



## EY UK 2019 Transparency Report webpage copy

### Information on INEs and EY UK governance related matters

In compliance with the Audit Firm Governance Code (AFGC) we have included below certain disclosures on our governance including information on the INEs, stakeholder engagement, the firm's support for the AFGC and details on our audit committee. This information, and related material, is available in the EY UK 2019 Transparency Report.

### Duties of the INEs and EY support

The Independent Oversight Committee's (IOC) role is collectively to enhance EY UK's performance in meeting the purpose of the AFGC, focusing on (but not being limited to) oversight of its policies and processes for meeting the principal AFGC objectives. The INEs, who form the IOC, have full visibility of the entirety of EY UK's business and pay particular attention to, and report on, the risks to audit quality and how these risks are managed by the firm. The INEs' duties, which are exercised through the IOC can be summarised as follows:

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

In addition to the IOC, David Thorburn also attends the EY Global Governance Council and he represents the UK INEs on the EY Global Public Interest Committee, which he has chaired since April 2017.

See the [IOC's Terms of Reference](#).

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

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

#### **Appointment, retirement and resignation of INEs**

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

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

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

## Remuneration of INEs

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

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

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

Sir Peter receives an additional £25,000 for advice to the Board on international geo-political and governmental issues. David Thorburn also receives an additional £82,500 for his INE role on the Global Governance Council.

## Procedures for dealing with fundamental disagreements between INEs and EY's management

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

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

## Examples of how EY supports the principles of the Audit Firm Governance Code

We could not have the successful business that we do without the expertise and professionalism of all our 14,500 people in the UK. The energy they bring and the values they hold underpin EY UK's ability to serve and protect the public interest through the work that we do across the firm. We continue to create an open and inclusive culture in which anyone can succeed irrespective of race, gender or social background.

## Openness

The EY culture strongly supports collaboration and places special emphasis on the importance of consultation in dealing with complex or subjective accounting, auditing, reporting, regulatory and independence matters. We believe it is important to determine that engagement teams and clients correctly follow consultation advice, and we emphasize this when necessary. Openness is also key. In our annual Internal Audit Quality Survey of audit staff 72% of respondents said that when mistakes happen, they are discussed and used for learning purposes within the team and the organisation.

## Risk management principles

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

In maintaining a sound system of internal control and risk management and in reviewing its effectiveness, we have used the framework set out in the FRC's 2014 Guidance on Risk Management, Internal Controls and Related Financial and Business Reporting. This internal control system is designed to manage, rather than eliminate, the risk of failure to achieve the objectives of the firm, and it can only provide reasonable and not absolute assurance against material misstatement or loss. Both the EY UK LLP Board and INEs reviewed the output of the 2019 effectiveness review of the firm's internal controls, which included all material controls.

## Recruitment, development and remuneration

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

We continue to offer a broad mix of apprenticeship programs, including Digital and Technology Degree Apprenticeships which allow students to specialize in data analytics or software engineering, preparing them to be part of the workforce of the future. Students and parents are offered a wealth of insights, career advice and guidance so they can make the right career choices.

Our Parental Advice Campaign reached 3.1million people. During 2019 we launched a Women in Business Insight Programme for over 100 first year undergraduates. Around 80% of these people now have a place on our Summer Internship Programme for summer 2020 across all locations and service lines. We also ran a successful Leading Women program for second year undergraduates. 80% of them are set to join as graduates in September 2020. We also introduced a new digital recruitment process. This means the candidates get more from their time investment in the application process and we are better able to assess their future potential.

Processes and procedures are in operation at service line level to manage the retention and management of staff. These include:

*Supporting personal development*

- Individual counselling and 'buddying' programmes to develop the right talent
- Implementation of a firm-wide harmonized Learning & Development strategy
- Multi-year talent programs, including diversity and inclusiveness initiatives
- Strengthened induction and post-induction programmes at staff and partner level

*Involving senior management to foster talent*

- Implementation of 'Market Learning Sponsors' to ensure Senior Management buy-in and to embed Learning & Development into individual service line strategy
- Regular leadership communications covering strategy and performance
- Annual employee survey with formulation of action plans

*Managing better performance*

- Simplified annual performance management processes
- Annual benchmarking of total reward by grade, location and competency groups

*Leadership Evaluation and Development (LEAD)*

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

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

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

## *Remuneration*

The objective of our Remuneration Committee is for all our people to be rewarded fairly and competitively. Pay bands are reviewed annually and pay increases usually have two components: base pay increase and variable pay that depends on the firm's performance.

