

# EY UK 2023 Audit Quality Report





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# Covering letter

**Hywel Ball**

UK Chair

Dear stakeholders,

As I write, UK companies – as well as individuals across society – are facing a macro environment the like of which most have never previously experienced. From climate change to the aftermath of the pandemic, from shifting consumer habits to an upcoming election cycle, and from conflicts across the globe to high inflation and interest rates, they are confronted by an array of interrelated global and local risks with compounding effects.

Regardless of the macro-economic forces at play, our commitment to delivering high-quality audits is deeply held within EY and firmly embedded within our culture, driving the actions we take. We are pleased with the progress we have made and the momentum we continue to build, and we remain steadfastly committed to the ongoing journey of delivering audit quality.

## The talent pipeline

One particular area that remains at the top of our agenda is the need to build our future pipeline of audit talent. This is an imperative that extends far beyond our own business, bringing implications for the profession as a whole and indeed the attractiveness of the entire UK economy.

In an increasingly competitive global environment, it's vital that the UK remains a vibrant place to do business. This involves many elements, ranging from the need for strong business investment, to robust and liquid capital markets, to regulatory consistency and certainty. But ultimately, the most important attribute determining the UK's attractiveness will be its ability to create, develop and maintain a highly-skilled talent pool.

In my view, no area of the economy has a more pressing need for talent than professional services. This sector – of which the audit profession is a key part – underpins trust and confidence in the financial system and the smooth functioning of the capital markets. As the volume, complexity and scope of assurance work continue to expand, and the need to serve the public interest remains at the forefront, the profession can only meet the growing demands placed on it if it has a strong and ongoing flow of talent. Without this, the profession will not have sufficient capacity to fulfil its role effectively or offer companies real choice – putting trust in the financial system, and the UK's wider attractiveness, at risk.

To convince in-demand talent to choose a career in audit, we need to offer them work that is rewarding across the board – not only financially, but also intellectually and morally. This includes responding to their changing expectations around

things like hybrid working, health and wellbeing, diversity, equity and inclusion (DE&I), and sustainability. In this context, I believe that audit firms' emerging role as providers of assurance on non-financial data – related to challenges such as climate change – is an increasingly important aspect of our people value proposition, helping to make a career in audit more meaningful and attractive to young people with deeply-held values.

The shifts we are seeing in the talent landscape are reflected by the increasing emphasis we place on the environmental and societal value we create through our work, and our consistently strong focus on our purpose.

## Our deliberations on structural separation

As part of a strategic network review, during FY23 EY Global evaluated a proposal to separate certain advisory businesses from a multi-disciplinary partnership focussed on audit and assurance. A key and consistent factor in the deliberations was to ensure the audit focussed business always had the access to capital and specialist skillsets it needed.

In my view, the new partnership would have been built upon the culture and investment capital needed to provide enhanced competition and choice in the market and ultimately helped to improve audit quality.

It was decided not to proceed, but the considerable due diligence undertaken across the global EY network will undoubtedly benefit us as we prepare for the future. EY Global approached the idea of separation from a position of strength and to be in control of our own destiny – there was no 'burning platform' for immediate change. But the big questions driving our thinking remain and will need to be answered in the future. We believe the answers will redefine our market in the coming years.

## Continued delivery, consistent quality

I'd like to close by once again recognising the consistently strong performance and high quality achieved by our audit teams in FY23, powering our continued delivery for the entities we audit and in serving the public interest. It's been a year of progress and investment on many fronts, and I continue to be grateful to all of our people for their dedication and commitment to delivering high-quality audits.

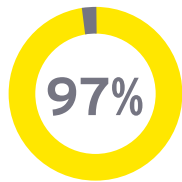
**Hywel Ball**

UK Chair and UK&I Managing Partner

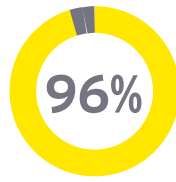
# EY UK 2023 Audit Quality Report: Summary

## Our purpose

We are committed to consistently delivering high-quality audits that serve the public interest



of our people believe delivering quality audits is a priority for them.



