators as good practice in maintaining audit quality.

We do, however, recognise that there is still more to do. We are listening carefully to the FRC's feedback as we enhance our Audit Quality Strategy (AQS) to ensure we deliver consistent high-quality audits.

## Innovation and technology

The future of audit relies on digital tools and processes that scan entire data sets and better pinpoint risks or errors. For this reason, we are focussed on enabling a data-driven digital audit. In this regard, 100% of our engagements now use our Canvas audit platform, 77% of our engagements use our Canvas client portal and around three quarters of larger engagements use our core Helix analytic tool.

## Embracing future change

We look forward to the outcome of the BEIS consultation. The proposals for regulatory reform have the potential to make a significant positive impact on trust in audit, as well as the wider UK business ecosystem. Alongside the implementation of our Audit Quality Strategy, this will support our delivery of consistently high-quality audits.

Our local ambitions align with those we have globally, evidenced through our commitment to invest c.\$2 billion over the next three years in audit quality as announced by Global Chairman and CEO, Carmine Di Sibio.

As part of our ongoing improvement efforts, we will also increase our focus on fraud through:

- ▶ The development of a suite of policies and tools including the use of data analytics for fraud testing for all listed entities globally
- ▶ The use of forensic specialists on a targeted risk basis
- ▶ Fraud training for all audit professionals

Lastly, investors are mounting pressure on businesses to take urgent action on climate change. They are expecting clearer information on how businesses are managing climate change risks and how those risks are reflected in the financial statements. We have set up a dedicated Climate Change Steering Committee to oversee the implementation of a new framework and guidance which audit teams can use to assess and respond to material climate change risk factors, alongside mandatory training programmes to raise awareness of this topic going forward. As assurance over Environmental, Social and Governance (ESG) metrics grows in demand, the EY Sustainability Assurance Methodology (EY SAM) also provides a global framework for a consistent approach to performing ESG assurance engagements through the application of a methodology emphasising professional scepticism.

More about our strategy can be found in our 2021 [Audit Quality Report](#).

## Conclusion

Hopefully this message has provided some insight into how we have developed our audit practice this year, alongside our future strategy for further enhancement. Please feel free to get in touch with any questions or feedback by contacting me on: [awalton@uk.ey.com](mailto:awalton@uk.ey.com).



# About us

## Legal structure, ownership and governance

Information on the governance of EY UK, including details on board and committee membership structure, among other things, is included in Appendix 3: Governance and leadership.

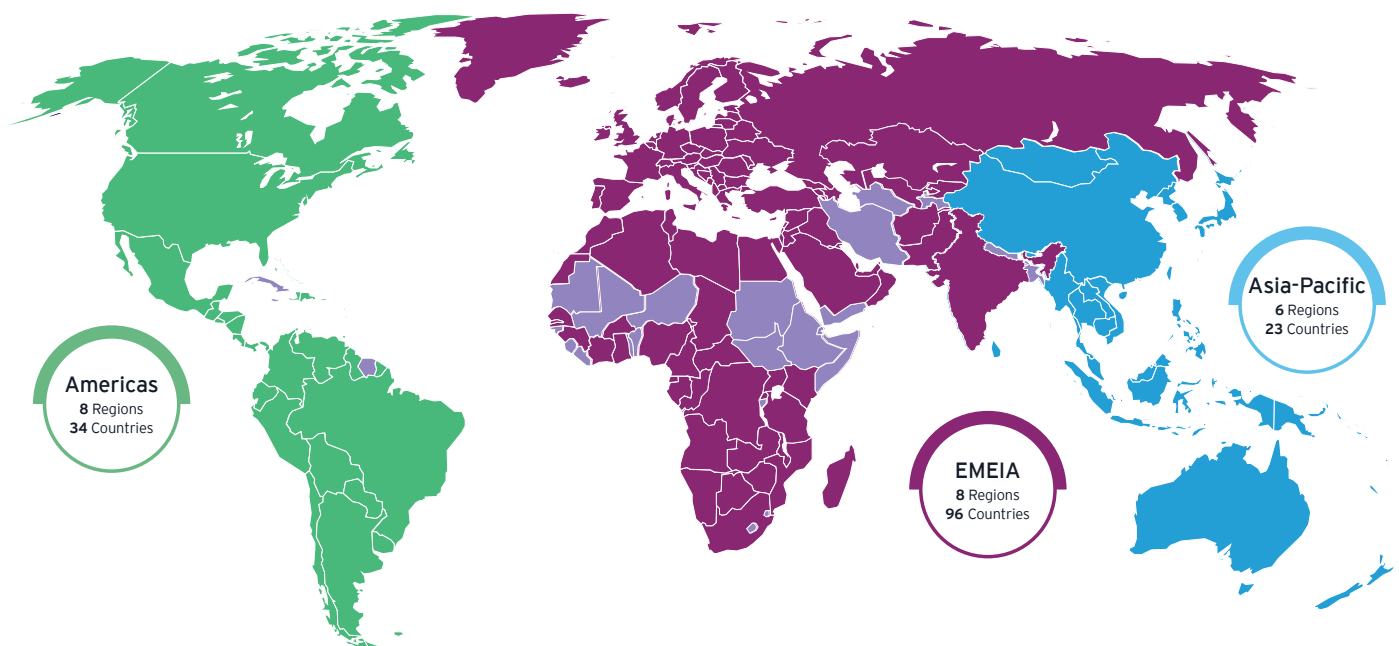
EYG member firms are grouped into three geographic Areas: Americas; Asia-Pacific; and Europe, Middle East, India and Africa (EMEIA). The Areas comprise multiple Regions. Regions are groupings of member firms (and in the case of the US member firm within that member firm)

along geographical lines with the exception of the Financial Services Organisation (FSO) Regions, which comprise the financial services activities of the relevant member firms within an Area.

EY UK is part of the EMEIA Area, which comprises EYG member firms in 96 countries. Within the EMEIA Area, there were previously 10 Regions, and, from the beginning of FY22, the number has reduced to 8. EY UK is part of the UK and Ireland (UK&I) Region, with the exception of its financial services practice, which is part of the EMEIA FSO, which is treated as a separate Region.

### EY Areas, Regions and Countries

(Figures are as of 2 July 2021)



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 (GGC).

A holding entity, Ernst & Young Europe LLP (EY Europe), was formed in conjunction with EMEIA Limited. EY Europe is an English limited liability partnership, owned by partners of the EY firms in the UK and the European Economic Area (EEA). 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 EYG. EY Europe acquired voting control of EY UK as of November 2008.

EY Europe's principal governing bodies are:

#### **Europe Operating Executive**

The Europe Operating Executive (EOE) of EY Europe has authority and accountability for strategy execution and management. The EOE comprises: the Europe Managing Partner; the Deputy 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 the 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 and transactions, and consulting services. Worldwide, over 312,000 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 separate legal entity. Each member firm's obligations and responsibilities as a member 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.

### **▶ Global Governance Council**

The GGC is a key governance body of EYG. It comprises one or more representatives from each Region, other member firm partners as at-large representatives and 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.

### **▶ Global Independent Non-Executives**

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 and stakeholder dialogue, issues raised under whistleblowing policies and procedures, and engagement in quality and risk management discussions. The INEs are nominated by a dedicated committee, approved by the GE and ratified by the GGC. David Thorburn is the UK INE representative on the GGC.

## ➤ Global Executive

The GE brings together EY's leadership functions, services and geographies. From the beginning of FY22, it is chaired by the Chairman and CEO of EYG, and includes its Global Managing Partners of Client Service and Business Enablement; the Area Managing Partners (AMPs); the global functional leadership for Talent; the leaders of the global service lines – Assurance, Consulting, Strategy and Transactions, 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, and 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, and markets and branding
- ▶ EY's development funds and investment priorities
- ▶ EYG's annual financial reports and budgets
- ▶ GGC recommendations on certain matters

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

The Global Practice Group brings together the members of the GE, GE committees, Regional leaders and sector leaders. It 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, talent 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 Appendix 3: Culture and values).

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 human resources (HR). Member firms unable to meet quality commitments and other EYG membership requirements may be subject to termination from the EY organisation.

## Creating long-term value for society

While capitalism has created enormous global prosperity, it has also left too many people behind. Extreme poverty is already on the rise as a result of the COVID-19 pandemic, and climate change is threatening to deepen inequality further as vulnerable communities are hit first and worst by its effects. EY believes an economic system that is fairer, more trustworthy and capable of addressing humanity's most profound challenges is urgently needed.

From advising governments on how to build more sustainable and inclusive economies, to encouraging businesses to focus and report on their creation of long-term value for all stakeholders, EY services already play a vital role in this. However, more can and must be done.

As a proud participant in the United Nations Global Compact (UNGC) since 2009, EY is committed to integrating the UNGC Ten Principles and the United Nations Sustainable Development Goals (SDGs) into EY strategy, culture and operations.

Among other things, this commitment is reflected in:

### ► Corporate responsibility governance structures

Corporate responsibility across EY is coordinated by the EY Corporate Responsibility Governance Council (CRGC). This body includes members of the EY GE and provides senior leadership representation from across EY services lines, functions and geographic areas.

### ► The EY social impact ambition

The global corporate responsibility programme, [EY Ripples](#), brings together the global EY network with a goal of positively impacting one billion lives by 2030. To date, EY Ripples initiatives have cumulatively benefited more than 45 million people, aided by:

- ▶ A rigorous focus on three areas (supporting the next generation workforce, working with impact entrepreneurs, and accelerating environmental sustainability) where the

distinctive skills, knowledge and experience of EY people can make the biggest difference.

- ▶ A collaboration with other like-minded organisations to build ecosystems capable of creating change at scale. For example, the TRANSFORM initiative with Unilever and the UK Foreign, Commonwealth and Development Office, aims to change the lives of 150 million people across sub-Saharan Africa and South Asia by 2030, by tackling inequality.

### ► The EY carbon ambition

EY aims to become carbon negative in 2021 and net zero in 2025. EY endeavours to achieve this by significantly reducing absolute carbon emissions, and then removing or offsetting more than the remaining amount every year. To reach net zero by FY25, EY member firms plan to reduce absolute emissions by 40% across Scopes 1, 2 and 3 (versus an FY19 baseline), consistent with a 1.5°C science-based target approved by the Science Based Targets initiative (SBTi). Specific actions include:

- ▶ Reducing business travel emissions, with a target to achieve a 35% reduction by FY25 against the FY19 baseline
- ▶ Reducing overall office electricity usage, and procuring 100% renewable energy for remaining needs, earning RE100 membership by FY25
- ▶ Structuring electricity Power Purchase Agreements (PPAs) to introduce more renewable electricity than EY consumes into national grids
- ▶ Using nature-based solutions and carbon-reduction technologies to remove from the atmosphere or offset more carbon than emitted, every year
- ▶ Providing EY teams with tools to calculate, then work to reduce, the amount of carbon emitted in carrying out client work
- ▶ Requiring 75% of EY suppliers, by spend, to set science-based targets by no later than FY25
- ▶ Investing in EY services and solutions that help clients create value from decarbonising their businesses, and provide solutions to other sustainability challenges and opportunities

In the UK we have also published our [Impact Report](#), which describes the wider impact on society that EY UK had in FY21 through our impact on social mobility, regional development, D&I, environmental sustainability and trust and quality, as well as our ambitions going forward.



# Commitment to Sustainable Audit Quality

Quality is our top priority. In this section, we highlight the infrastructure supporting quality globally. EY UK specifics and how we apply our global processes and policies locally are expanded on in Appendix 3: Audit quality. We also present as a separate document from this Transparency Report our [Audit Quality Report](#) for a more comprehensive view of audit quality in the UK.

## Infrastructure supporting quality

### ▶ Quality in the EY service lines

NextWave is the EY global strategy and ambition to deliver long-term value to companies, people and society. It has put EY in a strong position to adapt and innovate, while the EY purpose of *Building a better working world* continues to inspire EY people not only to deliver exceptional client service for clients and companies we audit, but also to use EY 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.

In response to disruptions in the environment, EY member firms adapted to maintain the delivery of high-quality audits. EY provided its audit professionals with additional training and enablement to help assess and respond to fraud risks. In addition, through a data-first approach enabled by analytics and digital tools, teams were able to deliver high-quality audits with independence, integrity, objectivity and professional scepticism.

EY member firms continue to develop the audit of the future, including ever more sophisticated data analytics, efficiently delivering greater insight and assurance in support of the high-quality audits that are valued by the companies that EY audits and the capital markets.

Our people are our greatest asset in delivering quality and value and building trust. We are elevating their experiences, using data and technology, so they can spend more time addressing risks and exercising professional judgement. By applying cutting-edge technologies and sophisticated data analytics our people are able to connect and contribute to the overall EY purpose of *Building a better working world*.

EYG member firms and their service lines are accountable for delivering high-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.

### ▶ Global Audit Quality Committee

The EY Global Audit Quality Committee (GAQC) is an important element of the culture of continuous improvement. It comprises senior leaders from across the EY organisation with extensive, diverse and highly relevant experience. The GAQC advises EY Assurance leadership on the many aspects of the organisation's business, operations, culture, talent strategy, governance and risk management that affect audit quality.

The committee develops innovative ideas and approaches to delivering high-quality audits and organisation and is a forum for sharing best practices of EY member firms. The committee also helps develop AQIs and other forms of quality monitoring that feed into the continuous improvement cycle.

### ➤ Quality Enablement Leaders

The EY Quality Enablement Leaders (QEL) network is a group of senior Assurance leaders around the world who drive improvements in audit quality by providing support to engagement teams.

Their responsibilities include: coaching teams; advising teams on remediating the root causes of significant audit deficiencies; driving practice and project management; supporting portfolio risk analyses; and implementing processes related to the EY system of quality management, including global AQIs.

Using EY Canvas and Milestones project management functionality (see ‘Sustainable Audit Quality’ below), the QELs are able to build a picture of audit quality performance in real time. We are piloting ever more sophisticated artificial intelligence (AI) tools which in the near future will enhance this capability even further. This, in turn, gives greater clarity

over where resources should be deployed to support audit teams on the companies they audit.

In the UK the QEL network leads our SAQ programme, which is overseen by the AQE. The SAQ and activities of the AQE are discussed further in Appendix 3: Audit quality.

### ➤ 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 as well as the Global Delivery Service centre PPD is overseen by the Global PPD and the related Area Assurance Leader. This helps provide greater assurance as to the objectivity of audit quality and consultation processes.

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

### Assurance Governance\*



\* Illustrative to show global alignment; actual reporting lines vary based on legal, regulatory and structural considerations. In the UK we also have a UK Head of Audit, Andrew Walton, who reports into the Country Managing Partner in this capacity and is overseen by the relevant Regional Assurance Leader.



The Global PPD oversees the development of the EY Global Audit Methodology (EY GAM) and related audit policies and 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, Regional and Country PPDs, together with other professionals who work with them in each member firm, are knowledgeable about EY people, companies we audit and processes. They are readily accessible for consultation with audit engagement teams. In the UK, the PPD team also supports internal and external inspections.

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

- ▶ Internal-control reporting and related aspects of the EY audit methodology.
- ▶ Accounting, auditing and risk issues for specific topics, industries and sectors.
- ▶ Event-specific issues involving areas of civil and political unrest; pandemics; 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 (RM) coordinates 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 RM Leader helps monitor the identification and mitigation of these risks, as well as other risks across the organisation as part of the broader enterprise risk management (ERM) framework. The ERM priorities are communicated to member firms.

The Global RM Leader is responsible for establishing globally consistent risk management execution priorities and co-ordinating risk management across EY.

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.

Within the UK, there have been continued developments enhancing the existing approach to ERM and building capabilities through the implementation of a revised operating model. Further details are included in Appendix 3.

There have been additional complexities as the world continued to deal with the COVID-19 pandemic. This has required a coordinated response across EY via activation of the local crisis management plans (LCMPs) that reside in nearly all EY member firm offices. LCMPs detail specific actions to be taken to both protect the EY workforce and respond in the event of a COVID-19 infection within an EY workspace. However, while individual offices had to deal with issues around contact tracing and safe workspace practices, there was a need to provide a set of uniform guidance across all EY Areas. Even before the World Health Organisation (WHO) declared the existence of a pandemic, the EY Global Crisis Management Programme (GCMP) was activated. The GCMP allowed for the creation of a Steering Committee led by the Global RM Leader who convened key Global and Area leadership daily for six months (and thereafter regularly but less frequently) to address issues relevant to all geographies and service lines.

In the UK the Crisis Management Team (CMT) responded to the breaking crisis using the Crisis Management Plan and invoking the Pandemic Plan, to manage the rapid pivot to home working. The Pandemic Team was then created to provide a planning capability and to support decision-making at the COVID-19 Sub-Committee (C19SC) of the Board. This sub-committee evolved into the Country Response Committee (CRC), which is now called the UK Country Committee (UKCC). The UKCC considers a range of issues that impact EY UK, including the pandemic, returning to the office and the future of work.

The CRC issued regular guidance on EY's COVID-19 response protocols and addressed issues related to travel, meetings and events as well as adoption and promotion of best practices, and relayed specific safe working practices guidance from the WHO. Guidance is still being issued and risk factors are being monitored during the second year of the global pandemic.

In implementing the CRC, the goal was to keep people safe and informed, manage confirmed cases, adjust the handling of travel and events, enable a fully remote workforce and plan for recovery. With a robust CRC in place, we were able to act quickly to keep EY people safe – the top priority throughout the entire process. Throughout the pandemic, the CRC supported by the UK Pandemic team:

- ▶ Created guidance for various stages of the pandemic and developed a resource library as a centralised repository.
- ▶ Produced regular reports for leadership on the UK and local impacts.

The Pandemic Team also had a role in managing confirmed cases by:

- ▶ Developing pandemic checklists to manage confirmed cases in the workforce.
- ▶ Conducting training on how to respond to confirmed cases.
- ▶ Assisting Talent with contact tracking for confirmed cases.
- ▶ Providing input and advice on travel, meetings and events.
- ▶ Identifying international travellers to help them return to their home countries safely.

Now that the focus has shifted to a safe return to the office, the CRC team has developed a recovery plan that includes:

- ▶ Leading the effort to develop return-to-work protocols and track the easing of government restrictions.
- ▶ Creating a timeline for reopening offices.
- ▶ Determining responsibilities and procedures for building management, office setup, workspaces and meetings.
- ▶ Establishing personal responsibilities including office entry, workspaces, breaks and meetings.
- ▶ Developing a post-vaccine recovery plan.

## ▶ 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 ever-changing restrictions on the use of data. This policy provides added clarity for those who work with EY member firms 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 noncompliance with laws and regulations, and EY's Global Code of Conduct, both require EY professionals to speak up on observing behaviour that is believed to be a violation of a law or regulation, the applicable standard or EY's Global Code of Conduct. This includes the unauthorised or improper disclosure of confidential information.

## ▶ Global Personal Data Protection Policy

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 applicable law, regulatory frameworks and professional standards. This has been updated to be consistent with the EU General Data Protection Regulation (GDPR) and other local regulations across the globe.

## ▶ Cybersecurity

Managing the risk of major and complex cyberattacks is a part of conducting business for all organisations. While no systems are immune from the threat of cyberattacks, EY 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 annually to affirm in writing their understanding of the principles contained in the EY Global Code of Conduct and their commitment to abide by them. There are also required 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 outlined in these policies and of general security awareness practice.

## ► 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
- Root cause analysis
- Compliance with legal requirements

## ► Instilled professional values

### ► Sustainable Audit Quality

Quality is the foundation of our work and central to EY member firms' responsibility to provide confidence to the capital markets. This is reflected in our culture and the 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. These pillars underpin the delivery of high-quality audits in 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. The trend in results also reflects the involvement of the QEL network and a focus on culture and behaviours.

EY has deployed leading technological tools that enhance the quality and value of EY audits, including the EY Canvas online audit platform, EY Helix analytics platform and EY Atlas research platform.

EY Canvas facilitates the use of the Milestones project management functionality, which helps audit teams stay on pace with their audit execution and drive executive involvement. The EY Canvas Client Portal, which is a component of EY Canvas provides a secure and user-friendly platform for transmitting data between engagement teams and the companies audited, while effectively monitoring the pacing of the audit. This suite of tools played a key role in helping EY navigate this past year: having the right technology and tools in place for EY audit teams to work together effectively in a remote environment continues to be a key success factor and differentiator.



Additionally, EY Helix and the entire suite of data analytic tools represent key ways to address the risk of fraud in audit execution. Increasing the required use of these tools provides a more robust response to audit risks associated with companies facing economic challenges, especially in light of the pandemic. Broader adoption of these data analytic tools is occurring this year.

EY Atlas is a cloud-based platform for accessing and searching accounting and auditing content, including external standards, EY interpretations and thought leadership.

Current SAQ initiatives are focussed on supporting EY teams in understanding the business of the companies audited. By leveraging data and technology and executing enhanced engagement risk assessment, EY is continuing to drive quality audit execution. Additionally, a network of coaches is actively supporting engagement teams in staying on track with respect to the pace of their audits, driving timely executive involvement and providing positive direction and enablement when necessary.

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 a role in achieving these 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.

In the UK we launched our refreshed AQS in September 2020 which aligns to the six pillars of our SAQ. This is discussed further in Appendix 3: Audit quality. We also discuss our culture in Appendix 3: Culture and values and the impact this has on quality.

## ➤ 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, EY people also understand that quality and professional responsibility start with them and that within their teams and communities, they are leaders too. EY shared values, which inspire EY people and guide them to do the right thing, and the EY 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 leadership regularly reinforce the importance of performing quality work, complying with professional standards, adhering to EY policies and leading by example. In addition, EY member firms assess 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 companies correctly follow consultation advice, and we emphasise this when necessary.

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

## ➤ Global 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 by reporting misconduct without fear of retaliation.

## ➤ Whistleblowing

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 RM, 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.

## ➤ Diversity and inclusiveness

EY has a long-standing commitment to D&I. This commitment to building high-performing, diverse and inclusive teams is especially important in audit, where diverse perspectives drive professional scepticism and critical thinking. Greater diversity and inclusive environments drive better decision-making, stimulate innovation and increase organisational agility. Teaming and leading inclusively helps others experience psychological safety and trust, which leads to a feeling of belonging.

EY has been on a D&I journey for decades, and while substantial progress has been made, under the global NextWave strategy and ambition, EY has committed to increasing D&I progress throughout the organisation. The GE has made a visible commitment to EY people and to the market to accelerate D&I at EY through signing the GE Diversity & Inclusion Statement. Not only does this reinforce that D&I is a key business lever, it ensures that EY member firms hold themselves accountable for progress, starting with the tone at the top.

There has been a particular focus on promoting gender diversity over recent years. In 2021<sup>1</sup>, 37% of new audit partners globally, and 30% in the UK, were women. A strong pipeline of female leadership has been built, supported by 52% of audit hires across the globe, and 40% in the UK, being female in the 2020 calendar year.

Inclusive organisations maximise the power of all differences. Employees need to feel they are working for an organisation that not only values them as individuals, but also sees differences as strengths and values their contributions. Fostering this sense of belonging is critical to helping the EY organisation attract the most talented individuals, and help our professionals stay motivated and engaged.

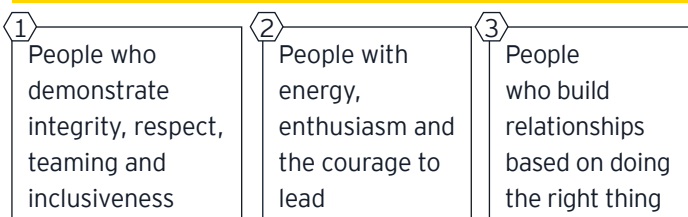
In the November 2020 employee listening survey, globally 82% of auditors said the EY organisation prepares them to work effectively with clients and colleagues from different countries and cultures, and 86% agreed that the people they work with make them feel that they belong to a team. These results were 84% and 81%, respectively, for EY UK.

Leaders across EY make D&I a priority and it is a key metric across all the organisation's talent management programmes. To enable greater accountability across the EY organisation, the Global D&I Tracker helps track progress with consistent D&I metrics and reporting across the organisation globally.

EY UK's focus on promoting diversity includes both gender and race. We have set an ambitious target to double the proportion of our partners who are female to 40% and our ethnic minority partners to 20% by 2025, of which 15% will be Black. In addition to our ongoing commitment to D&I, in July 2020 EY UK published our [anti-racism commitment](#) to be a voice and force for change, both within our own organisation and in society more widely. As at the end of FY21, 23% of our partners were female and 12% were of minority ethnicity.

EY also created the Global Social Equity Task Force (GSET) to develop cohesive action plans specifically addressing inequity and discrimination, including racism. It includes EY leaders with a wide range of backgrounds and perspectives, spanning geographies, service lines and functions.

### Our values: who we are



<sup>1</sup> This includes new partner admissions as of the first day of FY22.

## 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 independent assurance on the fair presentation of the financial statements of the companies audited. We bring together qualified teams (including specialists) to provide audit services, drawing on our broad experience across industry sectors and services. We continually strive to improve quality and risk management processes so that the quality of our service is at a consistently high level.

In today's environment, characterised by continuing globalisation, rapid movement of capital and the impact of technological changes, the quality of our audit services has never been more important. As part of NextWave, there is a continued and strong investment in the development and maintenance of the EY audit methodology, tools and other resources needed to support high-quality audits.

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.

EY works to understand where member firms' audit quality may not be up to their own expectations and those of stakeholders, including independent audit regulators. This includes seeking to learn from external and internal inspection activities and to identify the root causes of adverse quality occurrences to enable a continual improvement of audit quality.

### 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 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 coordination of quality improvement implementation. 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 audit regulators, provide EY UK with a basis to conclude that our internal control systems are designed appropriately and are operating effectively. We give more details on the results of this monitoring in Appendix 3: Audit quality.

### Audit quality indicators

Audit quality is not defined in professional standards, and stakeholders may have different views on how it should be measured. While no single reportable metric or set of metrics can be viewed as a sole indicator of audit quality, a set of metrics can be used to give an indication of audit quality.



Assurance leadership monitors the execution of the EY strategy and vision by local geographies through a combination of metrics or AQIs. These include: external and internal inspection results; Milestones performance; people surveys; and retention rates.

AQI dashboards help to inform the leadership about whether particular actions are having the intended effect, to provide an early warning where intervention is warranted and to support the effectiveness of the overall EY system of quality management.

In the UK, the FRC has commented on the use of these indicators as good practice in maintaining audit quality. We will continually develop these AQIs to improve our ability to monitor and maintain audit quality. We report on a number of AQIs in Appendix 3: Audit quality.

## ➤ 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 standard was subsequently adopted by the FRC in July 2021. ISQM 1 will replace the current International Standard on Quality Control (UK) 1 (ISQC 1) and requires a more proactive and risk-based approach to managing quality at the firm level.

