



EY UK 2020 Transparency Report webpage copy

Independent Non-Executives (INEs) and EY UK governance related matters

In compliance with the Audit Firm Governance Code 2016 (AFGC) and Local Auditors (Transparency) Regulations 2020, certain disclosures (and links to specific EY documents) are required on our website. This section includes, amongst other things, information on our governance e.g., INEs, stakeholder engagement and support for the AFGC.

Duties of the INEs and EY support

The IOC's role is collectively to enhance EY UK's performance in meeting the purpose of the AFGC 2016, 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. They 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.

Consistent with previous years, the IOC has not only overseen the policies and procedures relating to audit quality, it increased its engagement with and oversight of the Audit Quality Board (an executive committee). The IOC took a proactive role by contributing to the evolution of the Audit Quality Strategy, as well as the firm's response to the impact of COVID-19 on audit matters.

Appointment, retirement and resignation if INEs

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

The appointment may be terminated by either the INE or EY UK giving six months' written notice. In the event of a fundamental disagreement that cannot be resolved, the appointment may be terminated immediately under the dispute resolution provisions. In addition, immediate termination may be required where

a conflict occurs with other roles that the INE holds, an example being where a company we audit acquires an entity in which the INE also holds an appointment.

None of the INEs retired or resigned during the 2020 financial year (FY20).

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

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

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

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. They must do this 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 2016

We could not have a resilient business without the expertise and professionalism of all our people in the UK. The determination and fortitude they have shown, by upholding our values and serving the public interest through their work - especially during a global pandemic - demonstrates the impact of EY's culture. 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, clients and companies that we audit correctly follow consultation advice, and we emphasise this when necessary.

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.

The environment we operate in creates a broad range of diverse risks for the firm. Effective management of these risks is critical to safeguarding the firm and delivering on our purpose and ambition. EY UK operates a robust risk management process to identify, assess, measure and monitor the risks it faces. We also invest in initiatives to promote enhanced objectivity, independence and professional scepticism in the delivery of our audits.

The Board is supported in the task of managing risk by the Risk Oversight Committee (ROC). It meets regularly with a standing agenda covering both risk and assurance activity. As in every year, the ROC has continued to drive ongoing enhancements to our internal governance, processes and controls.

The ROC's work this year has included:

- Oversight of the continued development of the firm's risk management framework and strengthening of the three lines of defence.
- Review of internal audit planning and the results of audits executed during the year.
- Review of continuing progress in the strengthening of our financial crime control environment.
- Monitoring regulatory developments and their impact on the firm.
- Review of the firm's response to COVID-19 and the risks arising.
- Review of specific risks and their management at a firm and service line level.
- Revisiting the assessment of the impact of selected principal risks on the viability of the EY UK business model, future performance, solvency and liquidity.

It should be noted that a COVID-19 sub-committee was created in March 2020, to address the risks arising from the pandemic.

Recruitment, development and remuneration

As a result of a significant number of new business wins and some challenges around recruitment in our UK business, there was a significant focus on resourcing in our audit teams from September 2019 to March 2020. In order to monitor this, our Audit Quality Board held six additional resourcing specific meetings during FY20, carrying out a bi-weekly review of the resourcing position and progress. This included the recruitment of 500 experienced qualified staff and use of the EY mobility programmes to locate resources where they are needed the most.

EY's approach to talent is a key part of driving our success as a business. We drive positive change with a diverse and inclusive culture where everyone feels they can belong and offer industry-leading career development opportunities for all our people. Examples of initiatives that help us to achieve these aims in FY20 included:

- An in-year target to improve female partner representation by 2%, and black, Asian and minority ethnic (BAME) partner representation by 1%, and for this to increase annually until 2025.
- Continual monitoring of the diversity of recruitment at every level of the firm, from apprentices to partners.
- Data analysis to highlight monthly variations in work allocation rates, from gender and ethnicity perspectives.
- Regular UK and global people surveys, to assess the firm's culture (e.g., values, behaviours and inclusivity).
- Continuous tracking of underperformance, promotions, pay and bonuses.

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

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

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 harmonised learning & development strategy.
- Multi-year talent programmes, 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)

LEAD continues to support a focus on career development as well as performance management. In FY20 we moved to three LEAD cycles (rather than four) with a defined theme for each cycle of: expectations, career and feedback conversations.

The LEAD structure of Counselees, Counsellors and Counsellor Connect Groups (CCGs) is critical to driving a culture of ongoing feedback, performance evaluations and coaching-led support. The CCG meetings in each of the three FY20 cycles are led and facilitated by senior business leaders.

Our vision for LEAD is to:

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

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

In FY20 a new quality and risk management team engagement tool was introduced via LEAD, using a compliance a scale. This specifically measures:

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

Remuneration

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. We also have an upward feedback mechanism for all audit partners and associate partners which fed into year-end assessments, along with the individual's compliance with our project management compliance metrics. A review by the Financial Reporting Council (FRC) of our processes commented on the link between audit quality and partner remuneration as an area of good practice.

It should also be noted that INEs have been included in reviewing our people management policies and procedures, including remuneration and incentive structures of the EY UK Board.

Whistleblowing policies and procedures - INEs' 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, which was refreshed in FY20, provides a behavioural and ethical framework on which EY member firms and people base their decisions and actions. All EY UK joiners watch a video on 'Living the Code of Conduct'. They are required to confirm that they will comply with the Code.