Cultural alignment index – as a result of our people describing our culture in increasingly positive terms. See page 10 for further details.

\$1bn

Global investment in technology focussed on three core areas: user experience and collaboration; data access and analytics; and AI and business intelligence.

## Audit quality reviews

### FRC reviews

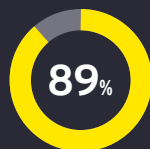
Percentage of all audits inspected graded 'good' or 'limited improvements'.

All audits



PwC 82%, Deloitte 82%, EY 80%, KPMG 74%

FTSE 350



PwC 91%, EY 89%, Deloitte 78%, KPMG 78%

### QAD reviews

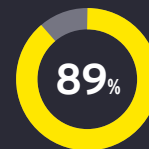
Percentage of all audits inspected graded 'satisfactory' or 'generally acceptable'.



EY 100%, Deloitte 100%, KPMG 91% PwC 90%

### Internal reviews

Percentage of audits reviewed with no or only minor findings.

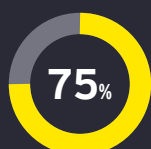


126 audits reviewed in the 2023 cycle (of which 8 were public sector engagements) covering

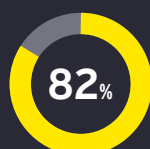
45% of our UK responsible individuals and 57% of our public sector engagement leads

### Current year results

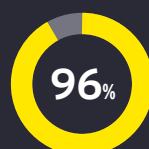
### Five-year results



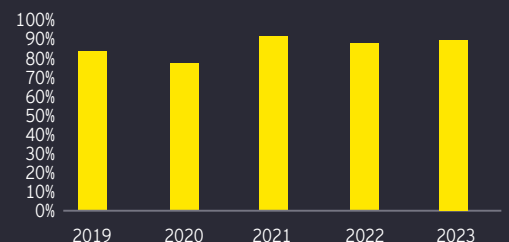
Deloitte 81%, PwC 77%, EY 75%, KPMG 71%



EY 82%, PwC 80%, Deloitte 81%, KPMG 76%



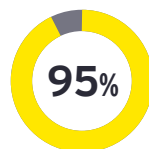
EY 96%, Deloitte 88%, KPMG 85%, PwC 86%



## Our people

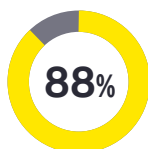


responded positively when asked whether they understand their role in protecting the public interest.

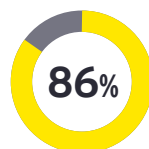


believe audit quality is a clear priority communicated by the EY leadership team.

We have set out a clear vision of our audit culture – and the audit quality culture assessment carried out in July 2023 has shown a significant improvement in our overall cultural alignment index.



of our people are encouraged and supported by audit engagement partners to deliver quality audits.



of our people set aside adequate time to coach team members prior to them commencing any tasks to ensure they understand the purpose and expected outcome.

We are committed to improving our consistency across all our audits. Whilst this can be partly addressed through standardisation and simplification, we also need to ensure continued effective coaching and support are available. As a result, these continue to be two key focus areas in FY24.



believe they have sufficient time and resources to deliver quality audits.

It is important that we have the right resources in place to be able to consistently deliver high-quality audits. In order for this to happen we need to be able to secure, train and retain the best talent. In addition, our people need to have the headspace to think clearly and critically, empowering our teams to work at an appropriate intensity.