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

The standard includes more robust requirements for the governance, leadership and culture of professional accountancy firms, and introduces a risk assessment process for firms to assess risks to achieving quality objectives and design responses that address those risks. It also requires more extensive monitoring of the SQM to identify deficiencies that require corrective actions and to provide the basis for evaluating the overall effectiveness of the SQM.

The EY approach is to design an SQM that is consistently applied across the entire network of member firms to promote consistent engagement quality and operating effectiveness. This is especially important in a global economy where many audits are transnational and involve the use of other EY member firms.

The standard requires firms to design and implement a system of quality management by December 2022. EY UK has commenced work to implement the new standard alongside the EY System of Quality Management transformation programme. Our initial steps have included:

- ▶ Identifying the functions and service lines that provide support for, or perform engagements within, the scope of ISQM 1
- ▶ Establishing a programme governance structure to manage design and implementation of a system of quality management that complies with ISQM 1 with representatives from various functions and service lines
- ▶ Identifying and assessing quality risks, and documenting responses in accordance with the network-developed approach
- ▶ Identifying and understanding network resources and their implementation or use by the country in its SQM
- ▶ Challenging and identifying enhancements to the existing quality control system to achieve compliance with the new standard

We believe that implementing the requirements within ISQM 1 will be useful for improving quality at the firm and engagement level, because an effective system of quality management is foundational to achieving consistent engagement quality.

## Client acceptance and continuance

### ▶ Global policy on client and engagement acceptance

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 appropriate separations 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 due diligence procedures. Before taking 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 Regional or 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 share EY UK's commitment to quality and transparency in financial reporting. The lead audit engagement partner of each audit, together with our Assurance leadership, annually reviews our relationship with the companies 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 audit engagements 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 several risk factors across a broad range of categories including management's attitude, internal controls and related parties.

## Performance of audits

EY continuously invests in improving audit methodologies and tools, with the goal of performing the highest-quality audits in the profession. This investment reflects the EY commitment to building trust and confidence in the capital markets, and in economies the world over.

### ▶ Working in a virtual world

There are two types of consideration when delivering a high-quality audit in an increasingly virtual business environment. The first category includes how EY member firms work, how their people can work remotely in an effective way, and how that can impact their own risks. The second category covers how businesses are evolving to work in a virtual world, where transactions are carried out online, across borders, without the need for physical interaction.

EY UK understands the risks that a virtual world can have on the way its people work; this incorporates concerns about mental health and well-being, and the need to establish an appropriate work-life balance for an individual. However, it is also understood that the businesses that EY UK works with face similar issues. High turnover of staff can create risks, and evolving business practices can create new risks, which in turn requires an evolution in audit planning and practices.

COVID-19 has also resulted in more reliance on virtual interactions. This is discussed further in Appendix 3: Audit quality.

### ▶ 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 the size. EY GAM also requires compliance with relevant ethical requirements, including independence from the audited entity. Making risk assessments; reconsidering and modifying them as appropriate; and using these assessments to determine the nature, timing and extent of audit procedures are fundamental to EY GAM. The methodology also emphasises applying appropriate professional scepticism in the execution of audit procedures. EY GAM is based on International Standards on Auditing (ISAs) and is supplemented in EY UK to comply with the local UK auditing standards and regulatory or statutory requirements.

Using an online tool, EY Atlas, an EY auditor is presented with a version of EY GAM, organised by topic, which is 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 and for those considered non-complex entities.

EY GAM has been transformed with a new approach that puts data at the heart of the audit. Known as Digital GAM, this methodology facilitates the analysis of full populations of an organisation's data to produce a fuller picture of the business, driving higher quality through a data-first audit approach.

Digital GAM enhances and often replaces the traditional audit testing approach with new, risk-based, technology-enabled techniques that simplify and refine the focus of EY auditors onto relevant risks. In turn, EY auditors can analyse whole populations of an organisation's data from multiple perspectives, building a body of evidence and producing a deeper view into the operational environment. There is a phased implementation of Digital GAM in the UK.

Other enhancements have been made to address emerging auditing issues and matters, implementation experiences and external and internal inspection results. Recently, enhancements have been made to EY GAM to emphasise the holistic approach to identifying, assessing and responding to fraud risks. These enhancements support audit teams in their application of the fraud triangle as a lens on the information obtained from our risk assessment procedures and emphasise evaluating the results of our audit procedures in the context of responding to the risk of material misstatement in the financial statements due to fraud.



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). With respect to the impact that COVID-19 is having on the global economy, we continue to refresh guidance to address the accounting and financial reporting concerns that audited entities are facing, as well as audit considerations when performing audits in the current environment. Additional UK developments are discussed further in Appendix 3: Audit quality.

## ► Technology

EY 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 audit plans customised and up-to-date, and provides direct linkage to 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 EY Canvas Client Portal to assist teams in communicating with companies and streamlining their audit 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.

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

Audit engagement teams use other applications, EY Helix 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 solutions that are being developed and deployed globally through EY Canvas to digitally enable EY audit professionals in executing audit procedures and processes.

## ► Data analytics and the EY Digital Audit

At EY, we are making data analysis integral to our audits. EY audit teams' use of data and analysis is not about additive procedures or visualisations. It is about taking large populations of company data and applying 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 audit efforts. The use of data analytics also allows EY teams to obtain better perspectives, richer insights, and a deeper understanding of transactions and areas of risk.

EY member firms are deploying EY Helix data analysers to analyse the business operating cycles of audited companies, 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.

## ► Formation of audit engagement teams

The assignment of professionals to an audit engagement is made under the direction of our Audit 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 and derivative valuation, and quantitative and actuarial analysis. As we move into operational separation, we are mindful to ensure that this is done in such a way as to not limit access to these specialists.

When certain conditions exist, EY UK's policies require the approval of the assignment of individuals to specific audit roles by our Assurance leadership and Regional PPD (or delegate). This is carried out, among other things, to make sure that the professionals leading audits of listed entities and other PIEs 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.

## ➤ Fraud

As part of ongoing improvement efforts, there is recognition of the need to evolve how audits are performed to better address fraud. At a global level, EY is committed to leading the profession more widely to address stakeholder questions about the auditor's role in fraud detection.

Companies have never been as data rich as they are today, providing new opportunities to detect material frauds through data mining, analysis and interpretation. Auditors are increasingly using data analytics to identify unusual transactions and patterns of transactions that might indicate a material fraud.

Technology is not a panacea, however, and professional judgement also comes into play. There is a responsibility for all involved, including management, boards, auditors and regulators, to focus more on corporate culture and behaviours to support fraud detection. The EY organisation is taking additional actions to address this important area of the audit, including:

- ▶ Mandating the use of data analytics for fraud testing in audits for all listed entities globally.
- ▶ Using additional internal and external data and information to enable more nimble responses to external risk indicators, such as short selling and whistleblowers.
- ▶ Using electronic confirmations for audit evidence wherever possible.
- ▶ Developing a proprietary fraud risk assessment framework for use with audit committees and those charged with governance.

- ▶ Mandating annual fraud training for all audit professionals that incorporates the experiences of EY forensics professionals.
- ▶ Requiring the use of forensic specialists in the audit on a targeted-risk basis.

## ➤ ESG reporting

Guidance has been developed for audit engagement teams to assess the impact of climate risk on financial reporting under International Financial Reporting Standards (IFRS) or other financial reporting frameworks. The non-audit assurance services that EY provides on a wide range of ESG-related information, described below, means that audit teams have specialists available to assist them, where necessary.

EY SAM is a global framework for the application of a consistent approach to all assurance engagements on ESG and sustainability information. EY SAM provides for the delivery of high-quality assurance services through the consistent application of thought processes, judgements, and procedures in all engagements regardless of the level of assurance required. EY SAM is also adaptable to the nature of both the ESG reporting and the criteria applied by the client in producing that report.

The methodology emphasises applying appropriate professional scepticism in the execution of procedures inclusive of the changing landscape in ESG reporting and criteria. EY SAM is based on the International Standards on Assurance Engagements and is supplemented in the UK to comply with local assurance standards and regulatory or statutory requirements.

As part of our obligation for high-quality assurance services related to ESG reporting, EY has developed guidance, training and monitoring programmes, and processes used by member firm professionals to execute such services consistently and effectively.

EY provides input to a number of public and private initiatives to improve the quality, comparability and consistency of ESG reporting, including climate risk. These activities take place at a global, regional and national level. Examples include drafting ESG metrics and ESG reporting proposals for the Embankment Project on Inclusive Capitalism (EPIC) and the World Economic Forum's International Business Council (WEF IBC). EY also makes resources available to standard-setters in the area of sustainability reporting.

## 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 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 audited company and the auditor's report.

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

- ▶ Risk, materiality, subjectivity and complexity of the subject matter.
- ▶ Ability and experience of audit team members preparing the audit documentation.
- ▶ Level of the reviewer's direct participation in the audit work.
- ▶ Extent of consultation employed.

EY 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 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 so that audit teams reach 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 company to which the consultation relates. In these circumstances, other appropriately qualified individuals would be assigned.

EY policies also require that all formal consultations are documented, including written concurrence from the person or persons consulted, to demonstrate their understanding of the matter and its resolution.

We have continued to update our consultation requirements for going concern in light of COVID-19, using a risk-based approach to this. This is discussed further in Appendix 3: Audit quality.

### ➤ Engagement quality reviews

EY engagement quality review policies address audit and assurance engagements. 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 engagement and its performance. In no circumstances may the responsibility of the engagement quality reviewer be delegated to another individual.

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



evidencing their completion. In all circumstances, the engagement quality review is completed before the date of the auditor's or assurance report.

For audits, engagement quality reviews are performed by audit partners in compliance with professional standards for audits of all listed companies, certain PIEs and those considered to need close monitoring. The Regional AMP (or Regional Audit Leader) and Regional PPD (or delegate) approve all required audit 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 an 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, including consultation with Professional Practice if required.

Furthermore, if the engagement quality reviewer makes recommendations that the engagement partner does not accept or the matter is not resolved to the reviewer's satisfaction, the auditor's report is not issued until the matter is resolved.

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, and the FRC's Revised Ethical Standard 2019, as well as the US Securities and Exchange Commission (SEC), where required. EY UK supports audit partner rotation because it provides a fresh perspective and promotes independence from company management, while retaining expertise and knowledge of the business. Audit partner rotation, combined with independence requirements, enhanced systems of internal quality controls and independent audit oversight, helps strengthen independence and objectivity, and is an important safeguard of audit quality.

For PIEs, the FRC's 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' or KAPs), to be rotated after five years. For a new PIE (including a newly listed company), key audit partners may remain in place for an additional two years before rotating off the team even if they have served the company for four or more years prior to the listing. The engagement quality reviewer is required to be rotated after seven years.

Upon completing the maximum service period for rotation, a key audit partner may not lead or coordinate professional services to the PIE audit entity until after completing a cooling-off period. This period is five years for a lead audit engagement partner, five years for an engagement quality reviewer and two years for other partners, subject to rotation.

In addition to the key audit partner rotation requirements applicable to PIE audit entities, EY has established a long association safeguards framework. This is consistent with the requirements of the IESBA Code and includes consideration of the threats to independence created by the involvement of professionals over a long period of time and a safeguards framework to address such threats.

We employ tools to effectively monitor compliance with internal rotation, and requirements for audit partners and other professionals who have had a long association with the audit entity. 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 PIEs, we comply with the external audit firm rotation requirements of Sections 491 and 491A of the Companies Act 2006, and the FRC's Revised Ethical Standard 2019.

## ■ 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 the Global Assurance leadership.

The engagements reviewed each year are selected on a risk-based approach, emphasising audit engagements that are large, complex or of significant public interest, including elements of unpredictability. The Global AQR programme includes detailed risk-focussed file reviews covering a large sample of listed and non-listed audit engagements, and PIEs and non-public interest entities, to measure compliance with internal policies and procedures; EY GAM requirements; and relevant local professional standards and regulatory

requirements. 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. 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 and compliance with ICAEW Audit Regulations.

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 assigned to inspections outside of their home location. A significant proportion of reviewers are drawn from other member firms within EMEIA. 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 COVID-19 pandemic continues to place restrictions on travel and face-to-face interaction. Utilising EY Canvas and other collaboration tools, and applying the lessons learned in 2020, the AQR programme was effectively completed in EY UK. We were able to maintain the principle of audit quality reviews being conducted and moderated independently of the UK firm.

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

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 better-rated engagements, including those which are 'best in class'. 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. 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 in Appendix 3: Culture and values.

The results of the AQR process are summarised globally (including for Areas and Regions), along with any key areas where the results indicate that continued improvements are required. Summarised results are shared within the network. 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.

We provide details of the AQR results for the most recent cycle in Appendix 3: Audit quality.

## External quality assurance reviews

EY UK's audit practice and our registered statutory auditors are subject to annual inspection by the FRC and the ICAEW's Quality Assurance Department (QAD), and to three-yearly inspections by the US Public Company Accounting and Oversight Board (PCAOB). As part of their inspections, the regulators evaluate quality control systems and review selected engagements.

The last quality assurance inspection by each of these regulators took place in FY21. Details of each of these are discussed further in Appendix 3: Audit quality.

We respect and benefit from the FRC, QAD and PCAOB inspection processes. We thoroughly evaluate the points raised during the inspection in order to identify areas where we can improve audit quality. Certain engagements reviewed are subject to RCA (see next section). Together with the AQR process, external inspections provide valuable insight into the quality of EY audits. These insights enable us to effectively execute high-quality audits.

## Root cause analysis

RCA is a central part of the EY quality improvement framework, providing an in-depth assessment of the root causes that underlie an audit's favourable or unfavourable inspection outcome. This enables the identification of the key factors and behaviours that can impact audit quality and the taking of responsive actions.

EY UK's audit practice identifies and evaluates the causal factors when an RCA is performed. Analysing this research enables a better understanding of the drivers behind both positive and negative inspection outcomes. Responsive action plans are developed to address the root causes for significant engagement-related findings. EY UK's audit practice reviews the nature and prevalence of root causes to determine if systemic issues exist and if so, further action plans are developed. EY's Global Remediation Taskforce is responsible for addressing any pervasive root causes across the network and implementing responsive action plans on a larger scale.

Our UK RCA processes are discussed more fully in Appendix 3: Audit quality.

## 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 sustained to continue to embed anti-bribery measures across EY.

### Insider trading

Securities trading is governed by many laws and regulations, and EY personnel are obliged to comply with applicable laws and regulations regarding insider trading. This means EY personnel are prohibited from trading in securities while in possession of material, non-public information.

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.

### Economic and trade sanctions

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

### Data privacy

The EY global policy on personal data protection, 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 EU's GDPR, and other applicable laws and regulations concerning data protection and privacy. EY also has Binding Corporate Rules approved by EU regulators in place to facilitate the movement of personal data within the EY network. Furthermore, we have a policy to address our specific UK data privacy requirements and business needs.

### Document retention

EY global and related local policies on records and information retention and disposal 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 proceedings 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. In the UK, the FRC's Revised Ethical Standard 2019 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 companies 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 from which independence is required and the independence restrictions that apply. Most often, these are listed companies we audit and their affiliates, but they can also be other types of attest or assurance clients. The tool includes family-tree data relating to affiliates of listed companies 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 they hold becomes proscribed, professionals receive a notice and are required to dispose of the security. Identified exceptions are reported through an independence incident reporting system 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 confirmation

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 client-facing managerial professionals and partners are required to confirm compliance quarterly.

## ➤ Independence compliance reviews

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

## ➤ 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 2021 testing cycle, EY UK tested more than 600 partners and other personnel.

## ➤ Non-audit services

EY monitors compliance with professional standards, laws and regulations governing the provision of non-audit services to companies we audit through a variety of mechanisms. These include the use of tools, such as PACE (see 'Putting policy into practice' above) and SORT (see 'Service Offering Reference Tool' below), and training and required procedures completed during the performance of audits and internal inspection processes. There is also 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 EY professionals and certain other personnel are required to participate in annual independence learning to help maintain independence from the companies EY member firms audit.

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

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

In addition to the annual learning programme, independence awareness is promoted through events and materials, including new-hire programmes, milestone events (e.g., our new senior, manager and senior manager programmes) and core service line curricula.

## ➤ Service Offering Reference Tool (SORT)

We assess and monitor our portfolio of services on an ongoing basis to confirm that these services are permitted by 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 companies we 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 a company 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 or those charged with governance. Through the 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 and investing in exceptional talent

## Development of EY people

### ► Professional development

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

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

Learning is delivered through the award-winning Audit Academy, which combines 'on-demand' e-learning modules with interactive 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 issues.

Where an EYG member firm audits and reviews IFRS financial statements, relevant team members undertake learning to become IFRS accredited.

EY UK requires 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. Individuals involved in audits regulated by the

PCAOB undertake specific training covering the relevant audit and accounting standards. In addition, for individuals involved in our FSO sector the 20 hours of continuing professional education each year should contain at least five hours of regulated training.

### ► Knowledge and internal communications

In addition to professional development and performance management, we understand the importance of providing client engagement teams with up-to-date information to help them perform their professional responsibilities. There is significant EY investment in knowledge and communication networks to enable the rapid dissemination of information to help people collaborate and share best practices. This has been of increasing importance to address emerging risks arising as a result of the pandemic. 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 Generally Accepted Accounting Principles (GAAP), IFRS developments and illustrative financial statements.
- Global Accounting and Auditing News – 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 a framework that connects EY people's career, development and performance. Through ongoing feedback, development, counsellor excellence and career conversations, LEAD aligns individuals with the NextWave strategy and enables a focus on the future. It supports the growth and development of EY people at all stages of their careers. An individual's dashboard provides a snapshot of performance against the Transformative Leadership 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. For levels above manager, any inspection review results are taken into account when determining an individual's dashboard.

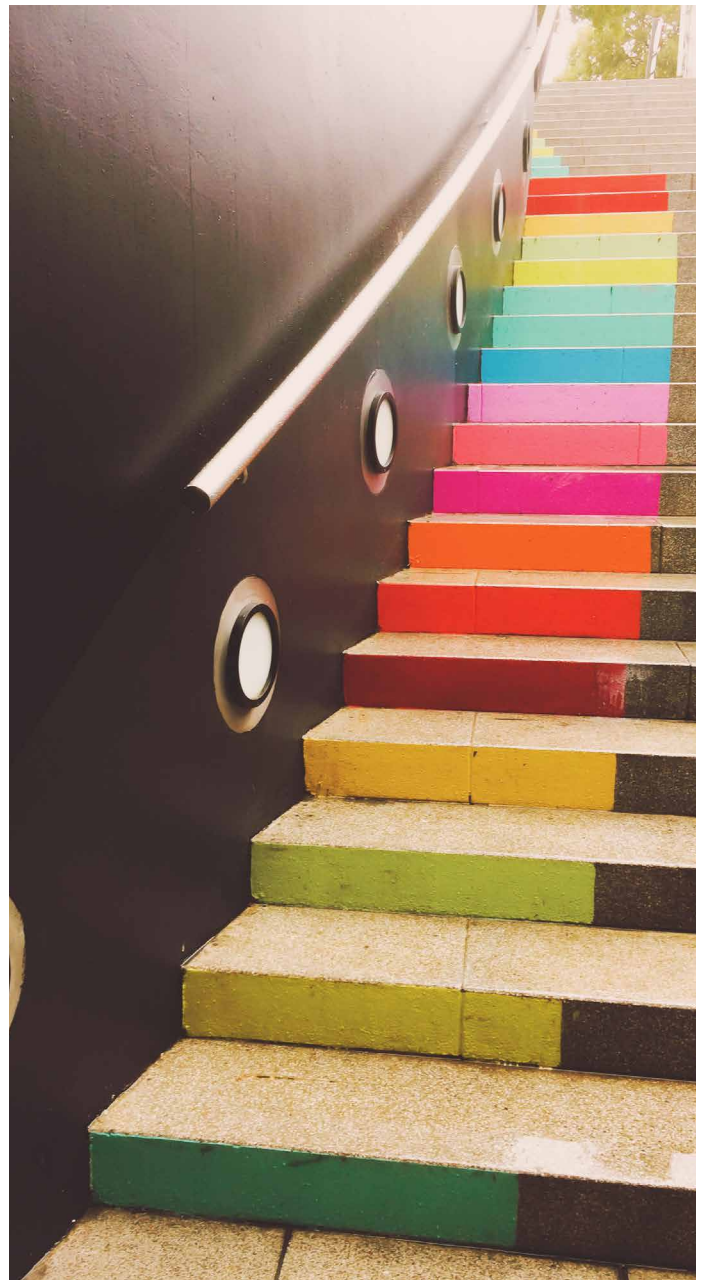
Regular discussions with a counsellor, on topics such as diverse career journeys, applying emerging technology, experiencing new teams and learning, help identify opportunities for further development and to build future-focussed skills.

## ➤ Impact of COVID-19

The shift to remote working during the COVID-19 pandemic has provided new challenges for our people. From maintaining vitality to working in a virtual team, adopting an agile mindset that embraces change has been critical. These circumstances have further highlighted the need to maximise the use of available technology.

Additional counselling has also been provided to help EY people stay connected and engaged.

We discuss some of the specific UK initiatives throughout the year to support our teams during the pandemic in Appendix 3: Audit quality.





# Revenue and remuneration

## Financial information

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

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

- Statutory audit of annual and consolidated financial statements of EU/UK PIEs, and separately entities belonging to a group of undertakings whose parent undertaking is an EU/UK PIE
- From 1 January 2021, following the UK's departure from the EU, UK companies that previously met the definition of EU PIEs became UK PIEs. Revenues from such entities continue to be included in the two PIE categories described and are included in the table below
- Statutory audit of annual and consolidated financial statements of other entities
- Permitted non-audit services to entities audited by the statutory auditor or the audit firm
- Non-audit services to other entities

### Financial information for the period ended on 2 July 2021 expressed in £million

Service	FY21 <sup>1</sup>		FY20 <sup>1</sup>	
	Revenue	Percent	Revenue	Percent
Statutory audits and directly related services for PIEs	177	6%	152	6%
Statutory audits and directly related services for entities whose parent is a PIE	75	3%	64	2%
Other audit services and directly related services for non-PIEs	343	12%	328	13%
<b>Total audit revenues</b>	<b>595</b>	<b>21%</b>	<b>544</b>	<b>21%</b>
Non-audit services provided to audit clients	156	6%	119	5%
<b>Total revenues from audit clients</b>	<b>751</b>	<b>27%</b>	<b>663</b>	<b>26%</b>
Non-audit services provided to other entities	1,981	72%	1,883	73%
Total revenue from the Channel Islands excluded from the categories above	22	1%	21	1%
<b>Total revenue</b>	<b>2,754</b>	<b>100%</b>	<b>2,567</b>	<b>100%</b>
<b>UK Audit Profit<sup>2</sup></b>	<b>53</b>		<b>62</b>	

The Local Audit Transparency Instrument requires disclosure of the turnover in the financial period of the local auditor in relation to performing local audit work as defined by the instrument. For EY UK, this revenue totals £14 million (FY20: £13 million).

Our audit practice has transitioned 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.

<sup>1</sup> FY21 revenues represent a 52-week accounting period and FY20 a 53-week accounting period.

<sup>2</sup> 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.

## 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-audit services to companies they audit. This reinforces to EY partners their professional obligation to maintain independence and objectivity. EY prohibits evaluating and compensating any partner or professional involved in, or able to influence the carrying out of, an engagement based on the sale of non-audit services to the companies they 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.