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

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

### **Whistle policies and procedures - INE's consideration of issues raised**

While the INEs' work is typically more thematic in nature, they also engaged on individual client matters during the year where the circumstances merited it. Full visibility of the entirety of the business is acquired by their attendance at the firm's Board meetings including oversight of its operations, its financial performance and its whistleblowing procedures.

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

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

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

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

The guidance is kept under constant review, and it is anticipated that a further update will be undertaken during FY20. Each year, a communication is issued to remind all partners and staff that they have a personal responsibility to report all instances of non-compliant and unethical behaviour, without fear of reprisal. The most recent such communication was circulated in June 2019.

### **EY UK Audit Committee (UKAC)**

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

- Douglas Nisbet (Chair until 28 June 2019)
- Lloyd Brown
- Chris Voogd (Chair as of 28 June 2019)
- Stuart Wilson
- Sarah Williams (as of 1 June 2019)

In respect of FY19 the UKAC met twice and:

- Approved the appointment and fees of the external auditor
- Approved the audit plan, considering the risks identified by the external auditors
- Reviewed the audit results as reported by the external auditor

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

### **Contacts, policies and procedures for dialogue**

The contact details for dialogue with listed company shareholders and listed companies about matters covered by the AFGC are:

- Christabel Cowling, Partner, Audit & UK Head of Regulatory & Public Policy
- David Thorburn, Independent Non-Executive and Chair of the INE Oversight Committee

- Loree M Gourley, Director, Regulatory & Public Policy

### **Policy and procedures for dialogue over the last year**

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

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

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

### **Investors**

Investors are the ultimate beneficiaries of audit. It is therefore critical that we understand their perspectives. We hosted our annual Dialogue with Investors in November 2018, welcoming 20 investors representing £2 trillion in assets under management (AUM) to discuss audit quality, corporate reporting and standards. In May 2019, our INEs held a discussion with the investor group, the Company Reporting and Auditing Group (CRAG). With several ongoing regulatory and independent reviews impacting the audit market, the timing of this meeting was particularly apt: subjects for discussion included fees, competition, director accountability and corporate reporting.

In order to further enhance the discussion, engagement with a wider range of professionals, particularly more of those directly involved in the investment process, would have helped ensure that we heard from as broad a range of investor perspectives as possible, and that we were even more closely engaged with investor opinion, issues and concerns.

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

### **Audit committee chairs of listed companies**

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

#### The Local Auditors (Transparency) Instrument 2015 (major local audits)

Engagement	Sector	Types
Bedford Borough Council	LG	Unitary Authority
Bedford Pension Fund	LG Pension	LG Pension Fund
Brighton and Hove City Council	LG	Unitary Authority
Brighton and Sussex University Hospitals NHS Trust	NHS	Acute NHS Trust
Central Bedfordshire Council	LG	Unitary Authority
Derby City Council	LG	Unitary Authority

Essex County Council	LG	County Council
Essex Pension Fund	LG Pension	LG Pension Fund
Gloucestershire Hospitals NHS Foundation Trust	NHS	Foundation Trust
Greater London Authority	LG	GLA and Functional Bodies
Hampshire County Council	LG	County Council
Hampshire Pension Fund	LG Pension	LG Pension Fund
Hertfordshire County Council	LG	County Council
Hertfordshire Pension Fund	LG Pension	LG Pension Fund

London Borough of Havering Council	LG	London Borough Council
London Borough of Havering Council Pension Fund	LG Pension	LG Pension Fund
London Borough of Hillingdon	LG	London Borough Council
London Borough of Hillingdon Pension Fund	LG Pension	LG Pension Fund
London Borough of Newham	LG	London Borough Council
London Borough of Newham Pension Fund	LG Pension	LG Pension Fund
London Fire and Emergency Planning Authority	LG	Fire Authority
Luton Borough Council	LG	Unitary Authority

Merton Council	LG	London Borough Council
Merton Pension Fund	LG Pension	LG Pension Fund
Middlesbrough Pension Fund (Teesside)	LG Pension	LG Pension Fund
Middlesbrough Council	LG	Unitary Authority
Milton Keynes Council	LG	Unitary Authority
Newcastle City Council	LG	Metropolitan DC
NHS Berkshire West Commissioning Group	NHS	Clinical Commissioning Group
NHS Buckinghamshire Clinical Commissioning Group	NHS	Clinical Commissioning Group

NHS Cambridgeshire and Peterborough Clinical Commissioning Group	NHS	Clinical Commissioning Group
NHS Coastal West Sussex Clinical Commissioning Group	NHS	Clinical Commissioning Group
NHS Coventry and Rugby Clinical Commissioning Group	NHS	Clinical Commissioning Group
NHS Durham Dales, Easington and Sedgfield Clinical Commissioning Group	NHS	Clinical Commissioning Group
NHS Ipswich and East Suffolk Clinical Commissioning Group	NHS	Clinical Commissioning Group
NHS Oxfordshire Clinical Commissioning Group	NHS	Clinical Commissioning Group
Norfolk County Council	LG	County Council