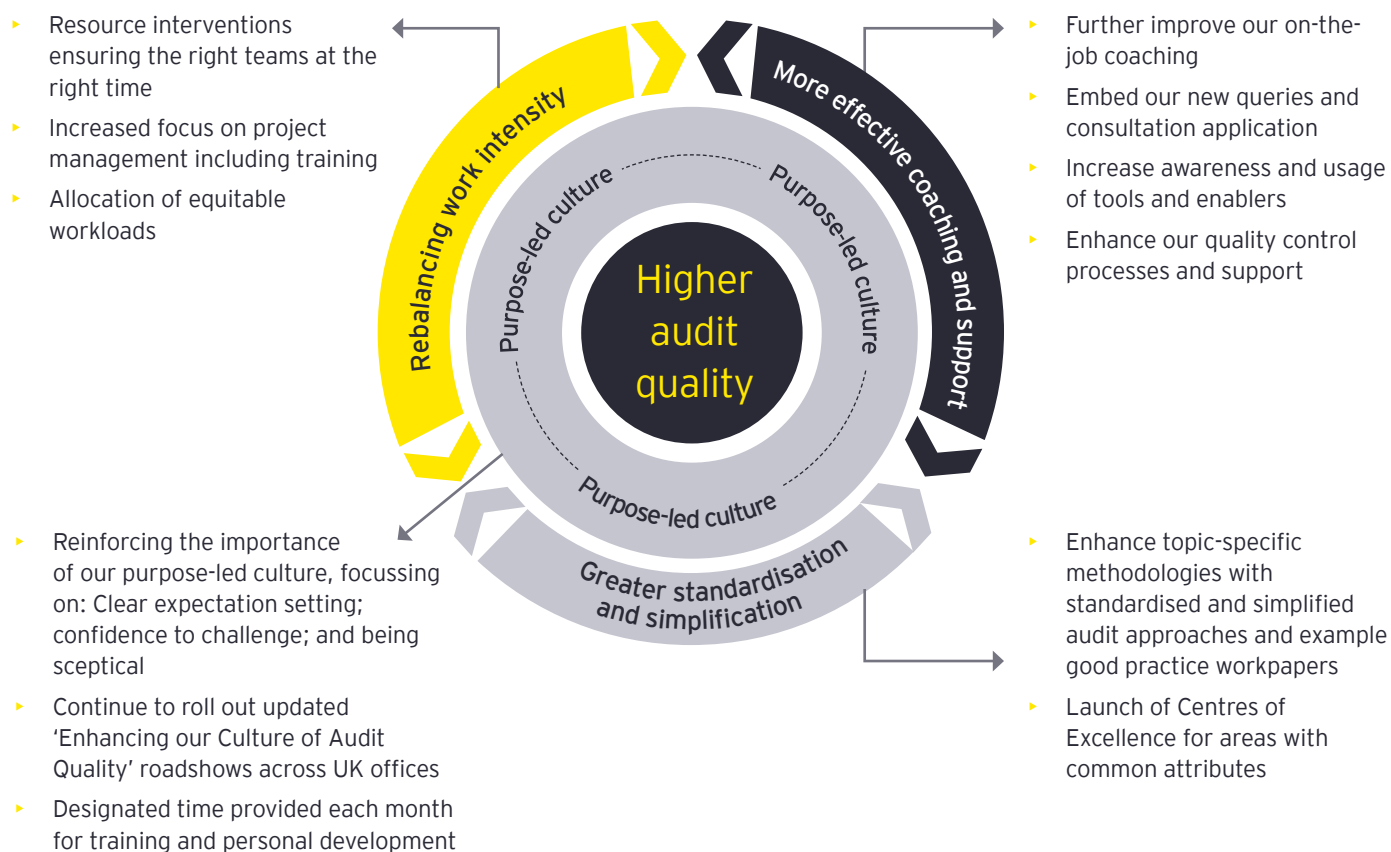
We increased the headcount of our UK audit business by over 550 people in FY23. However, we know there is more to be done and we are continuing to focus on improving how intensely our people work. Our focus on rebalancing work intensity centres on looking at how we can balance workloads to ensure a more equitable split of hours worked by our people.