# Appendix 1

## List of PIEs audited by EY UK

### ▶ List of PIEs audited by EY UK

In the period 4 July 2020 to 2 July 2021, EY UK performed audits of the following PIEs:

4imprint Group plc	BHP Group plc
ABC International Bank plc	BlackRock Energy and Resources Income Trust plc
Aberdeen New Dawn Investment Trust plc <sup>1</sup>	BlackRock Frontiers Investment Trust plc
Aberdeen Smaller Companies Income Trust plc	BlackRock Greater Europe Investment Trust plc
Aberdeen Standard Asia Focus plc	BlackRock Latin American Investment Trust Plc
ABP Finance plc <sup>2</sup>	BMO Private Equity Trust plc
Aetna Insurance Company Limited	Britvic plc
Ahli United Bank (UK) plc	Brown Shipley & Co. Limited
Allica Bank Limited <sup>1</sup>	Burberry Group plc
Artesian Finance II plc	Burford Capital plc
Artesian Finance III plc	Bytes Technology Group plc
ASA International Group plc	Care Homes 1 Limited <sup>2</sup>
Ashoka India Equity Investment Trust plc	Care Homes 2 Limited <sup>2</sup>
Associated British Foods plc	Care Homes 3 Limited <sup>2</sup>
Aston Martin Lagonda Global Holdings plc	Castle Trust Capital plc
Astrenska Insurance Limited	CC Japan Income & Growth Trust plc
Avast plc	China Construction Bank (London) Limited
AVEVA Group plc	CIBC World Markets Limited
Baillie Gifford China Growth Trust Plc	Ciel No. 1 plc <sup>2</sup>
Baillie Gifford UK Growth Fund plc	Clydesdale Bank plc
Bank of China (UK) Limited	Coca-Cola Europacific Partners plc
Bank of Georgia Group plc	Co-operative Group Holdings (2011) Limited
Bank of London and The Middle East plc	Co-operative Group Limited
Bank Sepah International plc <sup>1</sup>	Coutts & Company
BB Healthcare Trust plc	D A S Legal Expenses Insurance Company Limited
Beazley plc	Darag Insurance UK Limited (formerly 'The Underwriter Insurance Company Limited')
BG Energy Capital plc	



## List of PIEs audited by EY UK (Cont'd)

Darrowby No. 5 plc <sup>2</sup>	Hellenic Petroleum Finance plc <sup>2</sup>
DB UK Bank Limited	Henderson Diversified Income Trust plc
De La Rue plc	Henderson European Focus Trust plc
De Montfort University	Henry Boot plc
Dignity Finance plc <sup>2</sup>	Heylo Housing Secured Bond Plc
Dignity plc	Hill & Smith Holdings plc
Dr. Martens plc	Hitachi Capital (UK) plc
Ecofin Global Utilities and Infrastructure Trust plc	Hochschild Mining plc
Edinburgh Worldwide Investment Trust plc	Hodge Life Assurance Company Limited
Endurance Worldwide Insurance Limited	HSB Engineering Insurance Limited
Energiean plc	ICG Enterprise Trust plc
Europe Arab Bank plc	IMI plc
EVRAZ plc	Imperial Brands Finance plc
F&C Investment Trust plc	Imperial Brands plc
Fidelity Asian Values plc	InterContinental Hotels Group plc
Fidelity China Special Situations plc	Intermediate Capital Group plc
Fidelity European Trust plc	International General Insurance Company (UK) Limited
Fidelity Japan Trust plc	Invesco Perpetual UK Smaller Companies Investment Trust plc
Fidelity Special Values plc	Investec Bank plc
Finance for Residential Social Housing plc	Investec Investment Trust plc
Financial Guaranty UK Limited <sup>1</sup>	Investec plc
First Hydro Finance plc	J Sainsbury plc
Flood Re Limited	John Menzies plc
FM Insurance Company Limited	JP Morgan Russian Securities plc
Forterra plc	JPMorgan Brazil Investment Trust plc
Fresnillo plc	JPMorgan Elect plc
GCP Student Living plc	JPMorgan European Discovery Trust plc
Genuit Group plc	JPMorgan European Investment Trust plc
Georgia Capital plc	JPMorgan Global Emerging Markets Income Trust plc
Gore Street Energy Storage Fund plc	JPMorggn Global Growth & Income plc
Gosforth Funding 2016- 1 plc	JPMorgan Smaller Companies Investment Trust plc
Gosforth Funding 2017- 1 plc	Julian Hodge Bank Limited
Gosforth Funding 2018- 1 plc	Jupiter Emerging & Frontier Income Trust plc
Great American International Insurance (UK) Limited	Jupiter Green Investment Trust plc
Greene King Finance plc <sup>2</sup>	Keller Group plc
Gulf International Bank (UK) Limited	Lanark Master Issuer plc
Handelsbanken plc	Land Securities Capital Markets plc <sup>2</sup>
Harbour Energy plc	Land Securities Group plc
Harworth Group plc	Lannraig Master Issuer plc



## List of PIEs audited by EY UK (Cont'd)

London Borough of Redbridge	Renishaw plc
London Stock Exchange Group plc	RIT Capital Partners plc
Lowland Investment Company plc	RM Secured Direct Lending plc
LSL Property Services plc	RM ZDP plc
Majedie Investments plc	RMAC No.1 plc <sup>2</sup>
Managed Pension Funds Limited	RMAC No.2 plc <sup>2</sup>
Martin Currie Global Portfolio Trust plc	RMAC Securities No.1 plc <sup>2</sup>
Mears Group plc	Royal Dutch Shell plc
Methodist Insurance plc	Sabre Insurance Company Limited
Mizuho International plc	Sabre Insurance Group plc
Mobius Life Limited	Sainsbury's Bank plc
Montanaro European Smaller Companies Trust plc	Sanlam Life & Pensions UK Limited
Monzo Bank Limited	Schroder & Co. Limited
National Bank of Kuwait (International) Plc	Schroder Asian Total Return Investment Company plc
National Deposit Friendly Society Limited	Schroder AsiaPacific Fund plc
National Westminster Bank Plc	Schroder Income Growth Fund plc
Nationwide Building Society	Schroder Pension Management Limited
Natwest Group plc	Schroders plc
NatWest Markets plc	Scottish Hydro Electric Power Distribution plc
New Star Investment Trust plc	Scottish Hydro Electric Transmission plc
NEX Group Limited	Securities Trust of Scotland plc
Nomura Bank International plc	SG Kleinwort Hambros Bank Limited
Nostrum Oil & Gas plc	Shaftesbury Carnaby plc
Nottingham Building Society	Shaftesbury Chinatown plc
On the Beach Group plc	Shaftesbury plc
PA (GI) Limited	Shires Income plc
PageGroup plc	SIG plc
Pantheon International plc	Silk Road Finance Number Five plc <sup>2</sup>
PCF Bank Limited <sup>1</sup>	Silverstone Master Issuer plc
Pennon Group plc	Skipton Building Society
Persimmon Plc	Softcat plc
Personal Assurance plc	Soteria Insurance Limited
Phoenix Group Holdings plc	South West Water Finance plc
Phoenix Life Assurance Limited	Southern Electric Power Distribution plc
Phoenix Life Limited	Spire Healthcare Group plc
QIB (UK) plc	Spirent Communications plc
Reassure Life Limited	Spirit Issuer plc <sup>2</sup>
Reassure Limited	SSE plc
RELX plc	Stagecoach Group plc

## List of PIEs audited by EY UK (Cont'd)

Standard Chartered Bank	Together Asset Backed Securitisation 2018 – 1 plc <sup>2</sup>
Standard Chartered plc	Together Asset Backed Securitisation 2019 – 1 plc <sup>2</sup>
Standard Life Assurance Limited	TR European Growth Trust plc
Standard Life Pension Funds Limited	Transport for London
Stanlington No.1 plc <sup>2</sup>	TransRe London Limited
Stewart Title Limited	Tullow Oil plc
Target Healthcare REIT plc	Twin Bridges 2017-1 plc <sup>2</sup>
Tate & Lyle plc	Twin Bridges 2018-1 plc <sup>2</sup>
Td Bank Europe Limited	Twin Bridges 2019-1 plc <sup>2</sup>
Temese Funding 2 plc <sup>2</sup>	Twin Bridges 2019-2 plc <sup>2</sup>
Templeton Emerging Markets Investment Trust plc	Twin Bridges 2020-1 plc <sup>2</sup>
The Bankers Investment Trust plc	UBS Asset Management Life Ltd
The Baptist Insurance Company Plc	Unum Limited
The Co-operative Bank Finance p.l.c.	USAA Limited
The Co-operative Bank p.l.c.	Virgin Money UK plc
The Diverse Income Trust plc	Vodafone Group plc
The Gym Group plc	Volusion Group plc
The Henderson Smaller Companies Investment Trust plc	VTB Capital plc
The Higher Education Securitised Investments Series No.1 plc	Warwick Finance Residential Mortgages Number Four plc <sup>2</sup>
The Independent Investment Trust plc	Warwick Finance Residential Mortgages Number Three plc
The Monks Investment Trust plc	Waterside Campus Development Company plc <sup>2</sup>
The Rank Group plc	Wausau Insurance Company (U.K.) Limited
The Restaurant Group plc	Wausau Insurance Company (U.K.) Limited
The Royal Bank of Scotland plc	Wesleyan Assurance Society
The Sage Group plc	Wesleyan Assurance Society
The Scottish Oriental Smaller Companies Trust plc	Wesleyan Bank Limited
The University of Manchester	Wesleyan Bank Limited
The Watches of Switzerland Group plc	Wessex Water Services Finance plc
THG plc	Winchester Street plc <sup>2</sup>
Together Asset Backed Securitisation 1 plc <sup>2</sup>	Xaar plc

1. Ongoing audit engagements where an opinion was signed outside the period noted  
2. UK incorporated entities listed on an overseas EU regulated exchange only

# Appendix 2

## Approved EYG member firms

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

As of 30 June 2021, 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 SRL
	EY Bedrijfsrevisoren SRL
	EY Europe SCRL
Bulgaria	Ernst & Young Audit OOD
Croatia	Ernst & Young d.o.o.
Cyprus	Ernst & Young Cyprus Limited
	Ernst & Young
	Ernst & Young CEA (South) Services Ltd
	Ernst & Young CEA (South) Holdings Plc
Czech Republic	Ernst & Young Audit, s.r.o.
Denmark	EY Godkendt Revisionspartnerselskab
	EY Grønland Statsautoriseret Revisionspartnerselskab
	EY Net Source A/S
Estonia	Ernst & Young Baltic AS
	Baltic Network OU
Finland	Ernst & Young Oy
France	Artois
	Auditex
	Ernst & Young Audit
	Ernst & Young et Autres
	EY & Associés
	Picarle et Associates

Member state	Statutory auditor or audit firm
Germany	Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft
	Ernst & Young Heilbronner Treuhand-GmbH Wirtschaftsprüfungsgesellschaft
	EY Revision und Treuhand GmbH Wirtschaftsprüfungsgesellschaft
	Treuhand-Süd GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft
	Schitag Schwäbische Treuhand GmbH Wirtschaftsprüfungsgesellschaft
Greece	Ernst & Young (Hellas) Certified Auditors Accountants SA
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 GmbH Wirtschaftsprüfungsgesellschaft
	Ernst & Young AG, Vaduz
Lithuania	Ernst & Young Baltic UAB
Luxembourg	Compagnie de Révision 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

Total turnover for the year ended on 30 June 2021 for these EYG member firms, (and for the UK and Gibraltar firms up to the end of the Brexit transition period of 31 December 2020), resulting from statutory audits of annual and consolidated financial statements was approximately €2.6 billion.



# Appendix 3

## EY UK specific content

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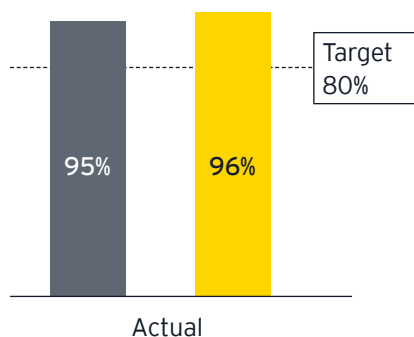
## Governance and leadership

### ► EY UK Key Performance Indicators on firm governance

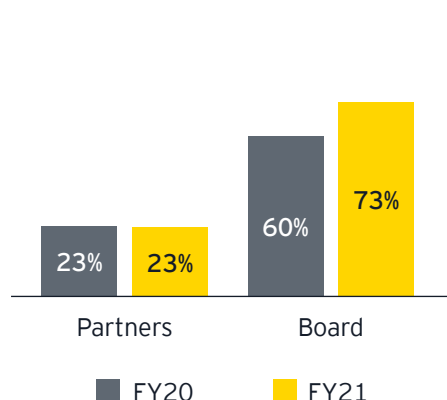
The AFGC requires that firms determine governance KPIs and report against them. The Board previously agreed KPIs on firm governance and below we explain how we have achieved these KPIs in FY21.

KPI	FY21 achievement of KPI
<b>Leadership</b> The Board should meet at least four times per annum. The gender and ethnic minority 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"> <li>▶ The Board held seven main meetings during the year.</li> <li>▶ There were additional ad hoc meetings as and when required, and various decisions were also made via electronic fora.</li> <li>▶ As at 2 July 2021, of the 11 Board members, 3 were male and 8 were female; as such, female representation on the Board exceeded the gender diversity of the partnership. Following Omar Ali stepping down on 1 January 2021, there were no ethnic minority partners on the Board as at 2 July 2021. New members of the board will be appointed as part of the Board's broader governance review.</li> <li>▶ Collectively, the Board had an attendance rate of 96%. Individual attendance rates are included in Appendix 9.</li> </ul>

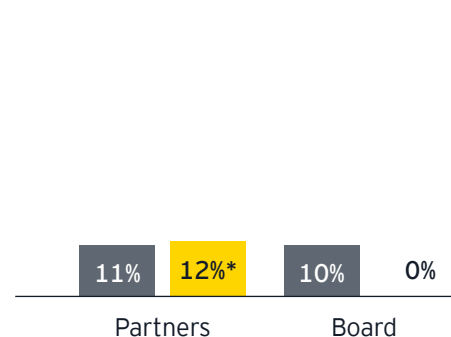
#### Attendance



#### Female representation



#### Ethnic minority representation



\*The 2020 partner ethnic diversity figures have been recalculated and vary slightly from what we provided last year due to changes in the number of people who declared their ethnicity.

KPI	FY21 achievement of KPI
<b>Values</b> As part of EY UK's culture assessment, we hold quarterly people surveys throughout the year, with the Board acting upon the cultural aspects of the findings. The surveys assess people's views on EY UK and their engagement.	<ul style="list-style-type: none"> <li>▶ The engagement score is derived by aggregating responses to questions across different areas including advocacy, satisfaction, commitment and pride. Not all of the surveys include questions on engagement.</li> <li>▶ We disclose the results of the latest survey that was run during the year and the most recent post-year-end survey, if the results are available sufficiently in advance of the publication of this report.</li> <li>▶ The overall UK engagement score results for the November 2020 and July 2021 surveys were 69% and 67% respectively.</li> <li>▶ The Board takes actions, as and when appropriate, in response to the findings of the survey (discussed throughout this report).</li> </ul>
<p>EY UK's listening strategy has evolved in the year, moving from one annual survey consisting of approximately 60 questions to shorter quarterly surveys where questions change each quarter. This approach provides more real-time data about our people's views on EY UK, allowing for better tracking of changes in sentiment and engagement. The KPI has been updated to reflect this change.</p>	
On at least a bi-annual basis, the Board should receive reports on the UK's compliance with the Global Code of Conduct.	<ul style="list-style-type: none"> <li>▶ The Board receives reports on EY UK's compliance with the Global Code of Conduct, and responds accordingly.</li> </ul>

KPI	FY21 achievement of KPI
<b>INEs</b> There should be at least three INEs, and the IOC should meet at least four times per annum.  On an annual basis, the Board must satisfy itself that the INEs remain independent from EY UK.	<ul style="list-style-type: none"> <li>▶ The IOC, comprising of three INEs, met five times during the year and in addition the AQIOC met eight 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.</li> </ul>
<p>In light of the changes to governance structures, described later on in this section, this KPI will be replaced for FY22 with a target number of meetings for the PIB and the UKAB.</p>	

KPI	FY21 achievement of KPI
<p><b>Operations</b></p> <p>The AQE (previously the Audit Quality Board) should meet at least six times per annum to oversee EY UK'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 EY UK's internal controls.</p>	<ul style="list-style-type: none"> <li>▶ The AQE met 11 times during the year, with additional ad hoc meetings as and when required. The AQE's role in overseeing the focus on sustainable audit quality is set out in Appendix 3: Audit quality.</li> <li>▶ The ROC met 11 times during the year. The activities undertaken by the ROC, along with commentary on EY UK's internal controls, are set out in Appendix 3: Managing risk.</li> </ul>
In light of the changes to governance structures, described later on in this section, this KPI will be updated with a new target number of meetings.	

KPI	FY21 achievement of KPI
<p><b>Reporting</b></p> <p>The Board should review the annual Transparency Report to satisfy itself that it is fair, balanced and understandable, and complies with the AFGC, or explains otherwise.</p>	<ul style="list-style-type: none"> <li>▶ The Board approved the EY UK 2021 Transparency Report on 28 October 2021, and satisfied itself that it was fair, balanced and understandable, and in compliance with the AFGC, Article 13 of the EU Audit Regulation (537/2014) (as incorporated into UK domestic law by Section 3 of the European Union (Withdrawal) Act 2018), and the Local Auditors (Transparency) Regulations 2020.</li> </ul>

KPI	FY21 achievement of KPI
<p><b>Dialogue</b></p> <p>The Board should satisfy itself, on at least an annual basis, that a formal programme of investor dialogue is occurring.</p>	<ul style="list-style-type: none"> <li>▶ The Board is satisfied that, as set out in Appendix 3: Stakeholder dialogue, a formal programme of investor dialogue took place.</li> </ul>



## ➤ Legal structure

EY Europe 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.

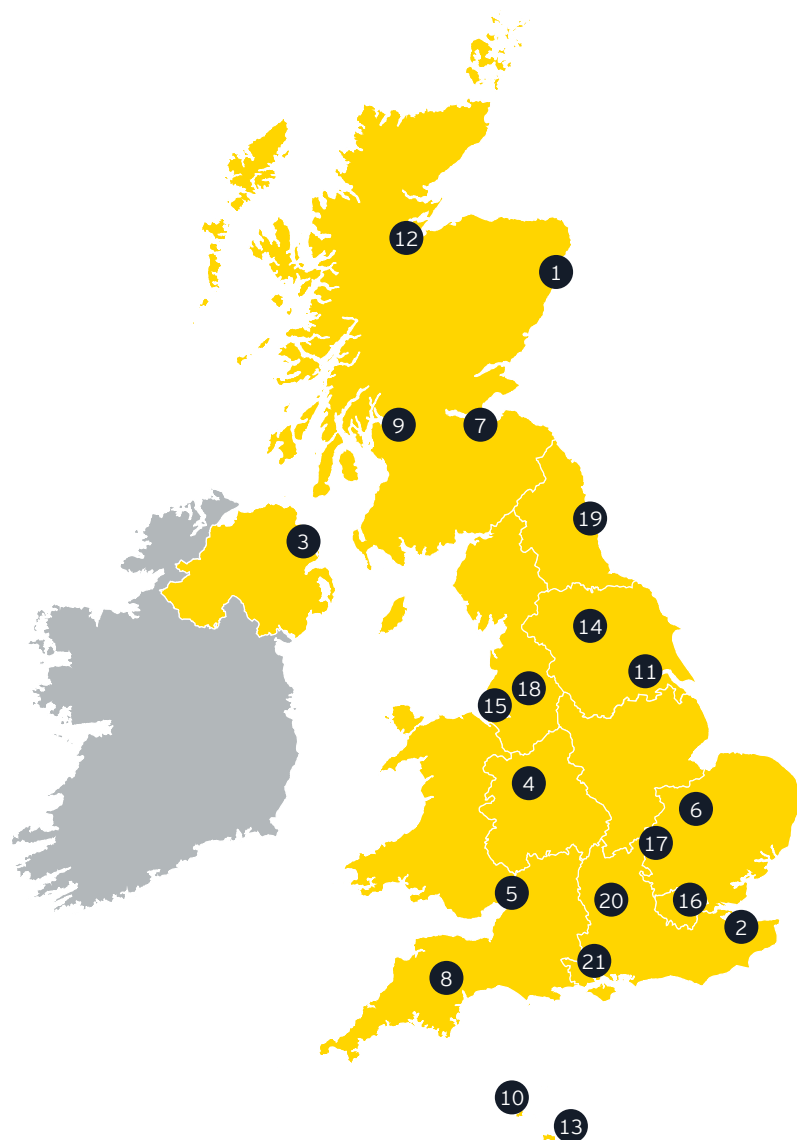
Under this model, the Board and management of EY UK is subject to oversight by EY Europe. EY UK is covered by the governance arrangements established by EMEIA Limited and EYG (for further details refer to Section 1: About us). The EY UK leadership is subject to regular review of its actions and its performance across all areas of business activity.

EY UK's management also participates in a number of international EY fora, which enables it to share best practice

with peers, along with other approaches and different techniques for running EY UK sustainably. Although decision-making is local, the regular review process provides another level of informed challenge to proposed decisions and plans. Details of entities related to EY UK can be found in its statutory financial statements.

At 2 July 2021, EY UK had 717 partners in total, compared to 708 as at the end of the previous financial year, with 143 partners based outside of London. Of the total number of partners, 23% were female and 12% were of minority ethnicity. New partner admissions became effective from 3 July 2021, with 64 new partners joining the partnership, of whom 24 were female and 15 of minority ethnicity.

As at 2 July 2021 there were 22 EY offices across the UK, including Jersey and Guernsey:



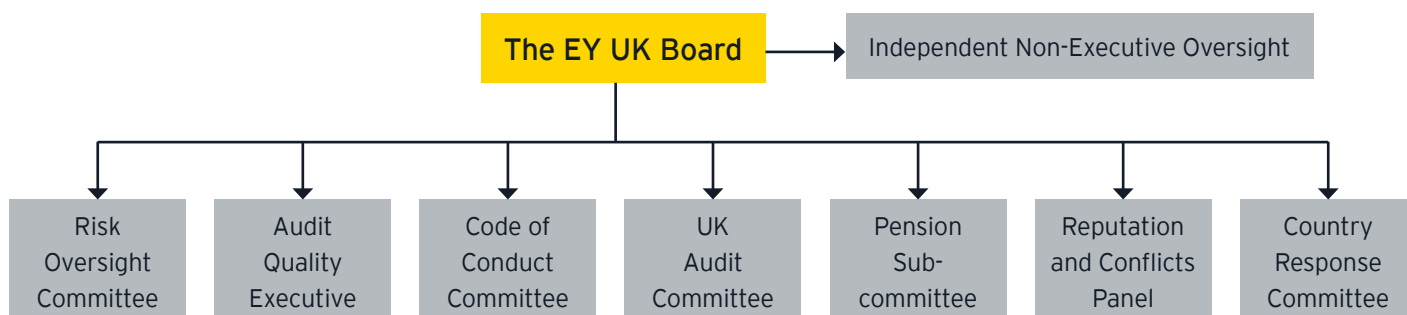
1. Aberdeen
2. Ashford
3. Belfast
4. Birmingham
5. Bristol
6. Cambridge
7. Edinburgh
8. Exeter
9. Glasgow
10. Guernsey
11. Hull
12. Inverness
13. Jersey
14. Leeds
15. Liverpool
16. London (More London Place and Churchill Place)
17. Luton
18. Manchester
19. Newcastle-Upon-Tyne
20. Reading
21. Southampton

## ➤ Governance structure

This section provides relevant details of the EY UK governance structure for the reporting period (FY21); for changes to the governance structure since 1 July 2021, see Section: Changes since 1 July 2021 below.

### The EY UK Board

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



In FY21, the UK MP of EY UK was Hywel Ball. The role of the UK MP 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 UK MP chairs the Board, which is responsible for the commercial, financial and reputational standing of EY UK 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 EOE.

The Board comprises the UK MP and such other members as recommended to, and approved by, the EOE. Board recommendations have been based on the members' roles and expertise, and appointments to the Board have not been expressly limited by time; instead the duration that a particular individual will serve on the Board reflects the needs of the business and the maintenance of an appropriate balance of skills and experience.

The Board held seven meetings during FY21 and, in addition, held other ad hoc Board meetings and conducted business through electronic fora.

The standing agenda of the Board considers the following matters, on which decisions are taken, to ensure that the purpose of the AFGC is achieved:

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

Management decisions at EY UK are taken in a variety of different fora, including within individual service lines and at an industry grouping level. 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 2 July 2021 Board members	Title	Length of appointment to nearest year
<b>Hywel Ball (Chair)</b>	UK Managing Partner	6 years (Chair for 1 year)
<b>Andrew Walton</b>	UK Head of Audit	1 year
<b>Anna Anthony</b>	Managing Partner, UK FSO	1 year
<b>Christabel Cowling</b>	UK Head of Regulatory & Public Policy	3 years
<b>Debbie O'Hanlon</b>	UK&I EY Private Leader	5 years
<b>Ian Baggs</b>	UK Head of FSO, Assurance, Managing Partner	5 years
<b>Jane Goldsmith</b>	Managing Partner, Risk Management, UK	1 year
<b>Justine Belton</b>	UK Country Professional Practice Director and UK Audit Compliance Principal	2 years
<b>Lisa Cameron</b>	General Counsel	11 years
<b>Lynn Rattigan</b>	UK Chief Operating Officer	6 years
<b>Sue Dawe</b>	Head of FSO, Managing Partner, Scotland	3 years

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 in Appendix 7 and 9 respectively.

#### Changes to the Board during the year

Omar Ali stepped down from the Board on 1 January 2021. Anna Anthony, who replaced Omar as Managing Partner, UK FSO, was appointed to the Board on the same date.

#### The Independent Non-Executive Oversight Committee

The IOC's collective role is to enhance EY UK's performance in meeting the purpose of the AFGC, focussing 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 EY UK. The INEs' duties, which are exercised through the IOC and the AQIOC, can be summarised as follows:

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

The membership of the IOC as at 2 July 2021 was as follows:

IOC members	Title	Length of appointment to nearest year
<b>David Thorburn (Chair)</b>	Independent Non-Executive	4 years
<b>Sir Peter Westmacott</b>	Independent Non-Executive	4 years
<b>Tonia Lovell</b>	Independent Non-Executive	2 years

David Thorburn and Sir Peter Westmacott were re-appointed as INEs for a further three-year period on 1 April 2020 and 1 May 2020 respectively.

Biographical details of the INEs are included in Appendix 8. Details of the attendance of the INEs at Board meetings are given in Appendix 9. 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 their role within the governance structure of EY UK meet the requirements of the AFGC.

## Appointment and termination of Independent Non-Executives

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 two additional terms of three fiscal years. Rights and responsibilities of the INEs are set out in a Letter of Appointment and Service. An 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 (see further detail below). In addition, immediate termination may be required where a conflict occurs with other roles that the INE holds, an example being where an 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 EY UK may terminate the INE appointment.

## Independence of Independent Non-Executives

Prior to appointment, INEs are interviewed and briefed on the ongoing independence requirements and any firm issues. The INEs are required to confirm their independence from EY UK and the entities we audit in accordance with the AFGC and the FRC's Ethical Standard. Independence from EY UK 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 of two additional three-year terms
- ▶ 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 EY UK'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, EY UK's 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 EY UK's Ethics Partner to address ad hoc issues and matters relating to the RCP. Support is also provided by the Company Secretary, Director of Regulatory & Public Policy (stakeholder engagement) and an EY Executive Assistant (administration and expenses).



## Independent Non-Executives' 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 GGC (see Section 1: Legal structure, ownership and governance for further details regarding the GGC).

## Independent Non-Executives' activities

INEs are automatically appointed to the IOC, which forms part of EY UK's governance structure, and their involvement collectively enhances EY UK's performance in meeting the purpose of the AFGC. For the work of the INEs, see the report from the Chairs of the UKAB and PIB in the Leadership messages.

## Risk Oversight Committee

For the role of the ROC, refer to Appendix 3: Managing 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 2 July 2021 was as follows:

ROC members	Title	Length of appointment to nearest year
Jane Goldsmith (Chair)	Managing Partner, Risk Management, UK	1 year
Chris Bowles	Executive Director, Risk Management	4 years
Christabel Cowling	UK Head of Regulatory & Public Policy	5 years
Jenny Clayton	Partner, Regulatory & Risk Management, UK FSO	0 years
Stuart Thompson	Partner, Risk Management	3 years

Jenny Clayton joined the ROC on 26 May 2021 and Lisa Cameron stepped down from the ROC as of 23 June 2021.

## Audit Quality Executive (previously Audit Quality Board (AQB))

For the role of the AQE, refer to Appendix 3: Audit quality. The EY UK QEL acts as AQE Chair. The AQE Chair will select AQE members based on their roles and expertise, with their period of appointment reflecting this. The membership of the AQE as at 2 July 2021 was as follows:

AQE members	Title	Length of appointment to nearest year
Michael-John Albert (Chair)	UK Quality Enablement Leader	6 years
Andrew Walton	UK Head of Audit	3 years
Adrian Roberts	Audit Partner	0 years
Javier Faiz	UK FSO Head of Audit	6 years
Justine Belton	UK Country Professional Practice Director and UK Audit Compliance Principal	6 years
Karl Havers	Audit Partner	1 year
Manprit Dosanjh	UK FSO Quality Enablement Leader	2 years

Karl Havers joined the AQE on 14 December 2020 and Adrian Roberts joined on 25 June 2021. Robert Overend stepped down from the AQE on 14 December 2020 and Ian Baggs, John Headley, Marguerita Martin and Ken Williamson stepped down on 1 July 2021.