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

EY also has a global policy on reporting non-compliance with the Code and NOCLAR. The policy reflects a standard issued by the International Ethics Standards Board for Accountants (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 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 our people to make a whistleblowing report in confidence and anonymously. In FY19 the UK whistleblowing guidance was updated to ensure it fully accessible and user-friendly for everyone in the firm. It explains clearly and directly:

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

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

A communication is issued annually 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 communication was circulated in June 2020.

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.

UKAC members as at 30 June 2020:

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

In respect of FY20 the UKAC met twice and:

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

UKAC members are appointed by the Board based on their roles and expertise with their period of appointment reflecting this.

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, Audit Partner, EY UK Head of Regulatory & Public Policy
- David Thorburn, Independent Non-Executive, Chair of the EY UK IOC
- 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 AFGC. 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

This year we deepened our engagement with institutional investors on topics of interest to them. We hosted our annual *Dialogue with Investors* event in November 2019. The event welcomed 17 institutional investors representing over £3 trillion in assets under management. The event consisted of an interactive dialogue, where investors spoke to our INEs and senior leadership on topics ranging from audit reform, our firms' incentive structures and culture.

In June 2020, we held a workshop on the topic of going concern in collaboration with the Investor Forum. The session sought to help the 19 participating investors prepare for the post-COVID-19 reporting season and how to make best use of auditor's reports. In September 2019, EY launched its first ever inaugural investor stewardship report. The report was the first-of-its-kind research designed to enable a better understanding of how UK-based asset managers and asset owners are currently reporting on and engaging with their investee companies.

Our engagement on investor stewardship reporting enabled us to better understand investors' key focus areas and their expectations on the companies we audit. The insights gathered helped us to support companies in driving stronger governance and delivering more effective corporate reporting, ultimately helping us to better fulfil our public interest responsibilities. As a follow-up to this work, we have refreshed our analysis on investor priorities during FY20 and expanded on asset owners in the spirit of understanding the capital markets. The report is expected to be published by Autumn 2020.

Audit committee chairs of listed companies

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

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

The Local Auditors (Transparency) Regulations 2020 (major local audits) (see next page)

Engagement	Sector	Type
Bedford Borough Council	LG	Unitary Authority
Bedford Pension Fund	LG Pension	LG Pension Fund
Brighton and Sussex University Hospitals NHS Trust	NHS	Acute NHS Trust
Cambridgeshire County Council	LG	County Council
Cambridgeshire County Council Pension Fund	LG Pension	LG Pension Fund
Central Bedfordshire Council	LG	Unitary Authority
Derby City Council	LG	Unitary Authority
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 Bexley	LG	London Borough Council

London Borough of Bexley Council Pension Fund	LG Pension	LG Pension Fund
London Borough of Bromley 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 Borough of Redbridge	LG	London Borough Council
London Borough of Redbridge Pension fund	LG Pension	LG Pension Fund

London Borough of Richmond Upon Thames	LG	London Borough Council
London Fire and Emergency Planning Authority	LG	Fire Authority
Merton Council	LG	London Borough Council
Merton Pension Fund	LG Pension	LG Pension Fund
Middlesborough Pension Fund (Teesside)	LG Pension	LG Pension Fund
Middlesbrough 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 Sedgefield 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
NHS South Tees Clinical Commissioning Group	NHS	Clinical Commissioning Group
Norfolk County Council	LG	County Council
Norfolk Pension Fund	LG Pension	LG Pension Fund
North Tyneside Council	LG	Metropolitan District Council
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 Sussex	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
Sheffield City Council	LG	Metropolitan District Council
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
Stoke-on-Trent 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
Wandsworth Borough Council	LG	London Borough Council
Wandsworth Pension Fund	LG Pension	LG Pension Fund
West Sussex County Council	LG	County Council
West Sussex Pension Fund	LG Pension	LG Pension Fund

EY UK meetings attendance

The following tables show the levels of attendance at EY board and committee meetings in FY20.

Board - UK LLP

- 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
- C19SC - COVID-19 Sub-Committee

	Board	IOC	ROC	AQB	CCC	UKAC	PSC	C19SC
Number of meetings in FY20	4*	5	9	11	6	2	3	6
Michael-John Albert				10				
Omar Ali	4							4
Ian Baggs***	3			8				
Hywel Ball	3			8				6
Kate Bamford					1			

Justine Belton **	3			11				
Chris Bowles			8					
Colin Brown				9				
Lloyd Brown						2		
Adrian Browne****				0				
Lisa Cameron	4		9					6
Justine Campbell								6
Christabel Cowling	3		7				2	
Sue Dawe	4						1	
Angela Dawes							3	
Colin Dempster					4			
Taylor Dewar							1	
Manprit Dosanjh				8				

Javier Faiz				10				
Jane Goldsmith								6
Dave Hales					6			
George Hardy					4			
John Headley				10				
Gavin Jordan**							2	6
Stephanie King**					4			
John Liver					5			
Chris Locke					6			
Tonia Lovell	4	5						
Marguerita Martin				11				
James Meader					6			
Debbie O'Hanlon	4							

Robert Overend				10				
Lynn Rattigan	4						2	6
Ally Scott								6
Stuart Thomson			8					
David Thorburn	3	5						
Steve Varley	4							
Chris Voogd						2		
Andrew Walton				10				
Tim West					6			
Sir Peter Westmacott	4	5						
Sarah Williams					5	2		
Ken Williamson				11				
Stuart Wilson						2		

* Quarterly meetings are recorded here, but there were additional ad hoc meetings, 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 FY20.

*** Due to a period of medical absence, Ian Baggs attended 3 out of 3 Board meetings and 7 out of 8 AQB meetings it would have been possible for him to attend during FY20.

**** Adrian Browne stood down from the ROC during July 2019 and did not attend that month's meeting.