## Key FY23 improvements

- 1 Continued roll-out of 'Enhancing our Culture of Audit Quality' roadshows, visiting a number of local offices across the UK to consider the importance of a purpose-led culture and the positive impact on audit quality
- 2 Enhanced our quality enablement network with local representatives in all UK offices and London homes (see page 12 for further details)
- 3 Developed technology-enabled support including online coaching through task-specific tutorials and our new queries and consultation application
- 4 Released topic-specific methodologies for a number of areas of the audit, including revenue and group oversight (see page 14 for further details)
- 5 Released good practice examples and standardised working papers for areas including impairment and specialists (see page 14 for further details)
- 6 Enhanced the assessment and escalation process to ensure engagements have appropriately experienced teams
- 7 Finalisation, implementation and set-up of business-as-usual governance structure and team for International Standard on Quality Management 1 (ISQM 1)
- 8 Global release of new Assurance technology capabilities, including next-generation data analytics that leverage Microsoft Power BI, new AI capabilities integrated with EY Canvas to support risk assessment, and redefined audit workflows for non-listed, non-complex entities.

## What comes next



# My vision for audit

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Our strong ethical values and culture, orientated around delivering high-quality audits, are central to everything we do.



**Andrew Walton**  
Head of UK Audit

Looking back on FY23, I would like to start by thanking our people once again for their dedication and commitment to delivering high-quality audits – a task made all the harder by the challenging and fast-changing economic and geopolitical environment during the year. It's been a period when both our own firm, and also the companies that we audit, have faced economic headwinds on a scale not experienced for several decades.

Whilst rising to these challenges during the year, we have continued to develop our audit strategy in line with our stated purpose of protecting the public interest and taking personal pride in audit. In support of this, our strategy is built to deliver consistently high audit quality, give our people lifelong skills and experiences, and grow our business purposefully. In the past year, we have taken various steps to deliver on this strategy – and I will now elaborate on these.

## **Delivering consistently high audit quality**

When we set our UK audit quality strategy for FY23, as part of our wider audit strategy, our aim was to achieve high-quality more consistently across all of our audits. To realise this ambition, we prioritised three key areas:

- ▶ Greater standardisation and simplification
- ▶ More effective coaching and support
- ▶ Reduced work intensity

Whilst it is too early to call victory on consistency, we are very encouraged by our improved results in this year's cycle of FRC inspections of our audits. The latest FRC inspection cycle saw us achieve our best result in the past six years, positioning us towards the top of the pack in delivering high-quality audits.

In its Audit Quality Inspection and Supervision report on EY UK, the FRC commented: "None of the EY UK audits we inspected were found to require significant improvements. We are pleased that the firm has maintained its focus on, and continued investment in, audit quality."

The other quality reviews of our audits published during the year were also very positive. See page 7 for our detailed results.

However, we know that audit quality is an area where there is always more work to do – and it's vital that we maintain this year's momentum and achieve similarly strong results consistently into the future. The examples of good practice identified by the FRC suggest that the building blocks of our strategy remain appropriate and effective. We have made good progress on the priority workstreams outlined above during FY23, and along with further enhancing our purpose-led culture, these remain focus areas for us in FY24. See page 10-14 for further details.

Whilst we have made solid progress towards realising the ambitions set out in our audit quality strategy, we recognise that we still have some issues to address around the perceived quality of our audits, including from a number of investigations currently in the pipeline. During the past year we've faced reputational challenges to the EY brand in the UK, and across the globe from developments including EY Oceania review into workplace culture, the backlog of public sector audit opinions, and the FRC's ongoing audit investigations (see page 16).

Of the FRC's audit investigations currently underway, seven relate to audits that were completed by EY UK, compared to four audits at the same point last year. During FY23, the FRC announced investigations into aspects of our audits of made.com plc,

Stirling Water Seaford Finance plc, and an unnamed company.

From previous years the investigations related to Thomas Cook Group plc (audits covering two financial years), NMC Health plc and London Capital and Finance plc have not yet been concluded. We continually look for lessons to be learned from all of the investigations and the FRC's enforcement process, and will incorporate these into all of our audits going forward.

A particularly marked trend we have noted in the past year, is increased press coverage relating to auditors delaying signing audit opinions. At EY UK, we have delayed the signing of a number of opinions on listed company audits. We will continue to reinforce the message to companies that we will not sign until we are ready, regardless of any unhelpful press speculation or management reaction that we may receive as a result. Our culture and support network enables our partners to make the tough decisions required when assessing whether we are ready to sign an audit opinion.