In addition, Javier Faiz changed role from FSO Audit Chief Operating Officer to UK FSO Head of Audit from 2 July 2021. When the AQE was previously referred to as the AQB it was chaired by the UK Head of Audit.

## Country Response Committee (previously the COVID-19 Sub-committee)

The C19SC changed its name to the CRC on the 15 December 2020. The Board established the C19SC in response to the COVID-19 pandemic, and in the context of protecting the commercial, financial and reputational interests of EY UK.

Initially, the role of the CRC was to review and make business decisions recommended by executive management of the UK firm, arising from the COVID-19 pandemic. The activities of the CRC continue to include key:

- Financial decisions and interventions
- Operational decisions
- People decisions

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

The Board selected the CRC members based on their roles and expertise. The membership of the CRC at 2 July 2021 was as follows:

CRC members	Title	Length of appointment to nearest year
Hywel Ball (Chair)	UK Managing Partner	1 Year
Ally Scott	Managing Partner, Scotland	1 Year
Anna Anthony	Managing Partner, UK FSO	1 Year
Gavin Jordan	Chief Operating Officer, UK FSO	1 Year
Jane Goldsmith	Managing Partner, Risk Management, UK	1 Year
Justine Campbell	Managing Partner, Talent	1 Year
Lisa Cameron	General Counsel	1 Year
Lynn Rattigan	UK&I Chief Operating Officer	1 Year
Rupert Taylor	Managing Partner, UK FSO Talent	1 Year

Omar Ali stepped down from the CRC on 1 January 2021.

## Code of Conduct Committee

The Code of Conduct Committee (CCC) acts on behalf of all EY UK partners in helping to ensure they adhere to the EY Global Code of Conduct. The CCC meets at least four times a year. The EY UK Ethics Partner, Jane Goldsmith, was Secretary to this Committee and attended four out of the six meetings held since her appointment on 1 October 2020. Prior to 1 October 2020, the former EY UK Ethics Partner, Maurice Moses, was Secretary to the Committee and attended the one meeting held from 4 July 2020 to 1 October 2020.

Each service line proposes a representative (with relevant experience and holding non-management positions) whose appointment is 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 2 July 2021 was:

CCC members	Service line	Length of appointment to nearest year
Sarah Williams (Chair)	Assurance FSO	6 years
Chris Locke	Strategy and Transactions FSO	2 years
Colin Dempster	Strategy and Transactions	6 years
Dave Hales	Assurance	6 years
George Hardy	Tax FSO	6 years
James Meader	Consulting	4 years
John R Liver	Consulting FSO	6 years
Stephanie King	Tax	2 years
Tim West	Tax	4 years

## Reputation and Conflicts Panel

The RCP continues to provide an effective and consistent forum to assess reputation risk, public interest and conflicts in order to enhance trust in the UK firm, its partners and employees. The RCP is chaired by the Regional Conflicts Leader and includes a range of members drawn from the UK leadership teams.

In FY21, 29 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.

## UK Audit Committee

The UK Audit Committee (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. The UKAC monitors the integrity of the financial statements of EY UK, reviews significant financial reporting judgements and recommends the approval of the financial statements to the Board.

In respect of FY21, the UKAC had two regular meetings, plus four additional meetings with management, to discuss specific risk areas. Internal Audit and the external auditors regularly attend UKAC meetings and the Chair has regular informal meetings with the external audit partner.

The UKAC has:

- ▶ Approved the appointment and fees of the external auditor
- ▶ Challenged and approved the audit plan, considering the risks identified by the external auditor
- ▶ Read and discussed the audit results as reported by the external auditor
- ▶ Received presentations from management addressing areas of significant judgement in the financial statements
- ▶ Reported to the Board and recommended approval of the financial statements
- ▶ Monitored the effectiveness and independence of the external auditor
- ▶ Monitored the scope and results of the Internal Audit function
- ▶ Monitored the risk environment in response to COVID-19

To review the integrity of the FY21 financial statements of EY UK, the UKAC reviewed updates provided by management and the external auditors, specifically focussing on the below areas of significant financial judgement:

- ▶ 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
- ▶ Impairment of intangible assets
- ▶ Appropriateness of the going concern basis of preparation of the financial statements

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

UKAC members as at 2 July 2021	Title	Length of appointment to nearest year
Chris Voogd (Chair)	Audit Partner	3 Years
Lloyd Brown	Audit Partner	3 Years
Sarah Williams	Audit Partner	2 Years
Stuart Wilson	Audit Partner	3 Years

## Pension Sub-committee

The Pension Sub-committee (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 2 July 2021	Title	Length of appointment to nearest year
Lynn Rattigan (Chair)	UK Chief Operating Officer	4 Years
Christabel Cowling	UK Head of Regulatory & Public Policy	3 Years
Gavin Jordan	Chief Operating Officer, UK FSO	2 Years
Sue Dawe	Head of FSO, Managing Partner, Scotland	3 Years
Taylor Dewar	Partner, Turnaround and Restructuring Strategy	4 Years
Julianne Oladipo (Secretary)	Director of Pensions	4 Years



## ► Governance changes since 1 July 2021

Since the publication of the FRC's Principles for Operational Separation, which were updated by the FRC in February 2021<sup>1</sup> (the 'Operational Separation Principles'), EY UK has made good progress towards implementing its plans for the operational separation of the UK audit practice. EY UK has also undertaken an exercise to review its governance arrangements more broadly to ensure that those arrangements remain responsive to evolving business needs and expectations.

Changes that have taken place since the 2021 year end will be reported in our 2022 Transparency Report. Changes in the first quarter of FY22 include:

### i. The appointment of two new Independent Non-Executives

This takes EY UK's total number of independent non-executives to five, split between roles as INEs, as envisaged by the AFGC, and ANEs, as envisaged by the Operational Separation Principles.

From 1 July 2021, EY UK's Independent Non-Executives are as follows:

- ▶ **David Thorburn** (ANE and INE) – Chair of the Audit Board
- ▶ **Tonia Lovell** (ANE and INE) – Chair of the Public Interest Board
- ▶ **Mridul Hegde** (ANE and INE)
- ▶ **Sir Peter Westmacott** (INE)
- ▶ **Philip Tew** (ANE)

### ii. The Board

The Terms of Reference and composition of the Board have been revisited.

The Board continues to be responsible for promoting and protecting the interests of EY UK and the general and operational management of EY UK as a whole, including overseeing compliance with all applicable professional regulatory and legal requirements.

The composition of the Board will be made up of seven roles-based appointments, three elected members and up to two co-opted members. This composition, including the mechanism to co-opt additional members, will ensure the continued balance of skills, experience and seniority, as well as the appropriate representation of the partnership and our business more broadly.

For reasons of balance and continuity, the roles-based appointments to the Board are not time-limited; the relevant

individuals will serve on the Board for so long as they hold the relevant role. Other Board members will serve for an initial period of up to three years, which may be extended by a further term of up to three years.

The roles-based appointments are as follows:

- ▶ **Hywel Ball** – UK Managing Partner (Chair)
- ▶ **Andrew Walton** – UK Head of Audit
- ▶ **Anna Anthony** – Managing Partner, UK FSO
- ▶ **Christabel Cowling** – UK Head of Regulation & Public Policy
- ▶ **Jane Goldsmith** – Managing Partner, Risk Management, UK
- ▶ **Lisa Cameron** – General Counsel
- ▶ **Lynn Rattigan** – UK Chief Operating Officer

The elected members of the Board will be elected from the UK and FSO Partner Fora and the co-opted members will be nominated for appointment by a newly constituted Nomination Committee, which will operate as a sub-committee of the Board. All members of the Board are obliged to act in the best interests of EY UK.

### iii. The Public Interest Board

The PIB has replaced EY UK's IOC, with a remit to enhance EY UK's performance in meeting the purpose of the AFGC, the principal objectives of which are to promote audit quality, to help EY UK secure its reputation more broadly, including its non-audit business, and to reduce the risk of firm failure.

In connection with the AFGC purpose, the PIB is responsible for the independent oversight of EY UK's policies and procedures in relation to financial resilience, governance and leadership, values and culture, and risk management and resilience.

The composition of the PIB is as follows:

- ▶ **Tonia Lovell** (ANE and INE) – Chair of the Public Interest Board
- ▶ **Anna Anthony** – Managing Partner, UK FSO
- ▶ **David Thorburn** (ANE and INE)
- ▶ **Hywel Ball** – UK Managing Partner
- ▶ **Jane Goldsmith** – Managing Partner, Risk Management, UK
- ▶ **Mridul Hegde** (ANE and INE)
- ▶ **Sir Peter Westmacott** (INE)

<sup>1</sup>FRC Principles for Operational Separation ([frc.org.uk](https://www.frc.org.uk))

#### **iv. The Audit Board**

The UKAB has been established in response to the Operational Separation Principles.

The role of the UKAB is to provide independent oversight of EY UK's pursuit of audit quality improvement, by ensuring that people in EY UK's audit practice are focussed above all on the delivery of high-quality audits in the public interest. The UKAB achieves this task by having regard to the FRC's objective that audit remains an attractive and reputable profession, increasing deserved confidence in audit.

The UKAB is chaired by an ANE and has a majority of ANEs. The composition of the UKAB is as follows:

- ▶ **David Thorburn** (ANE and INE) – Chair of the Audit Board
- ▶ **Mridul Hegde** (ANE and INE)
- ▶ **Philip Tew** (ANE)
- ▶ **Tonia Lovell** (ANE and INE)
- ▶ **Andrew Walton** – UK Head of Audit
- ▶ **Javier Faiz** – UK FSO Head of Audit
- ▶ **Justine Belton** – UK Country Professional Practice Director and UK Audit Compliance Principal

#### **v. The Audit Board Remuneration Committee**

The ABRC has been established in response to the Operational Separation Principles.

The role of the ABRC is to oversee the remuneration of audit partners. It will consider the policies and processes in relation to audit partner remuneration and whether those policies and processes have been applied.

The composition of the ABRC is as follows:

- ▶ **Philip Tew** (ANE) – Chair of the ABRC
- ▶ **David Thorburn** (ANE and INE)
- ▶ **Mridul Hegde** (ANE and INE)
- ▶ **Tonia Lovell** (ANE and INE)

#### **vi. Accountable Executive Committee**

The Accountable Executive Committee has been established in response to the Operational Separation Principles. The Accountable Executive Committee is responsible for ensuring that the Operational Separation Principles are delivered, embedded and monitored.

The composition of the Accountable Executive Committee is as follows:

- ▶ **Hywel Ball** – UK Managing Partner
- ▶ **Anna Anthony** – Managing Partner, UK FSO
- ▶ **Lynn Rattigan** – UK Chief Operating Officer

#### **vii. Further changes**

Additional forthcoming changes to EY UK's governance structure will include a new, centralised executive committee (the UK Country Committee) and revised Terms of Reference for the two additional sub-committees of the EY UK Board (the Audit Committee and the Risk Oversight Committee).

## Culture and values

### ➤ Audit culture

We recognise the importance of culture as a conduit to delivering high-quality audits and have completed extensive work within our practice to evolve a culture that is appropriate for our audit business. The focus on culture in the audit profession more widely is continuing to grow, evidenced by the recent audit culture conference hosted the FRC.

We used the knowledge gained from our previous culture study, along with insights from the regulators, to create a clear vision for our audit quality culture of the future.

This vision centres around:

- ▶ Ensuring we are working to a common goal of delivering high-quality audits in the public interest
- ▶ Three underlying attributes that are integral to high-quality audits:
  - ▶ Empowering our auditors to provide constructive challenge
  - ▶ Prioritising stakeholder confidence and the public interest over 'customer service'
  - ▶ Embracing the values and behaviours that research has shown are integral to audit quality

In July 2021 we launched an audit quality culture assessment to enable our people to give feedback on the values and behaviours that they experience within our audit business, and those they consider to be fundamental to our audit quality culture of the future. The purpose of this assessment was to understand how aligned our culture currently is to this vision. The overall cultural alignment index of 78% showed a 3% improvement when compared to the last full cultural survey in 2018.

Our people told us that they share our vision for the audit quality culture of the future and that our culture is evolving with an increased focus on professional scepticism and technical expertise. We have more to do to embed our desired culture of challenge and to build our more junior employees' understanding of what delivering high-quality audits in the public interest means in practice.

There are three elements underpinning our desired culture:

1. Our people, focussed on a common purpose
2. The essential attributes of our audit business: Right Resource, Right First Time and Right Reward
3. The six pillars of our SAQ strategy:
  - ▶ Tone from the top
  - ▶ Accountability
  - ▶ Exceptional talent
  - ▶ Simplification & Innovation
  - ▶ Enablement and Quality support
  - ▶ Audit Technology and digital



## ➤ 1. Our people, focussed on a common purpose

### Alignment of EY's global purpose to our audit ambition

It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing and deliver high-quality audits. Therefore, we have more specifically aligned the global EY purpose of *Building a better working world* to our audit ambition of *Delivering high-quality audits in the public interest and taking personal pride in audit*.

Our audit ambition sets the tone from the top. In September 2020, we redefined our Audit Quality Strategy to deliver on this ambition. Our audit culture framework connects our purpose and our Audit Quality Strategy to the values and behaviours we expect our auditors to embody. We consider our Audit Quality Strategy further in Appendix 3: Audit quality, and in our [Audit Quality Report](#).

### Translating our values and Code of Conduct for the UK audit business

Our purpose is reinforced by having a set of clear values, together with the EY Code of Conduct, that guides our people on how they should perform their day-to-day activities; it can be considered as the 'moral compass'.

### Our values: who we are

1 People who demonstrate integrity, respect, teaming and inclusiveness	2 People with energy, enthusiasm and the courage to lead	3 People who build relationships based on doing the right thing
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For our purpose and values to manifest into our culture, we want our people to be able to translate these values into the behaviours that are expected of them in performing an audit. The table below aligns the EY values to the 'principal behaviours' of an EY auditor.

It is also important that our partners and auditors are clear that:

- ▶ Their focus is on the interests of the investors and not management as customers
- ▶ They are auditors and should not be perceived to be 'consultants'

EY values	EY audit
People who demonstrate integrity, respect, teaming and inclusiveness	<ul style="list-style-type: none"> <li>▶ We act professionally at all times, with honesty, respect and courage; living our Code of Conduct even in the face of adversity.</li> <li>▶ We are objective and reject inappropriate pressure from the companies we audit.</li> <li>▶ We avoid working with companies whose standards are incompatible with our Code of Conduct.</li> <li>▶ We bring together the right team every time, actively working with specialists and consulting when required.</li> </ul>
People with energy, enthusiasm and the courage to lead	<ul style="list-style-type: none"> <li>▶ We are brave and challenge management, applying curiosity and professional scepticism in all audit work.</li> <li>▶ We stand firm when decisions are difficult.</li> <li>▶ We learn from mistakes, sharing our own experiences and actively listening to others without judgement.</li> <li>▶ We encourage the companies we audit to be open, honest and fair.</li> </ul>
People who build relationships based on doing the right thing	<ul style="list-style-type: none"> <li>▶ We act in the interests of society and broader stakeholders, rather than for the benefit of the companies we audit.</li> <li>▶ We maintain independence from the companies we audit.</li> <li>▶ We are robust and courageous in our challenges and not afraid to deliver unwelcome messages.</li> <li>▶ We take pride in our profession and the value we add to society by doing the right thing.</li> </ul>



We aim to build a dynamic, inclusive, and nurturing workplace, where those in all stages of their career can experience a sense of belonging while working towards a common goal of delivering high-quality audits in the public interest.

It all starts with recruitment. We strive to recruit individuals with not just a strong academic background, but also an affinity with our purpose, ambition and values. The behaviours we want to encourage our people to embody can be drawn from a number of places: they are influenced by individual experiences, they are shaped by EY UK's processes, and they can be learned from training and stories that are shared. Our learning curriculum, tools and ways of working are designed to develop objectivity and scepticism, as well as technical capabilities.

We instil confidence and resilience, through a clear focus on delivering high-quality audits in the public interest. This is reinforced by our reward structure, which is linked to audit quality and communications that emphasise that it is not just an expectation, but a requirement, to challenge management.

#### **Expected performance characteristics**

Over recent years we have evolved processes which ensure every individual's performance in audit quality is graded, including the assessment of technical expertise. In the future, these assessments will also consider an individual's achievements in the effective challenge of management, experts and specialists in technically complex areas, and summoning the ability and willingness to challenge those with greater seniority, and expertise, confidently and effectively.

Agility and scepticism are honed through a range of on-the-job and formal training, and are reinforced in our performance appraisal and remuneration practices.

## **➤ 2. The essential attributes of our Audit business**

Our audit leadership are committed to developing and overseeing processes that enable partners and staff to deliver on our audit ambition; with a critical focus on the following three attributes which create the architecture our people need to fully discharge their duties and meet our ambition.

To develop our people with the right mindset, we need to have the right resources aligned to the right reward, with the right system and support structure in place to empower our people to get it right first time. We encourage a culture of openness and ensure our people can consult and share problems with experienced colleagues.

### **Right resources**

Our business aims to deliver the right number and the right mix of people with the right attitude, time, knowledge and skillset, using the right technology to deliver a high-quality audit.

### **Right reward**

We align how we recognise, reward and promote the right behaviours with delivering a high-quality audit.

### **Right first time**

Our culture promotes a right-first-time attitude which focuses on how we empower our people, our teams and EY UK to achieve consistently high-quality audits.

## **➤ 3. Six pillars of Sustainable Audit Quality**

The SAQ programme has been running since 2014 and is refreshed each year to support the delivery of high-quality audits. The six pillars each support our audit culture and our ambition. Our SAQ is discussed in more detail in Appendix 3: Audit quality. Our [Audit Quality Report](#), published alongside this Transparency Report, also discusses each of the six pillars in more detail.

### **Summary**

Our purpose, values and the six pillars of SAQ provide the foundation for our audit business. This is reinforced by our audit ambition and investment in creating an appropriate culture, and underpinned by the three essential attributes. Together, these will provide an environment where our auditors can thrive by doing the right thing, delivering high-quality audits.

## Audit quality

### UK Sustainable Audit Quality programme

We set a clear focus on quality as our top priority in all our audits. Our ultimate ambition is to deliver high-quality audits in the public interest and take personal pride in audit. EY is a global network and the global SAQ programme is the key driver behind the continued delivery of high-quality audits by EY member firms. In the UK, our SAQ programme continues to be led by Michael-John Albert (UK QEL) and is overseen by the AQE. Our focus for the foreseeable future is our refreshed Audit Quality Strategy which was launched in September 2020 and aligns to the global SAQ programme.

In this section, we provide additional detail on:

- ▶ The AQE's oversight of audit quality, and the robust process our INEs also bring to this
- ▶ The accomplishments of our UK Audit Quality Strategy in the year and highlights of the focus of the strategy for FY22, the latter being discussed further in our separate [Audit Quality Report](#)
- ▶ The UK RCAs undertaken and key findings
- ▶ AQIs as determined by the Policy and Reputation Group (PRG), the FRC and audit firms for disclosure in the Transparency Report

We also provide specific context on how group audits are managed, and commentary specific to our FSO sector. Given the continued global impact of COVID-19, we also provide more detail on how we are addressing this in the UK. Appendix 3: Culture and values describes our culture, which is a key element of delivering high-quality audits.

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Our multi-year strategy, launched last year, remains relevant. We have made important updates to reflect changes relating to enhancing our culture of quality, continuing our focus on professional scepticism and challenge, focussing on new developments such as ISQM 1 and climate change, the adoption of Digital GAM and finally implementing initiatives to address our overriding challenge of consistently delivering high-quality audits. I have every confidence that we are well on our way to achieving our quality ambition.

Michael-John Albert, UK Quality Enablement Leader

### Activities of the Audit Quality Executive

The AQE remains in place and is chaired by the UK QEL. The AQE consisted of 10 management members throughout FY21 including partners from the audit practice, from our SAQ programme team and our Professional Practice team. The AQE had 11 formal monthly meetings throughout FY21 (excluding August 2020). There is a regular standing agenda for each meeting through which updates on key priorities are given. Additional attendees are invited to present to the AQE as and when required on these and other priorities.

The standard topics discussed each month are presented by our UK and UK FSO Heads of Audit, UK and UK FSO QELs and UK PPD and Audit Compliance Principal. These papers provide the latest updates to the members on key topics including: resourcing, operational separation as it affects audit quality, our Audit Quality Strategy, monthly monitoring of AQIs, our RCA plan, guidance from regulators, Audit Quality Support Team (AQST) reviews, and internal and external inspections. Annual topics considered by the AQE include the Audit Quality Summit and the results of our audit quality survey. Key additional topics have included independence compliance monitoring, and the development of our culture to support audit quality. COVID-19 and the continuing impact this could have on the audit practice, including resourcing and consultation requirements, has also remained a key topic for discussion throughout the year.

The AQE determines required actions from the members to support audit quality. For example, throughout FY21 the AQE members focussed on supporting the business (on specific audit engagements and more broadly) to understand resourcing challenges, working with business leaders to ensure these were appropriately addressed to maintain audit quality. The AQE is also charged with reflecting on issues as they occur and using these to improve audit consistency and quality in the future. Specific topics, such as how we address fraud risks, are also considered by the AQE, prior to implementation in the business. More widely, regulatory updates and reporting decisions are considered by the AQE before being disseminated to the wider UK and/or global practice. The AQE also ensures that EY global and EMEIA quality initiatives are implemented appropriately.

## ➤ INEs' oversight of audit quality

The AQIOC met eight times in the year; these meetings were held typically within one week of the monthly AQE and gave the INEs the opportunity to ask detailed questions about the topics covered and challenge on matters arising. The Chair and other members of the AQE attended these AQIOC meetings to respond to questions as necessary. In the first half of the year at least one of the INEs also attended the AQE meetings as an observer. With these regular meetings the scope of the INEs was far-reaching this year, including assessment and challenge on resourcing, monitoring of our AQIs, responses to FRC publications, inspection results, and progress being made on our AQS (described more fully below).

The quality agenda is also presented to the Board on a regular basis for update and challenge, where appropriate. Audit quality will remain a key feature in each of these fora and we will continue to seek the challenge and input from the INEs and ANEs on the implementation of the strategy and other areas we monitor throughout FY22 to ensure it is effectively addressing the RCA findings and driving improved audit quality. Changes to the structure of the boards with effect from 1 July 2021 as a result of operational separation are discussed further in Appendix 3: Governance and leadership.

## ➤ Audit Quality Strategy

### Overview of FY21 Audit Quality Strategy

In FY21, we introduced 'partner initiative sponsors' to each workstream to allow innovative ideas to emerge and support accountability. We established a central project management office to oversee the programme, including regular reporting to our AQE and INEs. This allowed thorough monitoring and challenge of both actions and their implementation, as well as assessment of the adoption of the strategy. The areas of the strategy that we asked our people to focus on particularly throughout FY21 were 'embedding a culture of challenge and scepticism', our 'PLOT model' and 'driving consistent quality control'. The key accomplishments of these workstreams in the year are summarised below:

Workstream	Key accomplishments
Embed a culture of challenge and scepticism	<p>We made positive strides in developing tools and new processes which are being used across the audit practice. The key achievements include:</p> <ul style="list-style-type: none"><li>▶ The development of an Audit Purpose Barometer and an Active Scepticism Framework to enhance audit teams' scepticism. These tools are used by teams to avoid biases in our decision making and support the exercise of professional scepticism in a structured format.</li><li>▶ The introduction of additional detailed industry data analysis from an external provider, for use by teams as a source of alternative data, to support with challenge and scepticism. This has been well received by teams with positive feedback in regard to supporting audit quality.</li></ul> <p>We also introduced additional training and guidance in the period on professional scepticism, to supplement resources already available. Our AQST function performed specific reviews on the audit of impairment for a sample of engagements to support audit teams in the application and documentation of scepticism and challenge.</p> <p>Notably, we have also been clear to our teams that audit quality is our top priority and we supported those teams who pushed back reporting deadlines to ensure audit procedures were completed to the appropriate quality. As well as enforcing this message internally with our teams, we supported our teams in conversations with management where there were concerns on reporting timetables, drawing specific attention to the challenges of auditing judgements during the peak COVID-19 period.</p>

Workstream	Key accomplishments
Our PLOT for high-quality outcomes	<p>Our concept of PLOT was established in FY17 through the use of research performed by cognitive psychologists we engaged to understand how EY's highest performing audit teams carry out their engagements. Given the success of PLOT over the years, with positive internal and external inspection results often being linked to the application of PLOT, we included this as a workstream in our strategy to embed it across all engagements. The key activities of this workstream were refresher training materials for all managers and above, with new training sessions being introduced for our new joiners. We also refreshed support materials and encouraged teams to break the PLOT concept down to a task and risk level. This has assumed even greater relevance in the remote-working environment.</p> <p>PLOT continues to be a key feature of how we ensure the delivery of a high-quality audit and is embedded in our Canvas tool. Given the success of the initiative over the last few years, and the effective refresher sessions run throughout the year which have received positive feedback, we determined that this workstream can return to 'business as usual'.</p>
Driving consistent quality control	<p>Our results show we can, and do, deliver high-quality audits. However, we still have work to do in ensuring we do this consistently across all our audits. The FRC also called out in their findings in July 2020 that we should focus on improving quality control on all audits. This was therefore a focus for us in FY21.</p> <p>The key achievements in the year were driven by additional training for our staff who perform reviews, but particularly our managers through partners, including the Engagement Quality Control Reviewer (EQCR) community. Examples include:</p> <ul style="list-style-type: none"> <li>▶ Training targeted at all qualified staff to reinforce detailed review and general review requirements</li> <li>▶ Guidance and enablers to assist the partner in charge in taking a 'stand back' approach when performing their review</li> <li>▶ Baseline training and the allocation of experienced mentors for new EQCRs</li> <li>▶ Templates and guidance issued to assist teams in capturing the nature, timing and extent of discussions with the EQCR, and ensuring appropriate documentation of this</li> </ul> <p>These initiatives have been well received. However, our RCA findings continue to show we have more to do, so this remains a live workstream within the Audit Quality Strategy.</p>

Aside from the strategy, our other embedded processes to support audit quality remain in place, including AQST. This remains one of our key processes to support our most complex audits. Our RCA on positive quality occurrences indicated that this is an important factor in delivering high-quality audits.



## FY22 changes and refreshed priorities

We carried out a detailed assessment of the design and implementation of our strategy to date. The strategy has also been subject to an Internal Audit review. As part of this review, Internal Audit focussed on the alignment of the strategy to the inputs used, the governance and oversight, roles and responsibilities, project management, resources allocated to deliver the strategy, and communications made to the practice about the strategy. The Internal Audit review concluded positively with three minor recommendations, all of which have been implemented, as well as identifying areas of good practice.