Norfolk Pension Fund	LG Pension	LG Pension Fund
Northumberland Council	LG	Unitary Authority
Northumberland Pension Fund	LG Pension	LG Pension Fund
Oxfordshire County Council	LG	County Council
Oxfordshire Pension Fund	LG Pension	LG Pension Fund
Peterborough City Council	LG	Unitary Authority
Police and Crime Commissioner for Hampshire	LG	Police and Crime Commissioner
Police and Crime Commissioner for Kent	LG	Police and Crime Commissioner

Police and Crime Commissioner for Thames Valley	LG	Police and Crime Commissioner
Portsmouth City Council	LG	Unitary Authority
Portsmouth Hospitals NHS Trust	NHS	Acute NHS Trust
Sefton Council	LG	Metropolitan DC
South Tyneside Council	LG	Metropolitan DC
South Tyneside Pension Fund (Tyne & Wear)	LG Pension	LG Pension Fund
Southampton City Council	LG	Unitary Authority
Staffordshire County Council	LG	County Council

Staffordshire Pension Fund	LG Pension	LG Pension Fund
Southampton City Council	LG	Unitary Authority
Suffolk County Council	LG	County Council
Suffolk Pension Fund	LG Pension	LG Pension Fund
Transport for London	LG	GLA and Functional Bodies
Walsall Metropolitan Borough Council	LG	Metropolitan DC
Wandsworth Borough Council	LG	London Borough Council
Wandsworth Pension Fund	LG Pension	LG Pension Fund
West Sussex County Council	LG	County Council

West Sussex Pension Fund	LG	LG Pension Fund
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### EY UK meetings attendance

The following table shows the level of attendance at EY board and committee meetings in FY 19.

- Quarterly Board - UK LLP Board
- IOC - Independent Oversight Committee
- ROC - Risk Oversight Committee
- AQB - Audit Quality Board
- CCC - Code of Conduct Committee
- UKAC - UK Audit Committee
- PSC - Pension Sub-Committee

	Quarterly Board	IOC	ROC	AQB	CCC	UKAC	PSC
Number of meetings in FY19	4 <sup>1</sup>	4 <sup>2</sup>	10	11	6	2	4
Number of meetings attended							
Steve Varley	4						

Omar Ali	3						
Ian Baggs	4			8			
Hywel Ball	4			10			
Lisa Cameron	4		8				
Christabel Cowling	3 <sup>3</sup>		9				3 <sup>3</sup>
Sue Dawe	3 <sup>3</sup>						3 <sup>3</sup>
Debbie O'Hanlon	3						
Robert Overend	4			10			
Lynn Rattigan	4						6

Chris Bowles			10				
Adrian Browne			$6^5$				
Stuart Thomson			$7^3$				
Bob Forsyth				11			
Justine Belton				11			
Rosemary Martin	$1^3$	$1^3$					
Eamonn McGrath	$1^3$		$5^3$				$2^3$
Tonia Lovell		$1^3$					
David Thorburn	4	4					

Sir Peter Westmacott	4	4					
Colin Brown				10			
Javier Faiz				9			
John Headley				9			
Michael-John Albert				10			
Peter McIver				1 <sup>3</sup>			
Andrew Walton				8 <sup>4</sup>			
Sarah Williams <sup>3</sup>					6	1 <sup>3</sup>	
Rute Aparicio					4		

Kate Bamford					4		
Colin Dempster					5		
Dave Hales					5		
George Hardy					6		
John Liver					6		
James Meader					4		
Tim West					6		
Douglas Nisbet						2	
Lloyd Brown						2	

Chris Voogd						2	
Stuart Wilson						2	
Angela Dawes							4
Taylor Dewar							2
Alisdair Mann							2 <sup>3</sup>

<sup>1</sup> Quarterly meetings are recorded here, but there are additional ad hoc meetings as and when required, and various decisions via electronic forums.

<sup>2</sup> Due to scheduling requirements, the Q1 FY20 IOC meeting was brought forward to 26 June 2019. To avoid double-counting this meeting, it is not recorded in this Transparency Report, but will be recorded in the FY20 Transparency Report.

<sup>3</sup> Given these individuals' respective appointment/stand-down dates, they attended all possible meetings they could for this particular body, for FY19.

<sup>4</sup> Andrew Walton was appointed to the AQB on 6 September 2018 and attended eight out of a possible 10 AQB meetings for FY19.