More generally, we continue to embrace the FRC's approach to audit firm supervision, and will keep working with the FRC and other stakeholders to ensure our audits deliver on their public interest role of building trust and confidence in business and the capital markets. We have continued our close engagement with the FRC Supervisory team and have worked to address the points highlighted in the feedback they shared with us in February 2023. The FRC identified a number of areas of good practice, including the cultural roadshows hosted by our senior leadership around the country and the expanded provision of our internal quality support processes to a larger number of audits.

We have also resolved the issue flagged by the FRC around the reduced number of independent non-executives (INEs) at certain points of the year. See the UK Quality Governance section on page 18.

During the year we have actively engaged with the Audit Committee Chairs' Independent Forum (ACCIF) on a variety of topics, including Project Spring. This project brought together a group of experienced audit committee chairs, representatives from the six largest audit firms and executives from the FRC, with the common objective to enhance audit quality and the wider understanding of the subject. Following three extensive workshops, ACCIF published its final report on the project outcomes in July 2023, including a series of key learnings and actions for ACCIF, auditors and the FRC. We took the opportunity to engage separately with ACCIF and promote the project outcomes. A video interview with the ACCIF Chair of Project Spring was shared across the audit practice, and teams are being encouraged to engage with the audit committees and management of the companies they audit on the outputs, to support conversations about enhancing audit quality on their engagements.

As I mentioned in these pages last year, operational separation can act as a further lever for enhancing audit quality, and in May 2023 we received the FRC's Annual Operational Separation Assessment. We are pleased that across the six categories of principles for operational separation, the FRC has graded us as either already in full compliance or as having made good progress towards full compliance as required by the end of FY24.

### **Strengthening our firmwide ethics and our culture of quality and challenge**

Our strong ethical values and culture, orientated around delivering high-quality audits, are central to everything we do. As I noted above, one of the key foundations of our audit quality strategy is our purpose-led culture of quality. In FY23 we've applied a three-fold focus to our efforts to strengthen this culture:

- ▶ Protecting the public interest – Reinforcing the messages that the

public interest is of greater importance than client service, and that the consistent performance of high-quality audits is in the public interest.

- ▶ Confidence to challenge – Taking action to equip our teams with the mindset and capability to apply professional scepticism and challenge, both within the audit team and with the companies we audit. For example, this year many of our people attended training on how to handle difficult conversations. The training was designed to develop the understanding of the importance of creating a safe environment where constructive challenge can occur, and to develop skills that support in providing appropriate challenge.
- ▶ Rewarding and recognising audit quality – At partner level, this involves the Remuneration Committee overseeing the application of the fundamental principles for setting partner pay, including ensuring that audit quality is the main driver of reward and that audit partners are not remunerated for sales of non-audit services to the entities that we audit. For our other colleagues, our focus has been on reinforcing the link between audit quality and our variable pay scheme.

In July, we ran our annual audit quality culture assessment. A really positive outcome this year – one that we're delighted to see – was that our cultural alignment index, at 96%, showed a 10% increase over the prior year. However, we are not being complacent about this improvement, and will continue to seek ways to maintain this strong result.

Further actions aimed at strengthening our culture have included our continued investment in the wider aspects of ethics, our code of conduct and the commitment we make to our people. This year the firm put all its partners across the UK through an externally-facilitated ethical training programme named 'Barrels not apples'. Having attended this programme myself, I can attest personally to its power in creating awareness of the kinds of issues that could potentially derail us ethically, and of how we can encourage conversations around positive behaviour. The programme has been so successful at partner level that it's now being rolled out to all staff across EY UK.

### **Purposeful growth and our responsibility to the public interest**

Purposeful growth means being thoughtful about the companies that we want to work with whilst balancing our commitment to protecting the public interest.