Our assessment included surveys and focus groups within the audit practice, and a six-month evaluation of each workstream focussing on progress, continued relevance and a critical evaluation of what needs to evolve. Using feedback from these sources, along with inputs from internal and external inspections, the results of RCA, FRC feedback and expected future developments, we refreshed our strategy for FY22 and beyond. We have maintained the link to the six pillars of our global SAQ. However, we enhanced and changed the emphasis of existing workstreams, introduced new workstreams, and retired workstreams which we believe to be now 'business as usual'. The primary changes are as follows:

- ▶ Firstly, our workstream 'committing to consistency' will become part of a broader workstream on ISQM 1 to create a direct link between ISQM 1 and the quality strategy, as well as focussing our efforts on prioritising and improving our compliance culture.
- ▶ Secondly, the 'culture of challenge and scepticism' workstream has evolved to become 'audit culture with a focus on professional scepticism'. We made this change to ensure the quality strategy focuses on all aspects of our audit firm culture, of which challenge and scepticism remain key elements. Further, we have updated the workstream 'develop best practice documentation and concise writing skills' to 'standardisation' as this is a critical element in addressing consistency challenges and ensuring good practice is adopted across all our audits.
- ▶ Finally, as climate change and the broader ESG focus and initiatives gained more momentum, we introduced a new workstream to the strategy for our 'audit response to climate change'.

The priority workstreams going forward will be: 'audit culture with a focus on professional scepticism' and 'standardisation'. We will also prioritise our existing workstream, 'successfully adopting the digital audit'. These workstreams are not considered more critical than others, but rather are the ones where our audit teams can make the most significant contribution and are therefore considered priorities for FY22.

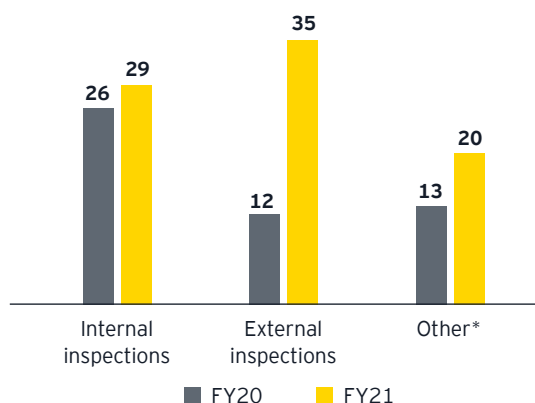
These and the remaining workstreams of the Audit Quality Strategy, and focus areas for FY22, are discussed in more detail in our [Audit Quality Report](#).

As discussed in Section 2: Commitment to Sustainable Audit Quality, there is recognition of the need to evolve how audits are performed to better address fraud. At a global level, EY is committed to leading the profession more widely to address stakeholder questions about the auditor's role in fraud detection. We have also been considering this at a UK level and are addressing the need for robust procedures in response to fraud through our strategy. For example, we will expand the collaboration with EY UK's forensics experts (set up in FY21) to conduct enhanced fraud risk assessments on a further and larger group of our audits. Training will be run to support our teams in discharging our duties in relation to fraud and we will continue to implement any findings from the FRC thematic reviews on fraud as well as changes arising from the implementation of auditing standard ISA (UK) 240 (Revised May 2021), addressing the auditor's responsibilities relating to fraud in an audit of financial statements.

## ► Root cause analysis

As explained in Section 2: Commitment to Sustainable Audit Quality, RCA is a central part of the EY quality improvement framework, providing in-depth assessment of the root causes that underlie positive or negative outcomes on audits. In the UK, the results of our RCA are used, along with other factors, in developing our Audit Quality Strategy. We have continued to enhance the way we approach RCA this year, which enabled us to undertake further detailed analysis to understand the reasons why quality findings arise and equally what factors contribute to a good quality audit. Internal Audit performed a review of our RCA processes in the year with a positive outcome, raising some minor findings which we have addressed, as well as identifying areas of good practice. We have also fully addressed all findings raised by the FRC in prior years.

We increased the coverage of audits inspected to identify potential themes. We developed a streamlined RCA approach for less significant findings and full RCAs were performed for more significant findings within these categories. In total we carried out 84 RCA reviews in the current cycle (FY20: 51).



\*Includes prior year audit adjustments, non-audit reviews and non-personal independence breaches

The changes to the way we approached RCA in the year enabled us to gain more insight into the key factors which drive key quality findings, and also those that contribute to good quality. The findings from our RCA are reported to internal and external stakeholders, including the AQE, INEs, FRC and ICAEW. In summary, these are:

Key themes from positive RCA work	Key themes from quality findings
High degree of executive involvement	Ensure guidance and tools are better utilised
Effective project management	Improve adequacy of review procedures
Effective use of specialists	Ensure resourcing is always appropriate
Good resourcing	

The detailed findings of RCA on inspection findings are discussed in the public report available on the FRC website. We have made progress on the key themes arising from RCA each year, but still have work to do. We have taken key themes from quality findings (and the positive findings) into account in refining the 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 a high-quality audit. To further understand the actions taken in response to the RCA findings, refer to the [Audit Quality Report](#) which expands further on our strategy for the coming year.

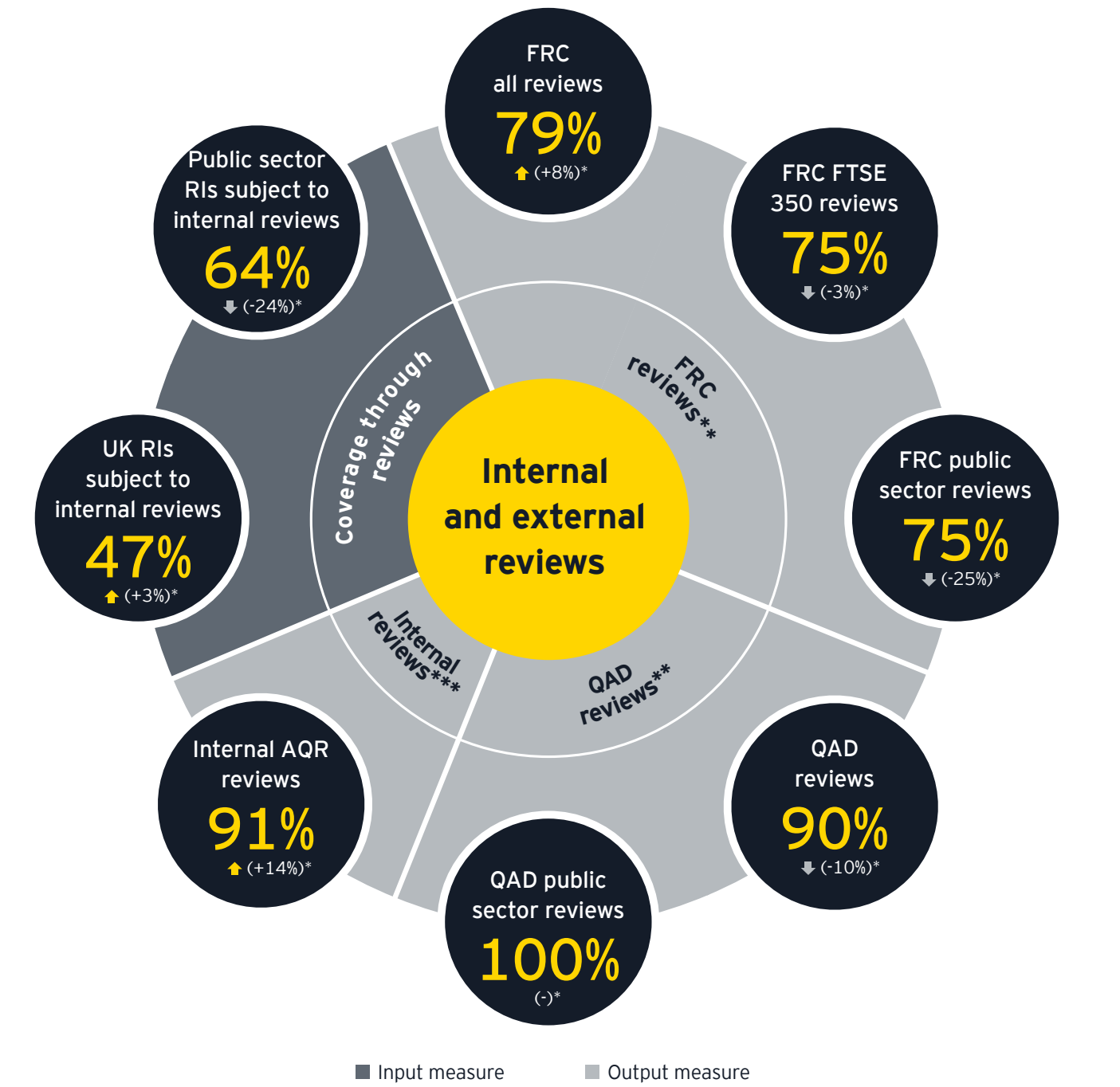
## ➤ Audit Quality Indicators and outcomes

In 2014 through the Policy and Reputation Group, six of the largest audit firms identified the key factors contributing to audit quality and determined a number of metrics as AQIs that audit firms should report on in their Transparency Reports. As explained in Section 2, AQIs are used to monitor implementation of strategy and its impact on quality. The FRC issued a thematic review on AQIs in the prior year recognising that monitoring these has the potential to improve audit quality. We monitor a bigger population of AQIs for management purposes, which are reported to the AQE monthly in order to assess risks to audit quality and take actions when required. Those outcomes reported below are from only a sample of the AQIs we monitor. Given the insights we can gain from AQIs, we include the development of these as one of the workstreams of our strategy.

Reported AQIs identified through the PRG:

1. Partner and staff surveys
2. Metrics on external investigations
3. Results of FRC reviews
4. Results of PCAOB inspections
5. Results of ICAEW QAD reviews
6. Results of internal quality reviews (AQR)
7. Percentage of Responsible Individuals subject to quality reviews
8. Metrics on investment in audit quality (training)
9. Narrative description of investment in audit innovation
10. Metrics on investor liaison – qualitative description of investor liaison
11. Metrics on Audit Committee Chair (ACC) impact – results of the ACC survey on audit quality

We are encouraged to see improvement in our internal and external inspection results year on year. It is important to keep in mind while considering these AQIs that quality must be considered across a broad range of metrics and therefore no AQI can be taken in isolation to provide an overview of the quality of our audits throughout the year. We discuss all our reported AQIs in detail below.

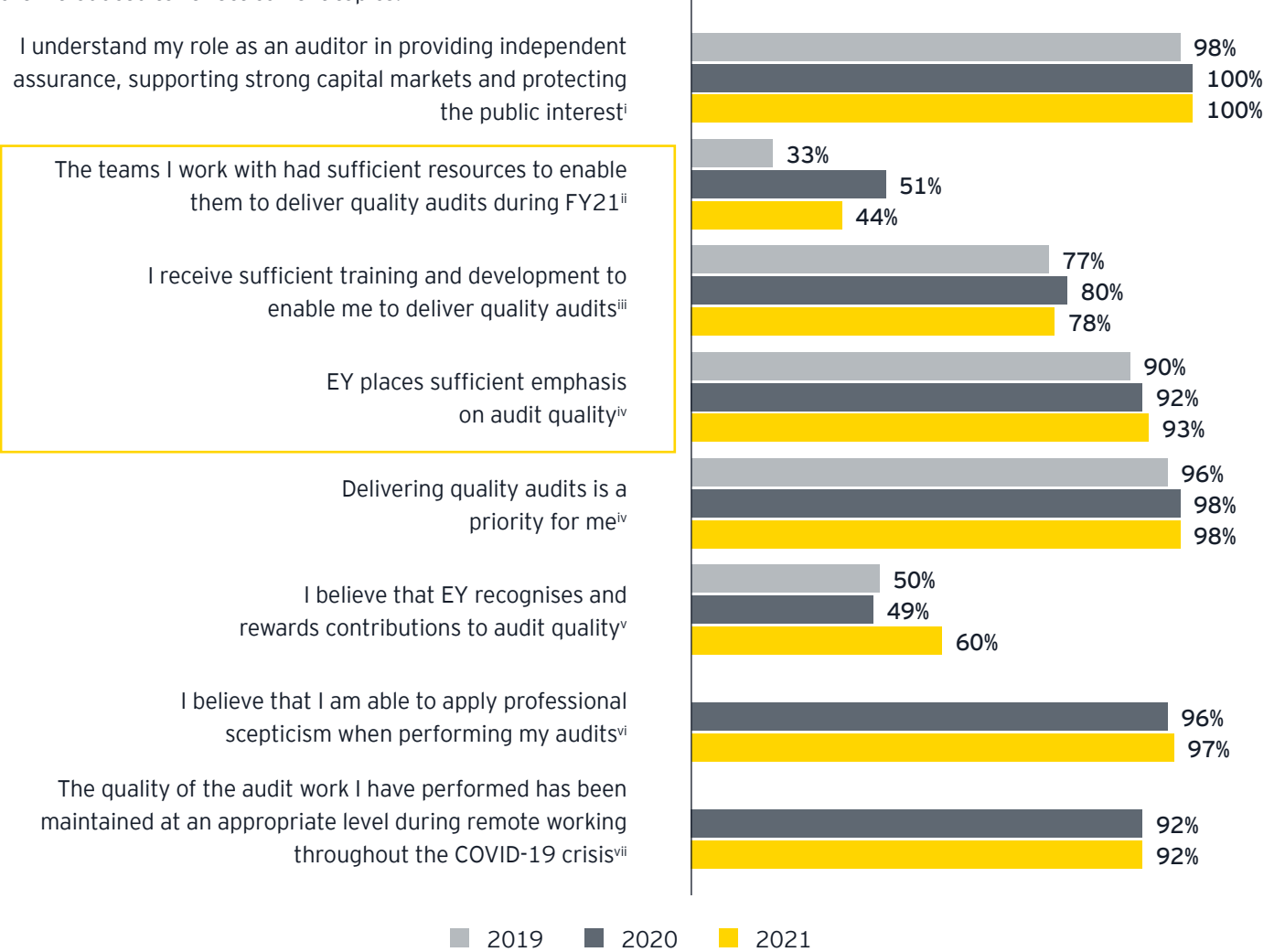


\* Represents percentage points increase or decrease against the prior year.  
 \*\* Represents percentage of engagements inspected that require no more than limited improvements.  
 \*\*\* Represents percentage of engagements inspected that received a 1 grade.

1. Partner and staff surveys

Our success in meeting our stated audit quality ambition 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 SAQ. We therefore conduct an annual Audit Quality Survey, to provide us with insights and to enable us to provide the information set out below. The survey was run in September 2021.

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 are introduced to reflect current topics.



For the 2021 and 2020 surveys, we offered a five-point range for most questions – from strongly agree to strongly disagree. We include as positive responses the responses for strongly agree and agree. In 2019, participants were only offered an agree or disagree option.

Notes:

- i. We are exceptionally proud of this result which demonstrates the impact of our continual focus during the past three years on the importance of understanding the societal purpose of the work we do, as well as sharing with our partners and staff details of the ongoing reviews into the audit profession.
- ii. There has been a decrease in the level of positive responses in relation to resourcing and the result is below where we want it to be. Carrying out work remotely and dealing with the additional challenges of COVID-19 on audits has required extra work and has placed additional demands on our people. We understand this and appreciate the importance of adequate resourcing in delivering audit quality. As a result, we considered if there were indications that the resourcing challenges identified have impacted audit quality. However,

based on the results of other questions asked in our survey, it is reassuring to see that even though our people have felt resourcing constraints on their audits, other relevant indicators have remained stable or improved and the majority felt there has been improvements in the quality of their audits over the past year. This is supported by an upward trend in our latest internal inspection results. We believe this is partly attributable to an increased focus on coaching during FY21 through our AQS FY21 priority workstream on PLOT. This resulted in 87% of our people feeling that they set aside appropriate time to coach their teams and 83% noting they received good coaching, both results increasing by 12 percentage points from the prior year despite being in a full remote-working scenario.



#### Notes (cont'd):

Given the importance of having the right resources within our business to ensure audit quality, resourcing indicators continue to be monitored monthly by the AQE with actions taken when required. These actions focus on recruitment, retention and having the right portfolio of work. We are running different recruitment campaigns including utilising our global network. We are also striving to increase retention of our people through reviewing our total reward package to ensure this is in line with the marketplace. In May 2021, a one-off exceptional payment was made to our people to recognise the extraordinary contribution they made during the last year. Alongside this, we have resigned from audits on which we have not managed to achieve a fair fee for audit quality, and we are not tendering for engagements when resourcing is not available to either support the bid or deliver the audit. We have also continued to invest significantly in digital applications in the year as part of our audit transformation initiatives, which has helped to increase automation to support our audit teams. We will continue this investment in technology to help reduce overall audit hours.

- 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 since the UK went into lockdown in March 2020.
- iv. We are pleased that our people show such a strong regard for delivering high-quality audits and that they see EY consistently placing emphasis on that.
- v. While we have experienced an increase in positive responses to this question, the result is still below where we want it to be. However, it is pleasing to see that steps taken to date have generated an improvement in the results. In 2020 the FRC highlighted as an area of good practice the link from audit quality to partner remuneration. In the prior-year staff appraisal process,

as part of the annual assessment of performance, we gave more weight to quality when determining variable pay awards. We have continued to increase this link between quality and pay in the current year through the allocation of performance awards for individuals who had delivered an exceptional contribution to quality. We will continue to emphasise that audit quality should take primacy in the evaluation of performance. In January 2021, a new recognition programme was also launched in the UK enabling staff and partners to provide instant recognition. Our workstream within the AQS focussed on attraction, recruitment and retention of staff, which is linked to our overall talent strategy. It is also a key focus within the work being done on operational separation.

- vi. Given the importance of challenging management and the application of scepticism, we introduced questions in this area for the first time in the 2020 survey. Embedding an audit culture with a focus on professional scepticism was also one of our three key priority workstreams for FY21 and continues to be so for FY22. As part of the workstream, we developed tools to help our auditors self-assess the current approaches and scepticism applied on their audits and recognise all the factors which may have led towards confirmatory bias so that this can be consciously countered. It is pleasing to see that this has resulted in further improvement to the already positive results from the prior year. We also continued to ask people if they felt supported to challenge management and this also showed a percentage point increase in positive responses to 88%.
- vii. It is reassuring to see that 92% of our people continue to agree that the quality of their work has been maintained while operating remotely during the COVID-19 crisis. The connectivity of our teams through the use of technology has enabled us to achieve this result.

## 2. Metrics on external investigations

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 and summarises its work in an annual report. In its Annual Enforcement Review published on 29 July 2021, the FRC disclosed that as at 31 March 2021 there were 37 open investigations into individuals and firms for audit work, i.e., these investigations were across a number of firms, not specific to EY UK. Of the 37 audit investigations the FRC notes that 19 have been announced. Of the 19 investigations announced and disclosed within the Annual Enforcement Review, 4 are audits EY UK completed. These were disclosed in our prior year Transparency Report and remain ongoing with no change:

- ▶ The audit of Thomas Cook Group plc for the 2017 year end
- ▶ The audit of Thomas Cook Group plc for the 2018 year end
- ▶ 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 committed to working with the FRC to understand and respond to any findings that may arise from these investigations.

After the Annual Enforcement Review was published in July 2021, on 25 August 2021 the FRC published the Final Decision Notice in its unannounced investigation under the Audit Enforcement Procedure into the audit of the financial statements of Stagecoach Group plc for the year ending 29 April 2017. The investigation arose from a referral from the FRC's annual inspection cycle. The FRC imposed sanctions against EY and the audit engagement partner.

The adverse findings were in relation to three specific areas of the audit: the defined benefit pension scheme obligations; the provision for insurance liabilities; and an onerous contract provision. While it is not alleged that the financial statements were in fact misstated, we recognise that we had not obtained sufficient appropriate audit evidence or applied sufficient professional scepticism in the conduct of the audit and had not ensured our documentation recorded the full extent of procedures carried out and judgements made. We had already taken action in the light of the FRC's findings to enhance the evaluation and challenge of the work of experts and to ensure proper challenge of management, which were the root causes of the findings.

The following sanctions were imposed against EY UK:

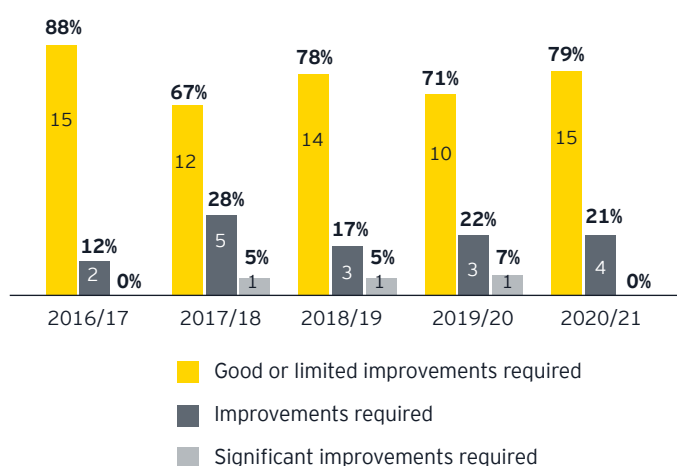
- ▶ A financial sanction of £3,500,000 (discounted by 10% for mitigating factors and discounted by 30% for admissions and early disposal to £2,205,000)
- ▶ A severe reprimand
- ▶ A declaration that the audit report did not satisfy the audit reporting requirements for the reasons set out in the Final Decision Notice
- ▶ A non-financial sanction requiring EY UK to report to the FRC for the period of one year in respect of audit work performed in relation to onerous contract provisions

The FRC also imposed a financial sanction and a severe reprimand on the audit engagement partner.

### 3. Results of FRC reviews

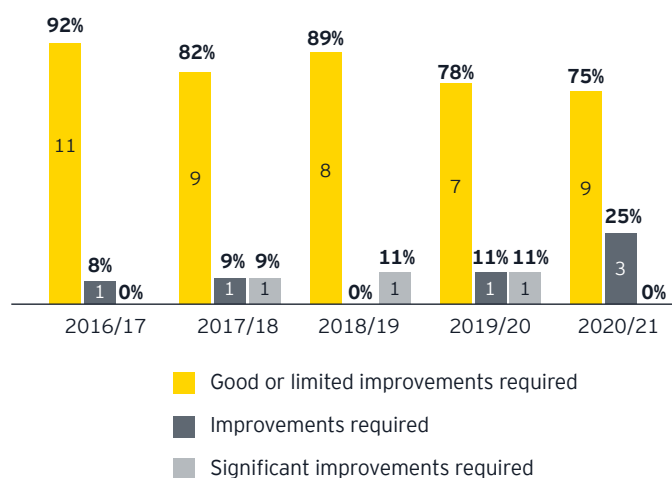
The FRC records audits in three categories in its public inspection reports as follows: 'good or limited improvements required', 'improvements required' or 'significant improvements required'. The FRC published its report on its latest inspection of EY UK on 23 July 2021. A summary of the results is set out below. For full details of the FRC's findings and our responses, please refer to the [FRC website](#).

#### All reviews



Results presented in percentage terms; absolute number representing engagements reviewed.

#### FTSE 350 reviews



The FRC inspected 19 of our audits, of which 79% were assessed as requiring no more than limited improvements. Included within the overall sample were 12 FTSE 350 audits, of which 75% met that standard. All six first-year audits inspected were assessed as good or requiring only limited improvements. Overall, our results show progress. We know, and the inspection results support, that we perform high-quality audits in most cases, but our consistency needs to improve.

The FRC highlighted areas of good practice.

#### Good practices identified on individual audits inspected:

- ▶ Effective group audit oversight over the work of component auditors
- ▶ First-year audits
- ▶ Going concern assessments
- ▶ Impairment assessments
- ▶ Expected credit loss assessments
- ▶ Revenue recognition

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

- ▶ Audit quality initiatives – audit quality communications; using predictive audit quality indicators; and quality initiative sponsors
- ▶ RCA process – extent of challenge from audit leadership; targeted thematic analysis; breadth of information used in RCA and RCA reporting; and analysis of good practices

- ▶ Audit methodology and training – the amount of mandatory training provided at the manager grade; illustrative audit procedures of a high standard for auditing the allowance for expected credit losses; and good disclosure guidance provided to teams performing banking audits

The FRC also highlighted areas for improvement.

#### Areas identified for improvement from the inspection of individual audits:

- ▶ Enhance the evaluation or challenge of aspects of management's impairment and going concern assessments
- ▶ Strengthen the testing or evidence over aspects of the assessment of the expected credit loss allowance
- ▶ Enhance the evidence and justification for the recoverability of deferred tax assets

We carried out RCA and established improvement plans in these areas, which are reflected in our Audit Quality Strategy. The full details of our specific actions addressing the FRC findings are identified in our responses within the FRC public report, which is available on the FRC website. A summary is provided below.

#### Actions identified to address the areas highlighted for improvement:

- ▶ Initiatives that focus on embedding a culture of challenge and scepticism and on driving consistent quality control. We have more to do in these areas and this is discussed further in our [Audit Quality Report](#).
- ▶ A firm stance on the need to push back on companies when they do not meet agreed timetables or where there are complexities that will take more time to address. In the last year an increasing number of audit opinions have been delayed due to resource challenges or additional work required by companies and our teams to ensure the necessary standard of audit work is completed before issuing our opinion.
- ▶ Updated policies and guidance, and additional training to further support our teams in these areas.
- ▶ A focus on clear and concise writing skills, to ensure our documentation in these areas is consistent.

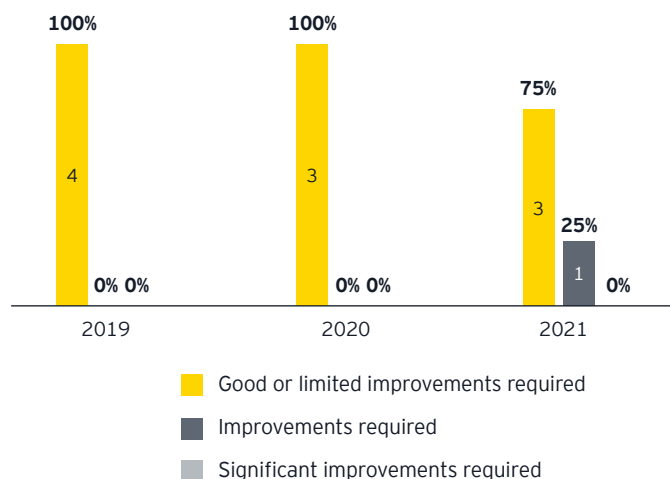
In terms of firm-wide procedures, the FRC highlighted that going forward EY UK needs to continue to develop its procedures to monitor the effectiveness of the implementation of our Audit Quality Strategy and remain focussed on the challenges inherent in the implementation of the plan, including continuing commitment from all staff, and to maintain emphasis on the initiatives that have become part of business as usual.

