



## EY UK 2021 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

EY UK Independent Non-Executive Oversight Committee's (IOC) role is to enhance EY UK's performance in meeting the purpose of the AFGC 2016, focussing 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 and the Audit Quality Independent Oversight Committee (AQIOC), 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.

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

Additionally, the 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 the 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).

## Appointment and termination of INEs

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

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

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.

IOC Members	Title	Length of appointment to the nearest year
David Thorburn	Independent Non-Executive, Chair of the EY UK IOC	4
Sir Peter Westmacott	Independent Non-Executive	4
Tonia Lovell	Independent Non-Executive	2

## 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 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.

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.

#### **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 the COVID-19 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 reviews and consultation when dealing with complex or subjective matters. In developing 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 which empowers 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.

##### 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 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:

- 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.

## **Recruitment, professional development, remuneration and retention**

### Recruitment

We strive to recruit individuals with not just the 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, 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.

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. Instead, 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 to working with our regulators to maintain the delivery of audits during lockdown.

### 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.

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, 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.

Our people are at the heart of audit quality, which is why our audit business is underpinned by securing, training, and retaining the best talent. We are mindful of the need to provide our teams with the tools and support they need to maintain professional scepticism and challenge management. In addition, role-modelling, mentoring, and coaching are vital elements of training the next generation of auditors. 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.

#### Remuneration

In 2020 the Financial Reporting Council (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.

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.

#### Retention

We continue to seek ways 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. Resourcing indicators continue to be monitored monthly by the AQE with actions taken when required. Alongside this, we have resigned from audits on which we have not managed to achieve a fair fee for audit quality and 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 the overall audit hours.

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 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 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.

## Whistleblowing policies and procedures - INEs' consideration of issues raised

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.

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 Non-Compliance with Laws and Regulations (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. The UK whistleblowing guidance has been updated to ensure it is fully accessible and user-friendly for everyone in the firm. It explains clearly and directly:

- The types of behaviour that should be reported.
- How to make 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 issued in May 2021.

## 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.

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 focusing 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:

- Chris Voogd (Chair) - Audit Partner
- Lloyd Brown - Audit Partner
- Sarah Williams - Audit Partner
- Stuart Wilson - Audit Partner



## Local Audit (Transparency Regulations 2020 (major local audits))

Engagement	Sector	Type
Bedford Borough Council	Local Government	Unitary Authority
Bedford Pension Fund	Local Government Pension Fund	Local Government Pension Fund
Brighton and Sussex University Hospitals NHS Trust	NHS	Acute NHS Trust
Cambridgeshire County Council	Local Government	County Council
Cambridgeshire County Council Pension Fund	Local Government Pension Fund	Local Government Pension Fund
Central Bedfordshire Council	Local Government	Unitary Authority
Derby City Council	Local Government	Unitary Authority
Greater London Authority	Local Government	GLA and Functional Bodies

Hampshire County Council	Local Government	County Council
Hampshire Pension Fund	Local Government Pension Fund	Local Government Pension Fund
Hertfordshire County Council	Local Government	County Council
Hertfordshire Pension Fund	Local Government Pension Fund	Local Government Pension Fund
London Ambulance Service NHS Trust	NHS	Ambulance NHS Trust
London Borough of Bexley	Local Government	London Borough Council
London Borough of Bexley Council Pension Fund	Local Government Pension Fund	Local Government Pension Fund
London Borough of Bromley	Local Government	London Borough Council
London Borough of Bromley Pension Fund	Local Government Pension Fund	Local Government Pension Fund
London Borough of Havering Council	Local Government	London Borough Council
London Borough of Havering Council Pension Fund	Local Government Pension Fund	Local Government Pension Fund
London Borough of Hillingdon	Local Government	London Borough Council
London Borough of Hillingdon Pension Fund	Local Government Pension Fund	Local Government Pension Fund

London Borough of Newham	Local Government	London Borough Council
London Borough of Newham Pension Fund	Local Government Pension Fund	Local Government Pension Fund
London Borough of Redbridge	Local Government	London Borough Council
London Borough of Redbridge Pension fund	Local Government Pension Fund	Local Government Pension Fund
London Borough of Richmond Upon Thames	Local Government	London Borough Council
London Borough of Waltham Forest	Local Government	London Borough Council
London Borough of Waltham Forest Pension Fund	Local Government Pension Fund	Local Government Pension Fund
London Fire and Emergency Planning Authority	Local Government	Fire Authority
Merton Council	Local Government	London Borough Council
Merton Pension Fund	Local Government Pension Fund	Local Government Pension Fund
Middlesbrough Pension Fund (Teesside)	Local Government Pension Fund	Local Government Pension Fund
Middlesbrough Council	Local Government	Unitary Authority
Milton Keynes Council	Local Government	Unitary Authority

Newcastle City Council	Local Government	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 Coventry and Rugby Clinical Commissioning Group	NHS	Clinical Commissioning Group
NHS Durham Clinical Commissioning Group	NHS	Clinical Commissioning Group
NHS Lincolnshire CCG	NHS	Clinical Commissioning Group
NHS Norfolk & Waveney Clinical Commissioning Group	NHS	Clinical Commissioning Group
NHS Oxfordshire Clinical Commissioning Group	NHS	Clinical Commissioning Group
NHS Stoke on Trent Clinical Commissioning Group	NHS	Clinical Commissioning Group
NHS Tees Valley Clinical Commissioning Group	NHS	Clinical Commissioning Group

NHS West Sussex Clinical Commissioning Group	NHS	Clinical Commissioning Group
Norfolk County Council	Local Government	County Council
Norfolk Pension Fund	Local Government Pension Fund	Local Government Pension Fund
North Tyneside Council	Local Government	Metropolitan DC
Northamptonshire County Council	Local Government	County Council
Northamptonshire County Council Pension Fund	Local Government Pension Fund	Local Government Pension Fund
Oxfordshire County Council	Local Government	County Council
Oxfordshire Pension Fund	Local Government Pension Fund	Local Government Pension Fund
Peterborough City Council	Local Government	Unitary Authority
Police and Crime Commissioner for Hampshire	Local Government Police	Police and Crime Commissioner
Police and Crime Commissioner for Kent	Local Government Police	Police and Crime Commissioner
Police and Crime Commissioner for Sussex	Local Government Police	Police and Crime Commissioner
Police and Crime Commissioner for Thames Valley	Local Government Police	Police and Crime Commissioner

Portsmouth City Council	Local Government	Unitary Authority
Portsmouth Hospitals NHS Trust	NHS	Acute NHS Trust
Sefton Council	Local Government	Metropolitan DC
Sheffield City Council	Local Government	Metropolitan DC
South Tyneside Council	Local Government	Metropolitan DC
South Tyneside Pension Fund (Tyne & Wear)	Local Government Pension Fund	Local Government Pension Fund
Southampton City Council	Local Government	Unitary Authority
Staffordshire County Council	Local Government	County Council
Staffordshire Pension Fund	Local Government Pension Fund	Local Government Pension Fund
Suffolk County Council	Local Government	County Council
Suffolk Pension Fund	Local Government Pension Fund	Local Government Pension Fund
Transport for London	Local Government	GLA and Functional Bodies
Wandsworth Borough Council	Local Government	London Borough Council

Wandsworth Pension Fund	Local Government Pension Fund	Local Government Pension Fund
West Sussex County Council	Local Government	County Council
West Sussex Pension Fund	Local Government Pension Fund	Local Government Pension Fund

### **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