In our opinion, taking the public interest into account does not require a firm to make decisions that put significant strain on its capacity or pose risks to audit quality. But we know that the decision not to accept an audit or to resign from one can have far-reaching consequences for the company in question and its investors. With all of this in mind, we have three 'golden rules' that we apply with companies to explain the decisions we make around accepting or continuing an audit engagement. These are:

- ▶ Companies committing to hold themselves to the highest standards of governance and control
- ▶ Always treating our people professionally and with the respect they deserve
- ▶ Paying us fairly for the scope of work and the risk we take on

Where companies fall short on any of these three criteria, we provide feedback to their board and agree an improvement plan. These principles have served both to improve companies' controls and also to provide our people with the backing of the firm in delivering difficult messages.

Purposeful growth also applies to our approach to tendering for new work. Tendering is an increasingly challenging area both for companies and audit firms. Capacity constraints in the profession – especially in the context of partners accredited to sign audit opinions – mean we cannot take part in all tenders. Tellingly, the number of accredited responsible individuals (RIs) registered in the UK to sign audit reports across all firms has remained largely flat since 2017, yet the time taken to deliver the same audit has increased by approximately one-third during that time. Looking forward, a number of factors mean capacity in the profession is expected to remain tight.

One of these factors is that the wave of mandatory audit tenders has continued for the FTSE 350. Through to the end of 2027 we expect there to be around 175 tender processes, with approximately 158 of these being mandatory firm tender processes and only 17 mandatory firm rotations. It's interesting to note that in the case of mandatory firm tender processes over the past three years (since January 2021), 60% of FTSE350 tenders have resulted in a change of auditor. A further factor likely to help maintain the squeeze on audit firms' capacity is that, outside of the listed audit market, the Department for Business and Trade has been consulting on proposals to widen the definition of a public interest entity (PIE) to all companies with annual turnover of more than £750m and more than 750 employees. The introduction of Mandatory Shared Audits (MSAs) might also put further pressure on capacity, should they be introduced in the future. One of our actions in responses to such challenges is to make concerted investments in expanding our capacity – including increasing our number of responsible individuals, audit partners registered to sign audit reports, by 14% during FY23.

In terms of being paid fairly for the scope and risk we take on, during the past year, we received a letter from the 100 Group – an organisation that provides a collective voice for the CFOs of most companies in the FTSE 100 – outlining their concern with rising audit fees at the Big Four firms. Hywel and I met with representatives of the 100 Group to discuss what it takes to deliver a high-quality audit. We had a constructive conversation about the factors that had caused fees to rise, together with the mitigating actions we were taking to limit the increases, such as the use of offshore delivery centres, data analysis and technology. However, we were clear that audit fees can be expected to continue to rise, given the scale of corporate governance and audit reforms being proposed, and the increasing regulatory oversight and scrutiny of audits and auditors, and – as Hywel has discussed, the need to secure a strong and ongoing flow of talent.

### **Our people and their importance to audit quality**

Above all, our ability to deliver high-quality audits is underpinned by our success in securing, training, and retaining the best talent. With this in mind, I'm sincerely

grateful for all the hard work our audit teams have put in this year.

But delivering high-quality audits demands more than hard work. It's also critical that our people have the headspace to think clearly and critically. To provide this, we need to empower our teams to work at an appropriate intensity – which is why this is one of the key workstreams of our audit quality strategy.

I'm pleased to say that during FY23 we've recruited extra experienced auditors, graduates and apprentices into our audit business. Combined with higher retention, this has helped us to rebalance our individual work intensity, with an additional 558 auditors compared to the prior year. This said, there's more to do in this regard, and we will continue to focus on improving how intensely our people work. We are also investing in a pilot looking into how we can deliver our audits more efficiently whilst also enhancing audit quality, including through use of AI to support and augment our human auditors.

Alongside these initiatives to manage work intensity, it's also vital that we continue to train our people. Aside from core audit skills, our audit team members also need to be well versed in some emerging areas that are becoming increasingly important in their work. We provide this enhanced understanding in several ways, including offering our people a range of EY 'Badges' in topics such as AI, cybersecurity and analytics, and providing targeted sessions covering assurance on environmental and sustainability matters. We are also considering introducing more bespoke 'academies' on technology and sustainability next year.