In response to these findings, we are using the project management officer function and the workstream sponsors to ensure implementation is full and effective. We are prioritising our focus on culture and behaviours as an area that will support the necessary attitude to fully embed our strategy. We are working with our people to understand any barriers to implementation so these can be addressed during FY22.

#### FRC inspections of public sector appointments

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 FY21 the FRC inspected four of our March 2020 year-end public sector audits. The results are set out below:



In addition to the financial statement reviews, the FRC reviewed the Value for Money (VFM) conclusion for the engagements where this applied. All three VFM conclusions were rated 'Good' or 'Generally Acceptable'.

The results of these inspections are included in the FRC's public report *Major Local Audits – Audit Quality Inspections* published on 29 October 2021.

#### 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 November 2020, the FRC issued a thematic review report on the topic of 'How are companies developing their reporting on climate-related challenges?' We had already commenced actions to address challenges in the audit of climate reporting, and have continued to respond to this thematic report throughout the year, including additional training and enablement and additional sector-specific guidance. As explained further in our [Audit Quality Report](#), our audit response to climate change continues to be a focus for us and we endeavour to continue to build on the work already started. This is therefore being introduced as a new workstream in our Audit Quality Strategy in FY22.

The FRC has also published letters and thematic reviews on COVID-19 and going concern (particularly in light of COVID-19). We had areas of good practice identified in these reports. We communicated the key findings contained in these thematics to the practice throughout the year. COVID-19 is discussed further below.

The FRC has performed a thematic review on the auditors' approach to fraud in the year. We have engaged with the FRC to date to understand where we can enhance our methodology and training in advance of our December 2021 year-end audits. We are grateful for these initial insights and await the final report later this year.

#### 4. Results of PCAOB inspections

EY UK is inspected every three years by the PCAOB. In accordance with this cycle the PCAOB was due to inspect EY UK during 2020. However, as a result of the COVID-19 pandemic the PCAOB had to defer its inspection until 2021. This inspection was conducted remotely in the year, jointly with the FRC. We await the PCAOB's report.

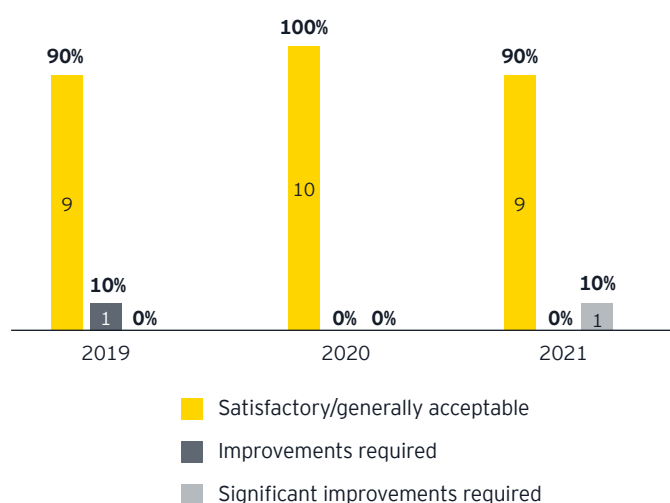
#### 5. Results of ICAEW QAD reviews

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 2020. The resulting private report, issued in the spring of 2021, noted: 'The firm has continued to maintain a generally good standard of audit work. Nine out of our ten standard file reviews were satisfactory or generally acceptable, but one required significant improvement. There were fewer issues overall, with only one or two issues on each of the generally acceptable files. These were isolated to areas with weak audit evidence or inadequate documentation. We also raised financial statement presentation and disclosure deficiencies on four files. We also continue to see examples of good audit practice.'

As noted in the QAD report 'on the file needing significant improvement there were widespread issues across the audit file'. We are very disappointed that one engagement inspected required this level of improvement. This audit fell short of our high expectations of audit quality. We are undertaking specific actions in response to this result. These actions include RCA to understand the circumstances of the audit and drill down to the causes of the QAD findings to enable us to design responsive actions that will improve audit quality.

The results of the QAD inspections are set out below:



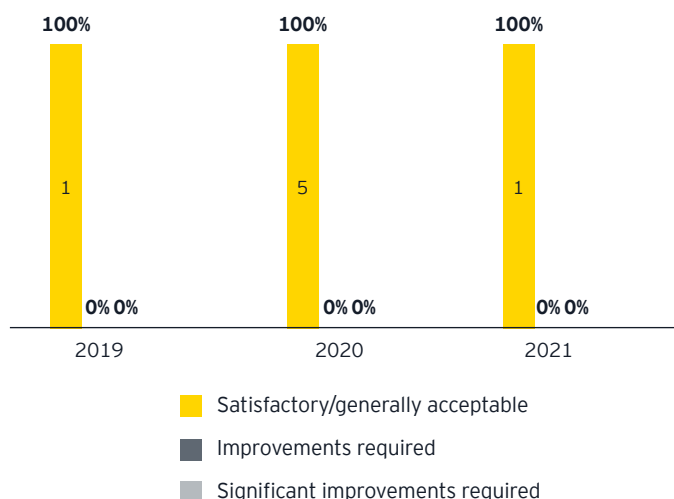


The QAD inspection did not identify any significant thematic issues. Although no thematic findings have been identified, we have commenced RCA on a sample of the 'generally acceptable' engagements to identify actions that can be taken to improve further audit quality.

#### QAD inspections of public sector appointments

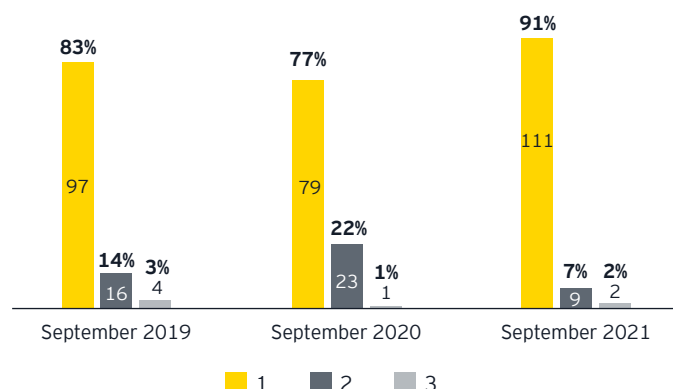
This is the third year the QAD has inspected public sector engagements that fall outside the remit of 'major local audits'. During FY21 the QAD inspected one of our 2018/19 public sector audits. This opinion was signed after the prior-year inspections were finalised and hence not available to review in FY20. The QAD has not inspected any of our 2019/20 audits, which is in line with its cyclical review process. The resulting private report, issued in the summer of 2021, 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 issues identified on the file reviewed.' The final report covering this review has not been formally approved by the ICAEW Audit Registration Committee at the date of this Transparency Report.

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



The VFM conclusion for the audit inspected was also reviewed, this was rated 'Satisfactory'.

## 6. Results of internal quality reviews (AQR)



In 2021 our internal reviews covered 20% of our FTSE 250 audits. One of these engagements was given a 2 rating, with the remainder all gaining the highest 1 rating (see page 31 for further explanation of the ratings).

We are pleased to see the impact of the redesigned Audit Quality Strategy and the continued focus on audit quality through an increase in engagements with zero or minor findings in the FY21 AQR season.

We identified two engagements rated 3 in our internal inspections. The material finding driving the 3 rating on each engagement was:

- Insufficient audit work performed over a potential reversal of impairment in an investment on an unlisted entity.
- On an SEC-listed audit, the engagement team did not comply with elements of the PCAOB required communications when seeking preapproval of 2020 tax services, although no breach of independence was identified.

RCA is undertaken for each engagement to identify actions we can take across our practice to continue to improve audit quality.

The AQR process is discussed in Section 2: Commitment to Sustainable Audit Quality.

## 7. Percentage of Responsible Individuals subject to quality reviews

Audits reviewed in the summer of 2021 are primarily audits of December 2020 year ends. Public sector reviews are undertaken later in the calendar year due to predominantly being March 2021 year ends.

In the current year we reviewed 122 engagements. This gave coverage of 47% of UK RIs (FY20: 34%) and 64% (FY20: 88%) of our public sector engagement leads in the 2021 AQR cycle.

## 8. Metrics on investment in audit quality (training)

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 FY21, training was reviewed by the FRC with no key findings reported. The FRC identified good practice in the amount of mandatory training provided at manager level. In 2021, training themes included sharpening our focus on fraud and risk, methodology updates driven by ISA (UK) revisions in relation to going concern and accounting estimates, amendments to IFRSs and a continued focus on audit quality, particularly the application of scepticism and challenge of management. We continued to invest heavily in training our partners and staff on the revised GAM, updated to reflect our data-driven audit approach ahead of further implementation from FY22 onwards. We achieved this through deployment of instructor-led digital audit workshops and associated e-learning programmes.

Throughout FY21, our training design and delivery approach continued to respond to the ongoing impact of COVID-19. As we move into a hybrid-working pilot phase, we are continuing to optimise learning effectiveness through a blend of virtual instructor-led offerings and on-demand, self-directed content.

### Training hours by rank

We set out below a summary of the average hours of mandatory audit and accounting training completed.

	FY21	FY20	FY19
Senior 2 (newly qualified)*	103	81	81
Senior 3 (experienced)	39	39	38
Manager	42	47	44
Senior Manager	34	31	29
Director/Partner	32	31	29

\* In FY21 we specifically increased the mandatory hours of training that this population were required to complete.

In addition to these mandatory learning hours, our audit staff and partners complete other variable elements of mandatory technical training, most notably training related to professional qualifications and role-related learning such as US technical training. There is also mandatory onboarding training for experienced professionals who join us, whether on secondment or on a permanent basis. We have other

personal development training and learning such as our milestone events e.g., our new senior, manager and senior manager programmes), EY Badges (curated learning to develop future-focussed technology, leadership and business skills) and other non-technical training, to which all of our staff have access but which is not included in the above hours.

## 9. Narrative description of investment in audit innovation

The majority of EY's investment in innovation is made by EY Global as set out in Section 2: Commitment to Sustainable Audit Quality. Throughout FY21 we have invested significantly in innovation including EY Canvas, data analytics and technologies to support the detection of fraud.

We supplement this in the UK with investment in the design and launch of tools such as robotic process automation solutions to perform manual repeated operations and custom analytics to address specific audit risks, e.g., a Furlough Analyser designed to help audit risks related to companies' application of the Government's furlough scheme.

## 10. Metrics on investor liaison – qualitative description of investor liaison

This is discussed in Appendix 3: Stakeholder dialogue.

## 11. Metrics on Audit Committee Chair (ACC) impact – results of the ACC survey on audit quality

The FRC undertook a survey of ACCs, gathering views on, and the approach to, audit quality. This included: ACCs' views on the key drivers of audit quality; what a good/bad audit looks like to an ACC; selection of auditors/tender process; audit planning; considerations of quality during the audit and post-audit; how ACCs use the results of AQR inspections to drive improvements in audit quality; how ACCs satisfy themselves as to the independence and suitability of their auditor; and developments in the audit sector and role of audit committees in the future. The FRC intends to use the findings from this research to inform its ongoing work, including that on further reforms to the audit sector. The report was published during December 2020 and is available on the [FRC website](#).

The survey covered 54 ACCs across 73 companies, including listed and unlisted entities. Although there were differing views on, and approaches to, audit quality, some key factors stood out:

- ▶ For many ACCs, the lead audit partner was synonymous with quality. A good audit partner having an understanding of the business and its sector, the ability to identify key risk areas and a sensible approach to handling them, a focus on timeliness in terms of raising issues and completing work, and good communication skills, drives good quality.
- ▶ Good audits also went beyond merely 'going through the motions' and 'ticking boxes'. They added value, drawing on industry context and previous experience. This 'added value' was expanded upon by a few respondents to mean the auditor offered a personal view of sorts, a unique opinion that went beyond presenting the facts and figures.
- ▶ Some ACCs mentioned challenge and scepticism as key to ensuring a high-quality audit, although these were not named as key attributes for a good auditor by all.
- ▶ Instances of a bad audit were often linked to where there was no challenge, or a lack of depth in the auditor's explanations, and were often cited as a failure in communication by many ACCs.
- ▶ Late delivery of audit work, and errors being identified and communicated at the last minute, were also categorised as leading to a bad audit.
- ▶ In terms of linkage between good service and high-quality audit, many ACCs thought you could not have one without the other.
- ▶ Many wanted greater transparency of the issues when audits go wrong; to learn lessons from high profile audit failures and from this develop a better sense of what a good audit looks like.
- ▶ Many ACCs said they would welcome further information and support from the FRC to help in their work on audit quality.

## 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. We have improved this guidance and offered additional good practice examples to the business in the year.

The EY Canvas audit technology enables cross-border teams to work consistently, transparently and securely together on audit planning, execution and reporting with the companies that we audit. Our tools enable documentation of the group auditor's oversight of work performed by both firms within the EY network and other audit firms. For the fifth consecutive year, the FRC has included examples of good practice in group oversight within its public report, and we are pleased that it has not been a recurring area for improvement again in the current year. However, we remain alert to the importance of this area and the challenges that arise, and continue to work to maintain and improve our oversight.

We also work regularly with our offshore team who support the delivery of our audit work. We have policies and procedures in place to ensure our teams are independent and sufficiently trained in order to maintain high standards of quality in the UK.

Navigating the challenges of remote working through COVID-19 has remained a priority for FY21. In relation to group audits, additional guidance has been provided to all EY member firm audit teams explaining expectations and support for group teams, be they primary or component, particularly around remote group oversight and risk assessment. This guidance has been issued as a global effort across the EY network, thereby supporting cross-border teams to ensure audits can be delivered in the most effective manner without compromising quality. This support for our EY member firms' teams across the globe continues while travel remains restricted.

## Local Audits

All engagement leads for Local Audits (as defined by The Local Auditors (Transparency) Regulations 2020) are registered as key audit partners (KAPs) with the ICAEW and are supported by dedicated public sector audit staff. In addition to the programme of training for assurance professionals, outlined in Appendix 3: Audit quality, all KAPs and staff working on Local Audit engagements are required to undertake sector-specific mandatory training for Local Audit work.

This training covers health, local government and local government pension schemes and is delivered at both the planning and execution stages of the audit. Additional training is also delivered to KAPs on their additional powers and duties under the Local Audit and Accountability Act 2014.

The results of both internal and external quality reviews of Local Audit engagements are communicated to all Government and Public Sector assurance staff. Core skills training on Local Audits has been delivered during the year. KAPs attend quality panels to assess their competency when they are appointed in the same way as the RIs.

## ➤ 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 uncertain and volatile economic outlook triggered by the COVID-19 outbreak has affected the financial services sector. There has been negative pressure on interest margins, an increase in credit risk and the potential for an increase in future claims including for health and credit insurance. The UK Government and banks have implemented various measures to help individuals and businesses minimise the adverse economic effects of COVID-19, but as these measures are eased the impact on the economy remains uncertain.

This environment has had 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 IFRS on financial instruments (IFRS 9), as well as enhanced 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 on key topics, e.g., expected credit losses, financial instruments, insurance audit risk considerations and macroeconomics benchmarks.

## ➤ Continued impact of COVID-19 on audit quality

FY21 saw the continued impact of COVID-19 on our business and that of the companies we audit. Our primary focus was supporting our teams in doing the right thing by supporting the quality of all audits including consideration of whether timing of audits needed to be revised or deferred. We shared

with our partners and teams on numerous occasions our support for delaying audit opinions where it was necessary to accommodate staff wellbeing, challenges arising due to illness or other COVID-19 related absences, and the need for additional time and procedures as a result of challenges faced by the companies we audit. In addition, some of the key processes that remained in place during FY21 in response to the pandemic were:

- ▶ 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, which was issued to assist teams in considering the impact of the pandemic on their audits. We also have guidance on specialist areas including economic assumptions, oil and gas prices, financial instruments, an expected credit loss audit programme, and pensions. This guidance is refreshed as necessary.
- ▶ The presentation of a COVID-19 dashboard to the AQE to identify indicators of potential areas of stress in the audit business as a result of the pandemic.
- ▶ Maintaining a risk-based approach to consultations for engagements before issuing an audit opinion. This has developed continually over the last 18 months to reflect the evolving risks in the changing environment.
- ▶ Including COVID-19 as a topic in our seasonal webcasts for all staff and partners and other firm-wide communications, where necessary. Updates included auditing and accounting considerations, as well as industry specific considerations, and technical guidance such as the impact on pension schemes, financial instruments, and macro-economic assumptions.
- ▶ Monitoring staff wellbeing on a monthly basis including at the AQE and ensuring EY Health were providing sufficient information to the business and offering support where needed.

Since the start of the year we have also provided the practice with guidance and reminders on the use of reverse stress testing when considering going concern. The FRC has considered the guidance issued in relation to COVID-19 as part of its thematic review and has noted several good practices in the area.

We continue to monitor the COVID-19 situation and the impacts it has on the audit practice to ensure we can address these swiftly and robustly to maintain audit quality and discharge our societal responsibilities.

## Managing risk

The environment in which we operate creates a broad range of diverse risks for EY UK. Effective management of these risks is critical to safeguarding EY UK, delivering on our purpose and ambition and ensuring we are aligned to the risk management principles of the Audit Firm Governance Code (AFGC). 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 robust Three Lines of Defence model, illustrated below.



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 EY UK'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.

The ROC's work this year included:

- ▶ Monitoring EY UK's response to the COVID-19 pandemic and risks arising from it, including in respect of the return to office working
- ▶ Oversight of the ongoing development and strengthening of EY UK's Three Lines of Defence

- ▶ Reviewing EY UK's implementation of ISQM 1
- ▶ Oversight of EY UK's Internal Audit function, including the FY21 audit plan and the results of audits executed during the year
- ▶ Reviewing the identification and management of firm and service-line specific risks
- ▶ Monitoring regulatory requests and developments relevant to management of EY UK's risk
- ▶ Reviewing the process for assessing the impact of selected principal risks on the viability of EY UK's performance, solvency and liquidity



## ➤ Proactively strengthening our Three Lines of Defence

We continued to strengthen our control environment and management of risk through a series of proactive change initiatives.

These included, for example, continuing to restructure the way we accept clients and engagements, further strengthening our frameworks around service delivery, and improving the way we identify and manage new business opportunities. Additionally, we are implementing a set of measures to proactively strengthen our risk culture across EY UK.

Our second line of defence adapts to our regulatory environment. EY UK undertook an operational review of our second line functions last year, identifying several opportunities to enhance the functional structure and optimise roles, responsibilities and staffing levels. We are currently in the process of implementing these enhancements.

Another project is improving 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 approach is currently being piloted.

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 EY UK's finances and principal risks. The conclusions of the assessment supported the ongoing viability of the business under these stress scenarios.

## ➤ FRC Review of Risk Management

The FRC conducted a review of our Risk Management framework, benchmarking activity against industry standards. The review recognised that EY UK's approach to risk management was aligned to the requirements of the various risk standards. The FRC highlighted good practice with a key element of the framework being the interactive Board Risk Profile which reports on the management of EY UK's principal risks. This allows users to view the current status of these risks against defined appetites, based on containability and vulnerability assessments which are driven by data from other firm systems. Minor improvements to risk management were proposed and these are currently being actioned by EY UK.

## ➤ Agile risk management support by our Internal Audit function

We have continued our commitment to strengthen significantly the firm's Internal Audit – the third line of defence – to compliment other ongoing initiatives to strengthen our governance arrangements.

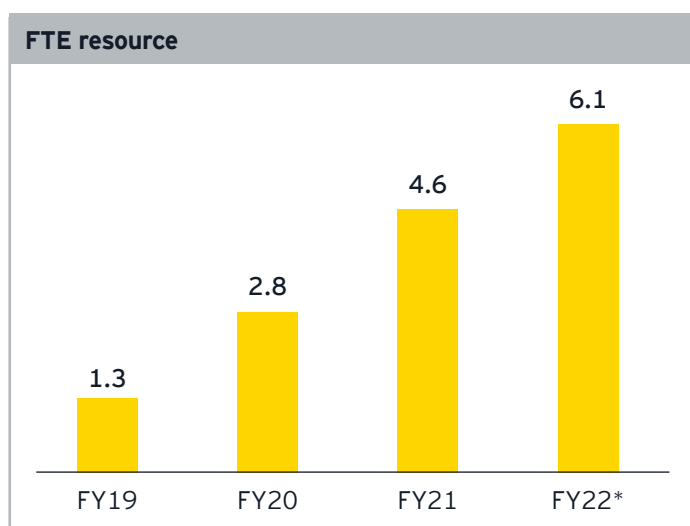
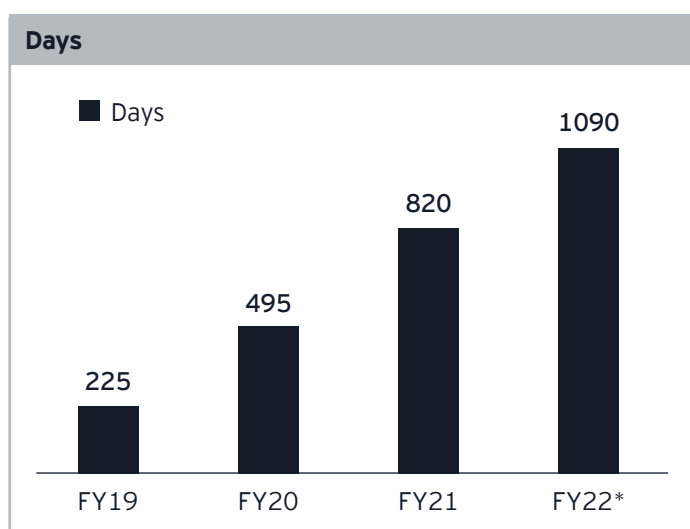
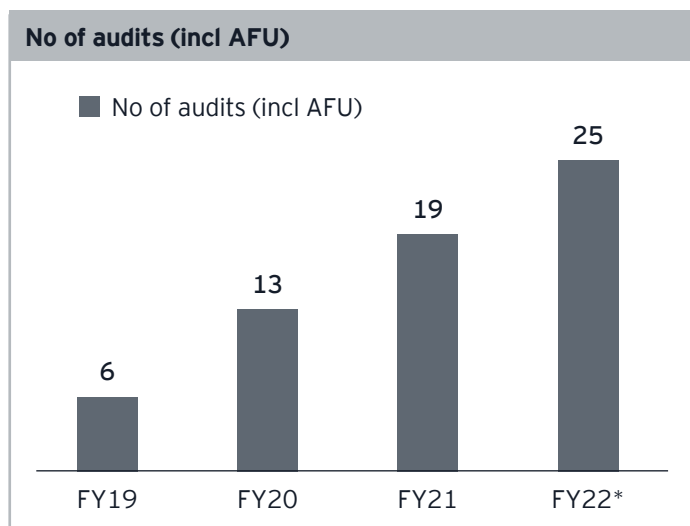
EY UK's Internal Audit team is led by an experienced associate partner from our Enterprise Risk team. A significant step forward in FY21 was the recruitment of a full-time senior manager and manager with significant experience working within internal audit. The team will continue to be supplemented with subject matter resources from across the firm as required.

The FY21 Internal Audit programme, aligned to EY UK's business risk profile and strategic issues facing senior management, was approved by the ROC and the Board in June 2020. The FY21 plan had an overarching principle that it should be flexible and agile to respond to the changing risk profile of the firm as a consequence of the global pandemic. In response, the ROC formally reviewed the validity of the FY21 Internal Audit plan monthly throughout the year. In addition, a number of priority audits were classified as 'early runners' to provide early assurance to the ROC on priority risk areas.

This overarching principle will continue into FY22 to ensure that Internal Audit remains relevant in light of the changing risk profile as the firm responds to new regulatory requirements, the International Standard on Quality Management, internal transformation and strategic change and other ongoing disruptive factors (e.g., a return to office working). The table below shows the FY21 Internal Audit Programme:

Business planning and performance monitoring	Pricing and margin protection	Code of Conduct and ethics governance
Cash flow management	Engagement acceptance	COVID-19 crisis response and governance
Supplier risk Management	Quality – consulting	Audit Quality Programme
IT cyber and information Security	Data governance	Payroll
Risk Management	Audit Practice – Root Cause Analysis	Action follow up (AFU) reviews – four per year

Our investment in Internal Audit will continue in FY22 and is demonstrated by the graphs below:



\*Planned

## Commitment to continuous improvement

Our Internal Audit team is committed to continuous improvement and reports twice per year to the ROC, IOC and Board on progress against its Quality Improvement Programme.

In July 2021, an External Quality Assessment (EQA) of Internal Audit was completed and reported to the ROC, IOC and Board. The objective of the EQA was to assess independently the quality and effectiveness of Internal Audit, in line with the UK Code of Practice for Internal Audit and the International Standards for the Professional Practice of Internal Auditing which recommend that an EQA be performed at least once every five years.

The report concluded that:

- ▶ The Internal Audit function's maturity today is 'Proficient' which is largely due to the commitment of the Head of Internal Audit and the improvement journey she has taken the function on in the last 18 months
- ▶ Internal Audit is seen as objective and independent in providing assurance to the ROC and Board on the activities set out in the annual Internal Audit plan
- ▶ The Internal Audit function is respected and trusted, is clear on its role and remit in the organisation, has access to the skills and capabilities that it needs to deliver its current programme of audits, and has many strong operational processes in place which enable it to deliver on its mandate
- ▶ It is fit for purpose, meets the mandate set for it today, and is an important enabler to the Purpose, Values and Culture of EY UK

The recommendations reflect opportunities for improvement which will keep Internal Audit aligned to strong corporate IA practices, as well as amendments that will be required as EY UK responds to changing regulations and internal developments. The recommendations will be captured within the Quality Improvement Programme and reported twice per year to the ROC, PIB and Board.

We are also pleased to report that we have fully completed the FRC's actions for improvement following its review in 2020.

## ➤ 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 FY21:

- ▶ EY UK undertook a review of a set of policies in regulatory focus and policy enhancements to proactively strengthen these policies, which are currently being implemented.
- ▶ EY UK continued to focus on its GDPR programme, to reflect the UK Government's approach to data protection regulation.
- ▶ EY UK 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 continue to receive regular training in financial crime prevention, anti-money laundering (AML) awareness and reporting.

## ➤ Ethics and whistleblowing

The EY Global Code of Conduct, 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' and are required to confirm that they will comply with the Code of Conduct. Additionally, all EY UK people confirm annually that they have been, and will continue to be, in compliance with the Code of Conduct. An Ethics Hotline is available for any EY person to report conduct that they consider to be in breach of the Code of Conduct.

EY also has a global policy on reporting non-compliance with the Code of Conduct and non-compliance with laws and regulations (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 of Conduct, by rejecting unethical or illegal business practices, supporting compliance with laws, regulations and standards, and upholding our commitment to ethical behaviour and quality. NOCLAR clarifies our people's responsibility to speak up.

At EY UK, we have measures in place for our people to make a whistleblowing report in confidence and anonymously.

The UK whistleblowing guidance was updated to ensure it is fully accessible and user-friendly for everyone in EY UK. It explains clearly and directly:

- ▶ The types of behaviour that should be reported
- ▶ How to make these reports
- ▶ What EY UK 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 May 2021.

## ➤ Principal risks

The relevant teams in EY UK confirm annually that EY UK'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 EY UK'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	Increasing	<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"> <li>Strategic investments are made without a clear business case or governance being established.</li> <li>EY UK is not able to deliver on strategic investments in line with expectations.</li> </ul>	<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. We have recently established two new governance committees to further strengthen focus on acquisitions.</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 continue to promote cross-collaboration between service lines and with other Global EY member firms, to leverage our investments within EMEA and worldwide.</p>
2. Our business model is unsustainable	Increasing	<p>EY UK is committed to the expansion of new services, particularly in technology implementation and outsourcing. We need to grow these services successfully without impacting adversely on our existing business. The delivery of EY UK services might become unsustainable as a result of:</p> <ul style="list-style-type: none"> <li>Ineffective use of technology; nearshore, offshore and third parties/alliance partners as part of our delivery model, particularly given the changes to working practices impacted by COVID-19 and the heightened risk that components of the global model may continue to be adversely affected by local outbreaks as we emerge from the pandemic.</li> <li>Poor pricing of services such that we do not generate a sustainable margin.</li> </ul>	<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>Performance is measured against the annual plan which is prepared within the context of the three-year Strategic Plan.</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 and expand client service offerings in line with our strategy.</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>

Principal Risks	Risk tendency	Risk drivers	Actions to mitigate risks
2. Our business model is unsustainable (Cont'd)		<ul style="list-style-type: none"> <li>▶ We do not have adequate, quality people with the right skills, experience and motivation.</li> <li>▶ Our culture is insufficiently risk focussed and does not support our business model.</li> <li>▶ Clients no longer perceive the value we provide as a significant differentiator.</li> </ul>	<p>We continue to target the recruitment of talent that will enable us to use technology to transform traditional services and launch new offerings, extracting maximum value from our technology investment plan.</p> <p>Ongoing surveys allow continual assessment of colleague engagement and organisational culture.</p>
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"> <li>▶ We are not anticipating or reacting sufficiently quickly to macroeconomic/geopolitical shifts (for instance, recession post lockdown, global trade post Brexit) and market changes (e.g., client demands as we emerge from lockdown, channel shift, regulatory change and competition including new market entrants).</li> <li>▶ We have insufficient quality people with the right skills and experience to meet client demand. Our pricing isn't sufficiently competitive.</li> <li>▶ 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.</li> <li>▶ Our services and solutions are not sufficiently relevant to market demand.</li> </ul>	<p>Service line management teams monitor the impact of macroeconomic and political uncertainties to:</p> <ul style="list-style-type: none"> <li>▶ Respond to changing macro conditions in an agile way.</li> <li>▶ Prepare ourselves for new competitors or adjusted business models of old competitors.</li> <li>▶ Continue to monitor trends in client needs (e.g., digitalisation, artificial intelligence and technology-enabled transformation) and align our investment strategy accordingly.</li> <li>▶ Amend our recruitment, training and performance management strategies so we can deliver the services our clients need in the future (e.g., NextWave).</li> <li>▶ Oversee reporting and reviewing processes that highlight revenue and missed opportunities.</li> </ul>
4. We are not appropriately managing our cost base and liquidity position	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 EY UK's revenue base, as a result of market forces and inadequate management of our service delivery and overheads. External factors, particularly responses to regulation and laws, may drive higher indirect costs.</p> <p>Specific risks would stem from:</p> <ul style="list-style-type: none"> <li>▶ Inadequate management of cashflow</li> <li>▶ Inadequate control of direct and indirect costs</li> </ul>	<p>EY UK continues to manage costs on a firm-wide level with:</p> <ul style="list-style-type: none"> <li>▶ Stringent financial controls in place at all levels of EY UK.</li> <li>▶ Ongoing management reviews of our cost/income position and cashflow development.</li> <li>▶ Enhanced engagement planning and control.</li> <li>▶ Strengthened monitoring and governance over investment spend.</li> <li>▶ Initiatives to tighten control over internal non-client related spend.</li> <li>▶ Embedding of the Enterprise Resource Planning cost ledger implemented in 2019.</li> <li>▶ Wider use of collaborative tools to manage costs.</li> <li>▶ Monitoring of developments in regulation and legislation to track and forecast indirect costs.</li> </ul>



Principal Risks	Risk tendency	Risk drivers	Actions to mitigate risks
5. We are negatively impacted through association with the global network of EY firms	Stable	<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"> <li>▶ Inappropriate conduct or a compliance breach by another EY member firm.</li> <li>▶ A service failure that has implications for engagements managed globally by EY UK.</li> </ul>	<p>There is ongoing monitoring and engagement, at a global level, between EY UK'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>
6. We accept an inappropriate client or engagement	Stable	<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"> <li>▶ Fail to assess the suitability of clients and engagements at inception.</li> <li>▶ Fail to monitor clients and engagements continuously throughout the life of the client relationship or engagement and take appropriate action.</li> <li>▶ Are not aware of changing stakeholder expectations as to the clients and sectors to which we should provide professional services, including changing expectations on the nature of our services.</li> </ul>	<p>Stringent policies and procedures are in place to prevent the acceptance of inappropriate clients or engagements:</p> <ul style="list-style-type: none"> <li>▶ Strengthened independence and Global Conflicts Policy to prevent conflicts of interests and other independence issues.</li> <li>▶ Mandatory use of BRET for all third-party relationships.</li> <li>▶ Ring-fencing of teams where appropriate.</li> <li>▶ Mandatory use of PACE.</li> <li>▶ Successful pilot of centre of excellence for audit engagement continuance to be rolled out firm-wide.</li> <li>▶ Strengthened control environment with respect to financial crime, including AML and ABC.</li> <li>▶ Training, guidance and regular awareness campaigns in respect of areas of firm compliance on client and engagement acceptance.</li> <li>▶ Use of the Reputation &amp; Conflicts Panel to assess more reputationally risky engagements, as well as strengthened service quality focus and accountabilities on more complex and risky engagements.</li> </ul>
7. Audits are not performed or documented in accordance with auditing standards	Stable	<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"> <li>▶ Being insufficiently sceptical in areas of audit judgement.</li> <li>▶ Inappropriately applying accounting standards to the client's fact pattern as part of our audit.</li> <li>▶ Inadequate audit planning, whereby the risk of material misstatement is insufficiently addressed.</li> </ul>	<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"> <li>▶ Staff and partner recruitment, development and assignment procedures, including mandated training activity.</li> <li>▶ Global audit methodology and risk management policies accessed through an online portal.</li> <li>▶ Quality review procedures over service delivery.</li> <li>▶ Root cause analysis – of deficiencies identified, and the implementation of lessons learned.</li> </ul>

Principal Risks	Risk tendency	Risk drivers	Actions to mitigate risks
7. Audits are not performed or documented in accordance with auditing standards (Cont'd)		<ul style="list-style-type: none"> <li>▶ Not using a team with the right skills, experience and capacity.</li> <li>▶ Failure to manage capacity.</li> <li>▶ Failure to spot an emerging systemic risk or properly understand changes to legal, accounting, or auditing standards.</li> <li>▶ Shortcomings in other EY network firms' work.</li> <li>▶ Archived audit documentation not reflecting the work undertaken.</li> <li>▶ Quality review/control processes are not adhered to.</li> <li>▶ Clients setting unrealistic timetables, misleading the audit team and/or withholding information.</li> <li>▶ EY UK is not appropriately independent from audit clients.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Fraud awareness training and requirements on responding to identified fraud.</li> <li>▶ Regular monitoring of client circumstances to respond to increased audit risk where relevant.</li> <li>▶ Testing of selected files prior to audit opinion by service quality teams.</li> <li>▶ Access to specialist staff within the wider firm.</li> <li>▶ Ethics Hotline available to staff.</li> <li>▶ Appropriate budgeting and forecasting to meet audit operational needs.</li> <li>▶ Independence framework implemented with controls covering adherence.</li> <li>▶ Sustainable Audit Quality programme.</li> </ul>
8. Clients are dissatisfied with the quality of work delivered	Stable	<p>Delivering services that do not meet client expectations, that harm our reputation as a trusted service provider and impact on our ability to win further business. This could be the case if we are:</p> <ul style="list-style-type: none"> <li>▶ Providing a service where we have contracted to deliver outside of our capabilities.</li> <li>▶ Failing to manage scope, deliverables, timescales, dependencies and assumptions at inception or during the engagement lifecycle.</li> <li>▶ Lack of leadership and quality assurance.</li> </ul>	<p>Our firm seeks to ensure that we are delivering exceptional client service based on:</p> <ul style="list-style-type: none"> <li>▶ Comprehensive and well-established internal quality and compliance procedures to address the risks of service failure.</li> <li>▶ Rigorous recruitment and development procedures.</li> <li>▶ Adjusting our delivery approach on an engagement-specific level (e.g., use of offshore capabilities).</li> <li>▶ Client and engagement acceptance and continuance processes to verify that we will provide the right service to the right client and with the appropriately skilled resource.</li> <li>▶ 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).</li> <li>▶ Quality review procedures over service delivery and continued enhancement of delivery tools, with particular emphasis on remote and flexible working and the potential that this continues in the short term as we emerge from lockdown.</li> <li>▶ Continued improvements to governance over engagement initiation and new client acceptance.</li> </ul>

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"> <li>▶ Inadequate technology, system and application performance and recovery, continuity and replacement procedures.</li> <li>▶ Failure in the management of IT change.</li> <li>▶ Malicious physical acts or cyberattacks that impact the delivery of our services.</li> <li>▶ 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).</li> </ul>	<p>EY has a comprehensive risk management process in place to protect our service delivery. Controls include:</p> <ul style="list-style-type: none"> <li>▶ Management of IT system lifecycles and system performance.</li> <li>▶ Stringent disaster recovery procedures and employee support.</li> <li>▶ Professional IT change management programme governance, involving senior members of EY UK.</li> <li>▶ Integrated IT management of systems in use globally, across all member firms.</li> <li>▶ Use of up-to-date cyber defence systems, protocols and staff training.</li> <li>▶ Physical access security across all EY office locations.</li> <li>▶ Comprehensive contingency planning covering all service lines and functions.</li> <li>▶ Continuously updated training materials and sessions to raise awareness of our staff regarding IT and cyber risk.</li> <li>▶ Key controls that are continually assessed against prevailing industry standards and best practice.</li> <li>▶ Continuously updated controls around EY workstations including monitoring and prevention of data loss arising from leavers and monitoring of use of unauthorised cloud and messaging services.</li> </ul>

Principal Risks	Risk tendency	Risk drivers	Actions to mitigate risks
10. Talent is not attracted, integrated, retained and managed	Increasing	<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:</p> <ul style="list-style-type: none"> <li>▶ Are unable to offer a sufficiently attractive partnership model, leading to a reduced supply of candidate future leaders.</li> <li>▶ Fail to offer attractive and flexible working arrangements, and fail to ensure the health and wellbeing of our people, recognising that post-lockdown, remote working is likely to remain a more significant component of the working week.</li> <li>▶ Are not offering attractive career paths with sufficient personal development and compensation.</li> <li>▶ Fail to engage people through effective leadership, management and support, particularly during remote working where physical team interaction is not possible.</li> <li>▶ Fail to create and maintain a diverse and inclusive culture, open to all members of society without bias.</li> <li>▶ Are unable to continue to create, hire and retain sufficient people.</li> </ul>	<p>Processes and procedures are in operation at service line level to manage the recruitment, retention and management of staff.</p> <p>These include:</p> <p><b>Supporting personal development</b></p> <ul style="list-style-type: none"> <li>▶ Improved onboarding process and experience for new joiners.</li> <li>▶ Individual counselling and 'buddying' programmes to develop the right talent.</li> <li>▶ Implementation of a firm-wide harmonised learning and development strategy.</li> <li>▶ Multi-year talent programmes, including diversity and inclusiveness initiatives.</li> <li>▶ Strengthened induction and post-induction programmes, at staff and partner levels.</li> </ul> <p><b>Involving senior management to foster talent</b></p> <ul style="list-style-type: none"> <li>▶ Implementation of 'market learning sponsors' to ensure senior management buy-in, and to embed learning and development into individual service line strategy.</li> <li>▶ Regular leadership communications covering strategy and performance.</li> <li>▶ Frequent employee listening surveys (quarterly) to measure employee experience and engagement and new joiner and exit surveys.</li> <li>▶ Improved management of performance through mandated counsellor training.</li> <li>▶ Individuals' performance, readiness for promotion and development discussed regularly at internal performance appraisal groups.</li> <li>▶ Annual benchmarking of total reward by grade, location and competency groups.</li> </ul> <p>We recognise the challenges with regard to the take-up of training during lockdown and we are actively ensuring that a broad range of training is received, not just mandatory courses.</p> <p>This year we have established a significant project with the goal of creating an Exceptional Employee Experience, taking an external market view as well as an internal one.</p>

Principal Risks	Risk tendency	Risk drivers	Actions to mitigate risks
11. Confidential information is misappropriated, mishandled or corrupted	Stable	<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.</p> <p>Although remote working protocols are now well established, increased use of hybrid working will require ongoing focus on controls. Risks remain through:</p> <ul style="list-style-type: none"> <li>▶ Loss of electronic equipment or hard copy documents.</li> <li>▶ Information being sent electronically or in hard copy to an unintended recipient or by third parties acting under EY's direction.</li> <li>▶ Authority and information not being created, stored, transferred or destroyed appropriately, or in line with policy.</li> <li>▶ 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).</li> </ul>	<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><b>Data protection and information security training programme</b></p> <ul style="list-style-type: none"> <li>▶ 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.</li> <li>▶ Mandatory GDPR training in place for all staff.</li> <li>▶ Provision of service line specific incident training where required.</li> </ul> <p><b>Policies and procedures</b></p> <ul style="list-style-type: none"> <li>▶ Suite of policies and procedures governing data protection, data incidents and supporting guidance.</li> <li>▶ Contractual terms addressing the handling of confidential information and client data.</li> </ul> <p><b>Improved hardware and software controls</b></p> <ul style="list-style-type: none"> <li>▶ Preventative software added relating to external emails. Reduced footprint of risk via full migration of laptop data to cloud through our Modern Workplace strategy.</li> <li>▶ Enhanced IT asset encryption.</li> <li>▶ Continued investment in cybersecurity controls, e.g., strengthened communication, training and testing to improve awareness of phishing.</li> <li>▶ Periodic testing of IT and cybersecurity controls.</li> <li>▶ Dedicated team of cybersecurity experts who actively monitor, hunt and defend our system.</li> <li>▶ Regular training and reminders to staff to remain vigilant for potential cyberattacks (including phishing).</li> <li>▶ Regular communications on good data-handling practices.</li> <li>▶ Robust data incident handling programme.</li> <li>▶ Data risk mitigation plans.</li> </ul>



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"> <li>▶ We are not responding to new and changing regulatory requirements and expectations, or changing interpretations thereof.</li> <li>▶ Our people are not fulfilling (or are unaware of) their role in risk management, and/or not understanding the risks EY UK is exposed to.</li> <li>▶ Our people are not following internal policies and procedures, including our Code of Conduct.</li> <li>▶ We fail to continue to enable and embed a culture of strong risk management and compliance.</li> </ul>	<p>The EY UK Regulatory &amp; 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"> <li>▶ Update our policies and procedures framework.</li> <li>▶ Prepare and update guidance documents for our staff.</li> <li>▶ Refresh our training plan (mandating particular components as necessary).</li> </ul> <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>EY UK continues to invest in new tools and technologies to support our staff in monitoring regulatory developments.</p> <p>This year we have invested in new roles within the UK firm to strengthen our focus on all aspects of compliance risk. We expect to continue to enhance our controls in this area in the coming year, further strengthening the framework for the management of compliance risk.</p>
13. Externally imposed change to our existing business model threatens our ability to continue to deliver high-quality audits	Increasing	<p>Government or regulatory action requires us to change our existing business model. Key risks are:</p> <ul style="list-style-type: none"> <li>▶ Demand for separate management of the audit business.</li> <li>▶ Additional requirements for provision of data requiring major system or operating model changes.</li> <li>▶ Ongoing sustainability and effectiveness of the business model and strategy.</li> </ul>	<p>We have frequent interaction with government departments and regulators, and contribute to the continuing debate on the future of the Big Four and auditing, following on from the Kingman, Competition and Markets Authority, BEIS and Brydon reviews. Specific mitigating actions include:</p> <ul style="list-style-type: none"> <li>▶ Continuous engagement with our regulators, to understand and respond to proposed changes that raise the bar on regulation.</li> <li>▶ Monitoring of all changes to regulation, to identify the effects on EY UK and translate them into changes to EY UK's procedures and guidance, to ensure our people comply with these changes.</li> <li>▶ Regular review of regulatory compliance by first and second-line control functions.</li> <li>▶ Close monitoring of potential threats to audit independence, which remains a key concern.</li> <li>▶ Scenario and contingency planning.</li> </ul>

Principal Risks	Risk tendency	Risk drivers	Actions to mitigate risks
14. Loss of public trust in EY UK as a result of reputational damage	Stable	<p>Reputational damage could be caused by:</p> <ul style="list-style-type: none"> <li>▶ Providing services to clients that would be viewed by some or all of our stakeholders as contrary to our public standing.</li> <li>▶ Conduct by our people that does not meet the high standards we impose on ourselves.</li> </ul>	<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"> <li>▶ Significant reputational issues are reviewed and opined on by the Reputation &amp; Conflicts Panel.</li> <li>▶ Building trust within EY UK and with our external stakeholders remains a key focus and has been reiterated recently through a series of initiatives.</li> <li>▶ 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.</li> <li>▶ EY UK has whistleblowing procedures in place, which includes a confidential Ethics Hotline.</li> <li>▶ All staff are required to complete our Global Code of Conduct training which sets out the standards that are expected of our people to reduce the likelihood of adverse publicity arising from individual actions.</li> </ul>

## Compliance statements

### Statement on the effectiveness of EY UK'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 EY UK'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 EY UK'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 EY UK's systems of internal control are operating effectively and are in line with the risk management principles of the AFGC.

### 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 Local Auditors (Transparency) Regulations 2020, and based on the practice review carried out in FY21, 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.

## Stakeholder dialogue

EY UK and our INEs take a proactive approach to stakeholder engagement and actively participate in both public and private stakeholder events and meetings with the aim of enhancing two-way communication and our understanding of their opinions, concerns and emerging expectations. Throughout FY21 our engagement efforts centred around company directors, including but not limited to audit committee members, institutional investors – both asset owners and asset managers, the UK government departments and policy makers, and our regulator – the FRC. Key topics included the BEIS consultation with a specific focus on the implementation of operational separation and the recent FRC's proposed revisions to the AFGC.

New this year, EY UK partnered with Onward, a not-for-profit thinktank, to facilitate a panel discussion focussed on the *Social Contract: The relationship between business and society after the crisis* in the spirit of further exploring how government and business can work together to achieve our shared goals. EY UK's Chair, Hywel Ball, was encouraged by the coming together of governments, regulators, local authorities, corporations, investors and financial institutions at this event.

As a founding task-force member of the Bank of England's Purposeful Company organisation made up of leading FTSE companies, investment houses, business schools, business consultancy firms and policymakers, EY UK's Chair has also been actively engaged with other CEOs and NEDs on the importance of 'purpose'. Building on EY UK's contribution over the past six years, Hywel Ball was selected as one of the 14 organisational leaders to participate in the *Purpose Tapes* publication which was aimed at better understanding the motivation for leaders to put purpose at the heart of their organisational and firm decision-making.

Supporting the *Purpose Tapes* report, EY UK released a podcast designed to help boards navigate and meet evolving stakeholder expectations, examine how investor and corporate perspectives and priorities are changing, and understand how purpose is pivotal in guiding business leaders, owners and the board.

Further highlights of our EY UK stakeholder engagement activities are detailed below.

### FRC

EY engaged with the FRC on an ongoing basis throughout FY21 on a wide range of regulatory topics, including our Audit Quality Strategy, the BEIS consultation and operational separation, our risk management processes and governance.

Recognising the importance of audit firm culture, specifically in the current year, EY UK and our EY UK INEs attended the FRC's inaugural Culture Conference to further understand the FRC's requirements and attributes of a culture that supports an auditor in being able to challenge effectively and exercise professional scepticism when performing audits ('a culture of challenge').

### Audit Committee Chairs' Independent Forum

EY UK and our INEs actively engaged with ACCIF on both key elements of the BEIS consultation and expectations on good audit quality. EY UK participated in virtual roundtables with the ACCIF members as well as inviting them to share their views at our annual Audit Quality Summit held in September 2020.

### Institutional Investors

EY engaged with investors to improve our understanding of their priorities in respect of corporate reporting and audit and to listen to any specific feedback they have had.

In September 2020, EY UK published our second investor stewardship insight report and aligned to the FRCs revised expectations as per the new 2020 Stewardship Code. EY UK focussed on the important role that asset owners have as guardians of market integrity and creating long-term value for beneficiaries leading to sustainable benefits for the economy.

In January 2021, EY UK facilitated a break-out session at the Investor Forum's fifth annual event, which brought together 150 stakeholders across the investment community including Chairs, NEDs, investors, advisors, academics, and other key influencers, focussed on how investors and stakeholders can create a meaningful dialogue on purpose with companies.

A focus of EY UK's engagement with investors this year has been to understand their expectations regarding corporate reporting, with a specific reference to the Task Force on Climate-Related Financial Disclosures.

In March 2021, EY UK participated in an interactive session where we discussed the topic of climate change reporting with 52 institutional investors. We followed up the event with several one-on-one sessions with investors to explore climate-related assumptions in more depth.

Following on from this, in June 2021 EY UK hosted a webcast on *How to meet rising stakeholder expectations on climate-related reporting*.

### **Chief Financial Officers of the FTSE 350**

In April 2021 and June 2021, EY UK partnered with Chatham House to engage with a dozen FTSE 350 Chief Financial Officers (CFOs) on how the proposed changes under the BEIS consultation and the FRC's implementation of operational separation will impact them and other board-level roles as the future of governance and audit takes shape. EY UK also participated in a discussion chaired by Dr Linda Yueh, Associate Fellow at Chatham House, on the topic of *What the future holds for corporate governance* alongside Professor Robert Eccles of Said Business School at the University of Oxford and Sir Jon Thompson of the FRC.

This formed part of broader engagement activities with business aimed at explaining the expected impacts of the BEIS consultation and encouraging corporates to commence strengthening their existing governance processes in anticipation of the consultation outcomes. EY UK also engaged with business on the FRC's *Future of Corporate Reporting* project and the value of measuring and communicating societal value and impact.

### **Non-Executive Directors**

EY UK's programme for Non-Executive Directors – the UK Centre for Board Matters (CBM) – continued to deliver insights on the current issues and trends facing UK businesses to NEDs. Through FY21, the CBM pivoted its activities to respond to the global pandemic, engaging members through a fortnightly newsletter, as well as blogs, webcasts, podcasts and roundtables. The CBM delivered seven principal webcasts, which looked beyond COVID-19 and offered insights into the future of work, geopolitical risks for boards and considerations for corporate governance and audit reforms. The audit reform webcast convened a panel of experts including the CEO of the FRC, Independent Non-Executive Director and Audit and Risk Committee Chair, Margaret Ewing and our EY UK Chair, Hywel Ball and was attended by 754 participants, including our INEs.

To complement these activities, in June 2021 EY organised a roundtable for audit committee chairs to discuss the implications of the BEIS consultation on directors and specifically the anticipated impacts on the role of the audit committee.

# Appendix 4

## Audit Firm Governance Code

EY UK is committed to the 2016 Audit Firm Governance Code. In accordance with the Code's principle E.2, we have publicly reported in this Transparency Report how EY UK 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 2021 Transparency Report, the matter is addressed for the purposes of E.2.

Principles and provisions of the 2016 AFGC LEADERSHIP	How EY UK is addressing the principles and provisions
<b>A.1 Owner accountability principle</b> The management of a firm should be accountable to the firm's owners and no individual should have unfettered powers of decision.	Section 1: About us Appendix 3: Governance and leadership
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.	Appendix 3: Governance and leadership
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 1: About us Appendix 3: Governance and leadership
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.	Section 1: About us Section 2: Commitment to sustainable audit quality
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.	Appendix 3: Governance and leadership <a href="#">Terms of Reference available on the EY website</a>
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.	Appendix 3: Governance and leadership Appendix 3: Culture and values <a href="#">Terms of Reference available on the EY website</a>



Principles and provisions of the 2016 AFGC LEADERSHIP	How EY UK is addressing the principles and provisions
<b>A.2 Management principle</b> A firm should have effective management which has responsibility and clear authority for running the firm.	Appendix 3: Governance and leadership Appendix 3: Culture and values
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.	Appendix 3: Governance and leadership Appendix 3: Culture and values <a href="#">Terms of Reference available on the EY website</a>
Principles and provisions of the 2016 AFGC VALUES	How EY UK is addressing the principles and provisions
<b>B.1 Professionalism principle</b> 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.	Section 1: About us Section 2: Commitment to sustainable audit quality Appendix 3: Culture and values
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.	Leadership messages Section 1: About us Appendix 3: Culture and values Appendix 3: Audit quality
B.1.2 Firms should introduce KPIs on the performance of their governance system, and report on performance against these in their transparency reports.	Appendix 3: Governance and leadership
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.	Section 1: About us Appendix 3: Culture and values Appendix 3: Managing risk <a href="#">EY Global Code of Conduct available on EY global website, and compliance with the code is overseen by the INEs.</a>
<b>B.2 Governance principle</b> A firm should publicly commit itself to this Audit Firm Governance Code.	Refer to the paragraph at the beginning of this appendix.
B.2.1 The firm should incorporate the principles of this Audit Firm Governance Code into an internal code of conduct.	Section 2: Commitment to sustainable audit quality Section 3: Independence practices Appendix 3: Managing risk
<b>B.3 Openness principle</b> 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.	Leadership messages Section 2: Commitment to sustainable audit quality Appendix 3: Culture and values Appendix 3: Audit quality Appendix 3: Managing risk

Principles and provisions of the 2016 AFGC INDEPENDENT NON-EXECUTIVES	How EY UK is addressing the principles and provisions
<b>C.1 Involvement of Independent Non-Executives principle</b> 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.	Leadership messages Appendix 3: Governance and leadership
<b>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.</b>  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.  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.	Leadership messages Appendix 3: Governance and leadership Appendix 3: Audit quality Appendix 8: EY UK Non-Executives' biographies Appendix 9: Meetings attendance
<b>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.</b>  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).  The firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes Independent Non-Executives.	Leadership messages Appendix 3: Governance and leadership <a href="#">Terms of Reference available on the EY website</a> <a href="#">Other information provided on the EY website</a>
<b>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:</b> <ul style="list-style-type: none"> <li>▶ Promoting audit quality.</li> <li>▶ Helping the firm secure its reputation more broadly, including in its non-audit businesses.</li> <li>▶ Reducing the risk of firm failure.</li> </ul>	Leadership messages Appendix 3: Audit quality
<b>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.</b>	Appendix 3: Governance and leadership

Principles and provisions of the 2016 AFGC INDEPENDENT NON-EXECUTIVES	How EY UK is addressing the principles and provisions
<p><b>C.2 Characteristics of Independent Non-Executives principle</b></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>Appendix 3: Governance and leadership</p> <p>Appendix 8: EY UK Non-Executives' biographies</p>
<p>C.2.1 The firm should state in its transparency report its criteria for assessing the impact of Independent Non-Executives on the firm's independence as auditors and their independence from the firm and its owners.</p>	<p>Appendix 3: Governance and leadership</p>
<p><b>C.3 Rights and responsibilities of Independent Non-Executives principle</b></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>Appendix 3: Governance and leadership</p> <p><a href="#">Terms of Reference available on the EY website</a></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>Appendix 3: Governance and leadership</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"> <li>▶ Promoting audit quality.</li> <li>▶ Helping the firm secure its reputation more broadly, including in its non-audit businesses.</li> <li>▶ Reducing the risk of firm failure.</li> </ul>	<p>Appendix 3: Governance and leadership</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>Appendix 3: Governance and leadership</p> <p>Appropriate indemnity insurance is in place for the INEs</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>Appendix 3: Governance and leadership</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>Appendix 3: Governance and leadership</p> <p><a href="#">Other information provided on the EY website</a></p>

Principles and provisions of the 2016 AFGC OPERATIONS	How EY UK is addressing the principles and provisions
<b>D.1 Compliance principle</b> 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.	Leadership messages Section 1: About us Appendix 3: Managing risk
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.	Section 2: Commitment to sustainable audit quality Appendix 3: Managing risk
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.	Appendix 3: Audit quality
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.	Section 2: Commitment to sustainable audit quality Appendix 3: Managing risk
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.	Appendix 3: Audit quality
<b>D.2 Risk management principle</b> 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.	Section 2: Commitment to sustainable audit quality Appendix 3: Managing risk
D.2.1 The firm should, at least annually, conduct a review of the effectiveness of the firm's system of internal control.  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.	Leadership messages Appendix 3: Managing risk
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.  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.	Leadership messages Appendix 3: Managing risk

Principles and provisions of the 2016 AFGC OPERATIONS	How EY UK is addressing the principles and provisions
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.	Appendix 3: Managing risk
<b>D.3 People management principle</b> 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.	Leadership messages Appendix 3: Culture and values
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.	Leadership messages Appendix 3: Audit quality Appendix 3: Culture and values Appendix 3: Managing risk <a href="#">Refer to EY website</a>
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.	Review of people management policies and procedures, to help ensure the public interest is protected, is a standing item on the IOC agenda and will be covered by the newly formed Public Interest Board, Audit Board and Audit Board Remuneration Committee.
<b>D.4 Whistleblowing principle</b> 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.  The Independent Non-Executives should be satisfied that there is an effective whistleblowing process in place.	Leadership messages Appendix 3: Managing risk  The INEs satisfy themselves that the whistleblowing process is effective, via attendance at EY UK Board meetings where reports on issues raised by this process are discussed. This topic will also be covered by the newly formed Public Interest Board.
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.	Refer to D.4 above



Principles and provisions of the 2016 AFGC REPORTING	How EY UK is addressing the principles and provisions
<b>E.1 Internal reporting principle</b> 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.	Section 2: Commitment to sustainable audit quality
<b>E.2 Governance reporting principle</b> 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.	Refer to the opening paragraph in Appendix 4
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	<a href="#">Refer to EY website</a>
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.	No additional provisions, adopted from the UK Corporate Governance Code, have been reflected in the contents of this Transparency Report or its host webpage.
<b>E.3 Transparency principle</b> A firm should publish on an annual basis in its transparency report a commentary on the firm's performance, position and prospects.	Leadership messages Appendix 3: Audit quality Appendix 3: Culture and values For further information on the performance and position of the EY global network, see the EY UK Annual Results 2021, due to be published in the autumn of 2021.
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.	Appendix 3: Managing risk
E.3.2 The transparency report should be fair, balanced and understandable in its entirety.	Appendix 3: Governance and leadership
<b>E.4 Reporting quality principle</b> 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.	Appendix 3: Governance and leadership
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.	<a href="#">Disclosure included on the EY website</a>

Principles and provisions of the 2016 AFGC REPORTING	How EY UK is addressing the principles and provisions
<b>E.5 Financial statements principle</b> 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.	Ernst & Young LLP financial statements available from Companies House (to be filed in the autumn of 2021).
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.	Ernst & Young LLP financial statements available from Companies House (to be filed in the autumn of 2021).
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.	Ernst & Young LLP financial statements available from Companies House (to be filed in the autumn of 2021).
Principles and provisions of the 2016 AFGC DIALOGUE	How EY UK is addressing the principles and provisions
<b>F.1 Firm dialogue principle</b> 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.	Leadership messages Appendix 3: Governance and leadership Appendix 3: Audit quality Appendix 3: Stakeholder dialogue
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. The independent Non-Executives disclosures should cover the nature and extent of the involvement of Independent Non-Executives in such dialogue.	Leadership messages Appendix 3: Stakeholder dialogue Appendix 3: Audit quality <a href="#">Refer to EY website</a>
<b>F.2 Shareholder dialogue principle</b> Shareholders should have dialogue with audit firms to enhance mutual communication and understanding.	Leadership messages Appendix 3: Governance and leadership Appendix 3: Audit quality Appendix 3: Stakeholder dialogue
<b>F.3 Informed voting principle</b> 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.	Through our stakeholder engagement activities, we encourage ongoing dialogue between investors and listed companies.

# Appendix 5

## EU Audit Regulation (537/2014)

Under Article 13 of The EU Audit Regulation (537/2014) – subsequently incorporated into UK domestic law by Section 3 of the European Union (Withdrawal) Act 2018 – 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 1: About us Appendix 3: Governance and leadership
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.	Section 1: About us Appendix 3: Governance and leadership
ii. The name of each statutory auditor operating as a sole practitioner or audit firm that is a member of the network.	Appendix 2: Approved EYG member firms
iii. The countries in which each statutory auditor operating as a sole practitioner or audit firm that is a member of the network is qualified as a statutory auditor or has his, her or its registered office, central administration or principal place of business.	Appendix 2: Approved EYG member firms
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.	Section 5: Revenue and remuneration
c. A description of the governance structure of the audit firm.	Section 1: About us Appendix 3: Governance and leadership
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 2: Commitment to Sustainable Audit Quality Appendix 3: Managing risk Appendix 3: Audit quality
e. An indication of when the last quality assurance review referred to in Article 26 was carried out.	Appendix 3: Audit quality

Provisions of the regulation	Where to find information on how EY UK complies with the regulation
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 1: List of PIEs audited by EY UK
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 3: Independence practices Appendix 3: Managing risk
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.	Section 2: Commitment to Sustainable Audit Quality Appendix 3: Audit quality
i. Information concerning the basis for the partners' remuneration in audit firms.	Section 2: Commitment to Sustainable Audit Quality Appendix 3: Audit quality Section 5: Revenue and remuneration
j. A description of the statutory auditor's or the audit firm's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7).	Section 2: Commitment to Sustainable Audit Quality Appendix 3: Audit quality
k. Where not disclosed in its financial statements within the meaning of Article 4(2) of Directive 2013/34/EU, information about the total turnover of the statutory auditor or the audit firm, divided into the following categories:	Section 5: Revenue and remuneration
i. Revenues from the statutory audit of annual and consolidated financial statements of public interest entities and entities belonging to a group of undertakings whose parent undertaking is a public interest entity.	Section 5: Revenue and remuneration
ii. Revenues from the statutory audit of annual and consolidated financial statements of other entities.	Section 5: Revenue and remuneration
iii. Revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm.	Section 5: Revenue and remuneration
iv. Revenues from non-audit services to other entities.	Section 5: Revenue and remuneration



# Appendix 6

## Local Auditors (Transparency) Regulations 2020

### 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 1: About us Appendix 3: Governance and leadership Appendix 4: Audit Firm Governance Code
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 1: About us Appendix 3: Governance and leadership Appendix 4: Audit Firm Governance Code
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 2: Commitment to Sustainable Audit Quality Appendix 3: Managing risk
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 3: Independence practices Appendix 3: Audit quality Appendix 3: Managing risk
e. Confirmation that all engagement leads are competent to undertake local audit work and staff working on such assignments are suitably trained.	Section 2: Commitment to Sustainable Audit Quality Appendix 3: Audit quality
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: Commitment to Sustainable Audit Quality
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.	<a href="#">Refer to EY website</a>



Provisions of the regulations	Where to find information on how EY complies with the regulations
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 3: Audit quality
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.	Section 5: Revenue and remuneration
j. Information about the basis for the remuneration of partners	Section 5: Revenue and remuneration

# Appendix 7

## EY UK Board Members' biographies



**Anna Anthony**

Managing Partner, UK FSO

Anna Anthony is EY's UK Financial Services Managing Partner, responsible for over 200 partners and 4,000

employees serving clients in the banking, insurance and asset management sectors, and sits on the EY UK Board. Outside of EY, Anna is a NED for the International Business and Diplomatic Exchange, a non-profit organisation providing leadership in promoting international trade and investment flows.

With more than 20 years' of experience advising the financial services sector across EMEIA markets, Anna has led on

many large-scale projects, including high-profile mergers and acquisitions (M&A) and restructuring programmes. And, as a qualified tax accountant, she has extensive experience in providing and implementing complex international tax advice to the world's largest financial institutions.

From her platform as a senior partner in EY UK, Anna is an active and visible advocate of the diversity and inclusiveness agenda and plays a leadership role on EY's sustainability journey.



**Ian Baggs**

Managing Partner, UK FSO Assurance

Ian has been with EY for over 30 years, making partner in 1997. He leads the UK Financial Services Audit & Assurance

practice, a role he was appointed to in December 2015. Prior to this Ian held various leadership positions, including UK Banking & Capital Markets Leader from 2003 to 2008, and

Global Banking & Capital Markets Deputy Leader from 2011 to 2015. He started his career in the Assurance practice and has worked with many of the world's largest global banks and securities firms. He continues to serve a range of clients across the banking sector with a focus on audit, governance, controls and regulation.



**Hywel Ball**  
UK Managing Partner

Hywel is UK Chair and Managing Partner for UK&I. Hywel has been with EY for over 35 years, 25 years as a partner providing services to clients across a range of sectors, including many FTSE 100 companies, giving him an unparalleled understanding of the profession.

Prior to taking his current position, from 1 July 2020, Hywel was UK Head of Audit and Managing Partner of Assurance for nine years. During his tenure, Hywel drove an unrelenting focus on audit quality while also significantly growing both the audit and non-audit businesses. His previous roles include Chair of Scotland and Head of Energy and Utilities.

He is a leading voice on the importance of long-term value creation. Hywel co-authored the EY Long-Term Value

framework, which is designed to help companies measure and communicate the value they create for all stakeholders. He also led a proof-of-concept of this framework with the Coalition for Inclusive Capitalism and over 30 global participants, in an initiative called The Embankment Project.

Hywel led the auditors' advisory group for the Brydon review of the audit profession, and was a member of the Advisory Board for the FRC's review of Corporate Reporting.

Hywel also has extensive client experience. As an audit partner he signed the audit reports for a number of FTSE 50 companies, and worked with clients across a range of sectors and geographies.



**Justine Belton**  
UK Country PPD and UK Audit Compliance Principal

Justine Belton was appointed to the EY UK Board, effective 1 July 2019, as well as taking over the role of UK Professional Practice Director and UK Audit Compliance Principal. Justine is responsible for ensuring compliance with our audit

responsibilities and providing audit and accounting technical and learning support to the UK audit practice, to enable it to deliver high-quality audits. Justine brings a wealth of experience to the role, having been at EY for 30 years and an Assurance Partner for 19 years.



**Lisa Cameron**  
General Counsel

Lisa is a dual qualified lawyer who joined EY in 1998. She assumed the role of EY UK's General Counsel on becoming partner in 2006 and is responsible for all legal issues affecting EY UK. Lisa and her team advise leadership and partners on matters of contract, regulation, governance, transactions, litigation, employment, and overall practice protection.

In the current environment, ethical conduct and decision making in all aspects of our work and behaviour are essential to building trust and protecting our reputation and that of our people. Lisa is proud to play a role in supporting our people and organisation to make the right decisions and behave in a professional and ethical manner.

**Christabel Cowling**

UK Head of Regulatory and Public Policy

Christabel has been with EY for almost 20 years, having previously worked for PwC. She has extensive experience in auditing multinational listed groups under IFRS and of reporting accountant work for corporate transactions. As UK Head of Regulatory and Public Policy, Christabel leads our response to the UK's audit reforms and she is Chair of the cross-firm Policy & Reputation Group.

Prior to her current role, Christabel led our audit business across the North of England and Scotland between 2011 and 2014, and was the Chief Operating Officer for Assurance across the UK&I between 2014 to 2018.

**Sue Dawe**

Managing Partner, Head of FSO, Scotland

Sue brings over 30 years' of experience within the financial services sector. Her specific focus has been in the Wealth and Asset Management (WAM) Sector, where she has extensive experience delivering audits, and control and regulatory reviews. She joined EY in 1988, became a partner in 2009,

and was appointed Head of Financial Services Scotland in 2016. Her previous roles include EMEA leader of WAM Assurance and Head of UK WAM Audit. She is on the board of Scottish Financial Enterprise, the Financial Services Advisory Board and is also a Patron for Women in Banking and Finance.

**Jane Goldsmith**

Managing Partner, Risk Management, UK

Jane was appointed Managing Partner Risk Management, UK&I on 1 November 2020. Previous roles Jane has undertaken are: UK FSO: Talent and Partner Matters Leader (2015-2020); UK FSO Risk: Consulting Partner, Regulatory Remediation Practice; EMEA Advisory: Area Talent leader

for Advisory, responsible for Advisory talent strategy, operations, and delivery covering senior recruitment and onboarding, learning and development, mobility, senior promotions, and policy design and implementation (2015-2018); and UK FSO: PI Finance Leader (2008-2011).

**Debbie O'Hanlon**

EY Private Leader, UK&I

Debbie leads EY Private in UK&I and is a member of the UK&I Performance Management Investment Committee and the Reputation and Conflicts Panel. Based in Reading, Debbie has been an audit partner for 18 years, and has over 30 years' experience in the profession, working with a range of

listed, private and public sector businesses. Debbie has also spent a number of years working in the social housing sector, in both executive and non-executive positions and was one of the founding trustees of the EY Foundation.



### **Lynn Rattigan**

UK Chief Operating Officer and EY Entrepreneur Of The Year™ UK Partner Sponsor, Ernst & Young LLP

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

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



### **Andrew Walton**

UK Head of Audit

Andrew is UK Head of Audit and also a member of the EY UK Board. Andrew has been at EY for 30 years, the last 17 of which as a partner. Andrew is currently the Lead Audit Partner for a FTSE 100 company and has extensive experience of working with large listed corporations, notably in the consumer products sector.

Prior to his appointment as UK Head of Audit, he has held other leadership positions including UK&I Deputy Head of

Audit, UK&I Head of Assurance Markets and London Audit Leader. Andrew has had three secondments during his career: to the Toronto audit practice of the Canadian EY member firm, talent function, and to EY UK's commercial due diligence practice.

He is an Investment Committee member for the Social Business Trust.



# Appendix 8

## EY UK Non Executives' biographies



**Tonia Lovell**

Tonia practised law for over 25 years, at Linklaters and then in-house at Unilever. During her 20 plus years at Unilever her roles included Chief Legal Officer (2010-

2013), Group Secretary (2010-2018), General Counsel, Corporate Governance (2015-2018) and General Counsel for the UK and Ireland (2003-2010).

Her experience at Unilever included being an advisory member of the Unilever Executive Committee, corporate

governance adviser to the Unilever Boards and Director of Unilever UK/Ireland, as well as seats on Unilever's Disclosure, Pensions and Equity, Information Protection and IT Investments Committees.

Tonia is a member of the External Advisory Committee to Royal London Asset Management's sustainability funds, an executive coach/mentor to members of the legal community, a school governor and a former member of the GC100 Executive Committee.



**David Thorburn**

David's career spans over 40 years in banking, with Clydesdale & Yorkshire Banks, TSB Group, the Bank of England and, most recently, Barclays Bank UK PLC.

David has been pursuing a portfolio career since 2015 and is currently an Independent Non Executive with both EY Global and EY UK. He took up these roles in June 2016 and is also Chair of EY's Public Interest Committee (Global) and Audit Board (UK).

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

David is a Chartered Banker and former External Member of the Bank of England's Prudential Regulatory Committee. He is also a former Chairman of CBI Scotland, a Past President of The Chartered Institute of Bankers in Scotland, and former Board Director of the British Bankers Association and Scottish Financial Enterprise.



**Sir Peter Westmacott**

Sir Peter was British Ambassador to the United States from January 2012 until he retired from the UK Diplomatic Service in January 2016. He then spent

a semester at Harvard's Kennedy School of Government as a Resident Fellow.

Sir Peter was British Ambassador to France from 2007-2012 and to Turkey from 2002-2006. His 40-year diplomatic career included four years in Iran before the 1979 revolution

and a secondment to the European Commission in Brussels. He was the Foreign and Commonwealth Office's Director for the Americas from 1997-2000 and Deputy Under Secretary of State from 2000-2001. From 1990-1993, he was Deputy Private Secretary to His Royal Highness The Prince of Wales. He is now Senior Adviser at Chatham House, a Distinguished Ambassadorial Fellow at the Atlantic Council, chair of the international advisory board of Tikehau Capital, a Non-Executive Director of We.Soda Ltd, Volex Plc and Glasswall Holdings and an advisory director of Campbell Lutyens & Co.

## New appointments

At the beginning of FY22, two additional Non-Executives were recruited to EY UK. Mridul Hegde joins as an INE and ANE and sits on the newly formed Public Interest Board, Audit Board and Audit Board Remuneration Committee. Philip Tew was appointed to the Audit Board as the doubly independent ANE and chairs the Audit Board Remuneration Committee.



**Mridul Hegde**

Mridul Hegde CB has been an Independent Non-Executive Director of HSBC UK and Chair of its Risk Committee since 2018. She was also a

Non-Executive Director of the UK Municipal Bonds Agency for three years. A former director of HM Treasury, Mridul was part of the leadership team that designed and executed the

UK Government's support of the banking sector during the global financial crisis. Prior to that, she was HM Treasury's Director of Public Spending and held a number of other senior roles. Mridul brings significant experience of UK financial services and of the wider regulatory and governance ecosystem.



**Philip Tew**

Philip Tew is currently a Non-Executive Director and Chair of the Governance, Audit and Risk Committee for Quilter Cheviot, a leading discretionary

investment management firm. He was previously a senior audit partner at PwC and worked there for 40 years, before

leaving in 2018. Philip has a wealth of experience in the financial services sector and brings strong technical knowledge of financial reporting, accounting and auditing. He has worked extensively with boards, audit committees and management teams across large and listed companies.

# Appendix 9

## Meetings attendance

### ▶ UK meetings attendance

The following tables show the level of attendance at EY board and committee meetings in FY21.

- ▶ Board – UK LLP
- ▶ IOC – Independent Oversight Committee
- ▶ AQIOC – Audit Quality IOC
- ▶ AQE – Audit Quality Executive
- ▶ ROC – Risk Oversight Committee
- ▶ CCC – Code of Conduct Committee
- ▶ UKAC – UK Audit Committee
- ▶ PSC – Pension Sub-Committee
- ▶ CRC – Country Response Committee

	Board	IOC	AQIOC	AQE	ROC	CCC	UKAC	PSC	CRC
Number of meetings in FY21	7*	5	8	11	11	7	2	4	30
Michael-John Albert				11					
Omar Ali**	2								8
Anna Anthony**	5								16
Ian Baggs	7			11					
Hywel Ball	7								30
Kate Bamford									
Justine Belton	7			11					
Chris Bowles					11				
Lloyd Brown							2		
Adrian Browne									
Lisa Cameron**	7				8				29
Justine Campbell									27
Jenny Clayton**					2				
Christabel Cowling	7				11			4	
Sue Dawe	7							4	
Angela Dawes									
Colin Dempster						6			
Taylor Dewar								4	

	Board	IOC	AQIOC	AQE	ROC	CCC	UKAC	PSC	CRC
Manprit Dosanjh				11					
Javier Faiz				11					
Jane Goldsmith**	4				8				28
Dave Hales						6			
George Hardy						7			
Karl Havers**				7					
John Headley				11					
Gavin Jordan								4	28
Stephanie King						6			
John Liver						6			
Chris Locke						6			
Tonia Lovell		5	8						
Marguerita Martin				11					
James Meader						5			
Debbie O'Hanlon	6								
Robert Overend**				4					
Lynn Rattigan	7							4	24
Adrian Roberts**				1					
Ally Scott									26
Rupert Taylor**									10
Stuart Thomson					11				
David Thorburn		5	8						
Chris Voogd							1		
Andrew Walton	7			11					
Tim West						6			
Sir Peter Westmacott		5	8						
Sarah Williams						7	2		
Ken Williamson				11					
Stuart Wilson							2		

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

\*\*Given these individuals' respective appointment/stand-down dates, they attended all possible meetings they could for this particular body, for FY21.



# Glossary

ABC	Anti-bribery and corruption
ABRC	Audit Board Remuneration Committee
ACC	Audit Committee Chair
ACCIF	Audit Committee Chairs' Independent Forum
AFGC	Audit Firm Governance Code or 'the Code'
AFU	Action Follow Up
AI	Artificial Intelligence
AML	Anti-money laundering
AMPs	Area Managing Partners
ANEs	Audit Non-Executives
APB	Audit Purpose Barometer
AQB	Audit Quality Board
AQE	Audit Quality Executive Committee (previously the Audit Quality Board)
AQIOC	Audit Quality Independent Oversight Committee
AQIs	Audit Quality Indicators
AQR	Audit Quality Review
AQS	Audit Quality Strategy
AQST	Audit Quality Support Team
BEIS	Business, Energy & Industrial Strategy
BEIS consultation	The UK Government's consultation 'Restoring trust in audit and corporate governance'
BRET	Business Relationship Evaluation Tool
C19SC	COVID-19 Sub Committee
CCC	Code of Conduct Committee
COP26	The 2021 United Nations Climate Change Conference
CRC	Country Response Committee
CRGC	Corporate Responsibility Governance Council
D&I	Diversity and inclusiveness
EEA	European Economic Area
EMEIA	Europe, Middle East, India and Africa



EMEIA Limited	Ernst & Young (EMEIA) Limited
EOE	Europe Operating Executive
EPIC	Embankment Project on Inclusive Capitalism
EQA	External Quality Assessment
EQCR	Engagement Quality Control Reviewer
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance
EU	European Union
EY	Refers collectively to the global organisation of member firms of EYG
EY Europe	Ernst & Young Europe LLP
EY GAM	EY Global Audit Methodology
EY SAM	EY Sustainability Assurance Methodology
EYG	Ernst & Young Global Limited
EY UK Board	The Board of Ernst & Young LLP
FRC	Financial Reporting Council
FSO	Financial Services Organisation
GAAP	Generally Accepted Accounting Principles
GAQC	Global Audit Quality Committee
GCMP	Global Crisis Management Programme
GDPR	General Data Protection Regulation
GE	Global Executive
GGC	Global Governance Council
GIS	Global Independence System
GMS	Global Monitoring System
GSET	Global Social Equity Task Force
HR	Human resources
IAASB	International Auditing and Assurance Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales
IESBA	International Ethics Standards Board for Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
INEs	Independent Non-Executives
IOC	Independent Oversight Committee
ISAs	International Standards of Auditing
ISQC 1	International Standard on Quality Control
ISQM 1	International Standard on Quality Management (UK) 1
KAPs	Key Audit Partners
KPIs	Key Performance Indicators
LCMPs	Local Crisis Management Plans
LLP	Limited Liability Partnership

NEDs	Non-Executive Directors
NOCLAR	Non-compliance with the laws and regulations
PACE	Process for Acceptance of Clients and Engagement
PCAOB	US Public Company Accounting and Oversight Board
PIB	Public Interest Board
PIC	Public Interest Sub-Committee
PIEs	Public Interest Entities
PLOT	Purpose-Led Outcome Thinking
PPAs	Power Purchase Agreements
PPD	Professional Practice Director
PPEDDs	Partners, Principals, Associate Partners, Executive Directors, Managing Directors and Directors
PRA	Prudential Regulation Authority
PRG	Policy and Reputation Group
PSC	Pension Sub-Committee
QAD	Quality Assurance Department
QEL	Quality Enablement Leaders
RCA	Root Cause Analysis
RCP	Reputation and Conflicts Panel
RPF	Regional Partner Forum
RI	Responsible Individual
RM	Risk Management
ROC	Risk Oversight Committee
SAQ	Sustainable Audit Quality
SBTi	Science Based Target initiatives
SDGs	Sustainable Development Goals
SEC	US Securities and Exchange Commission
SORT	Service Offering Reference Tool
SQM	System of Quality Management
The Board	The Board of Ernst & Young LLP
The Code	The Audit Firm Governance Code
UK	United Kingdom
UK MP	UK Managing Partner
UK&I	UK & Ireland
UKAB	UK Audit Board
UKAC	UK Audit Committee
UKCC	UK Country Committee
UNGC	United Nations Global Compact
VFM	Value for Money
WAM	Wealth and Asset Management
WEF IBC	World Economic Forum's International Business Council
WHO	World Health Organisation

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EYUK-000141444.indd (UK) 10/21. Artwork by Creative London.

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