Whilst these efforts are already bearing fruit, the fact remains that attracting the right talent, with the right experience, continues to be an industry-wide challenge – one to which EY UK is not immune. There are a number of levers we can pull to make the profession attractive and to upskill our people.

One of the most powerful of these levers is expanding the diversity of our audit workforce and teams, as reflected by our diversity targets and progress towards them showcased in our third annual [Impact Report](#). We also continue to review our total reward and recognition package to ensure that our people are remunerated

fairly. Finally, a further lever available to us is differentiating ourselves around skills development and career experiences.

We are developing a programme of activities including secondments both internally and externally to broaden our skills base, which we hope will ultimately enhance audit quality and make EY a more attractive place to work.

That said, I believe that making the audit profession a more appealing career choice is a goal that cannot be achieved by EY UK acting alone. Whilst we will play a critical role, success will require engagement with a wider group of stakeholders. Given this need, we will continue to work with our peers, companies, regulators and government to support the move towards a more attractive profession.

## **Conclusion**

I'm exceptionally proud of what we have achieved in FY23. We have made good progress with our UK audit quality strategy and, as evidenced by our improved results in the FRC's FY23 inspection cycle, that investment is paying off. That being said, we can't rest on our laurels. And as we continue to grow our business purposefully and invest in our people and culture, we are well-placed to protect the public interest through our audits, whilst also helping to make the profession more attractive to the young talent who represent its future.

### **Andrew Walton**

Head of UK Audit



# Our UK Sustainable Audit Quality programme



**Adrian Roberts**

UK Quality  
Enablement Leader

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We are committed to consistently delivering high-quality audits that serve the public interest. A purpose-led culture is fundamental in helping us achieve this, along with more effective coaching and support, greater standardisation and simplification, and rebalancing work intensity.

## Our UK SAQ programme

I am excited to take up the role of UK Quality Enablement Leader and to lead our UK Sustainable Audit Quality (SAQ) programme. Our FY24 audit quality strategy, which is discussed in more detail in the following pages, is specific, focussed and robust. I look forward to working with our leaders to deliver on our commitments. We are focussed on serving the public interest and will continue to build on the progress made in the past year, during which having a strong culture of quality has been a key priority.

I would like to take this opportunity to thank my predecessor, Michael-John Albert, for his hard work over the past four years. Under Michael-John's leadership we have made good progress towards delivering consistent high-quality audits, evidenced by our improved FRC inspection results this year and consistently high ICAEW Quality Assurance Department (QAD) results.

A number of good practice examples have been identified through both the external and our internal inspections. However, our

primary objective must be and remains to do more to achieve high-quality in every audit – and this will continue to be our focus for FY24 and beyond.

### In our most recent inspection results:

- ▶ The FRC graded **80%** of our audits inspected as requiring no or limited improvements (89% for audits of FTSE 350 companies).
- ▶ The QAD graded **100%** of our audits inspected as satisfactory or generally acceptable.
- ▶ Our internal quality reviews rated **89%** of our audits as having no or only minor findings.

### Over the past five years:

- ▶ The FRC has graded an average of **75%** of all our audits as requiring no or limited improvements (82% for audits of FTSE 350 companies).
- ▶ The ICAEW Quality Assurance Department (QAD) has graded an average of **96%** of our audits as satisfactory or generally acceptable.

- ▶ Our internal quality reviews have graded **85%** of the audits reviewed as having no or only minor findings.

Audit quality is not defined in professional standards, and no single metric can be viewed as a definitive measure of audit quality. This is why we take the outcomes from all reviews, along with other indicators (including the monitoring and annual evaluation conclusions of our System of Quality Management), into account when assessing audit quality.

Delivering sustainable, consistently high-quality audits is our priority – and our drive to achieve this is captured in our audit quality purpose.

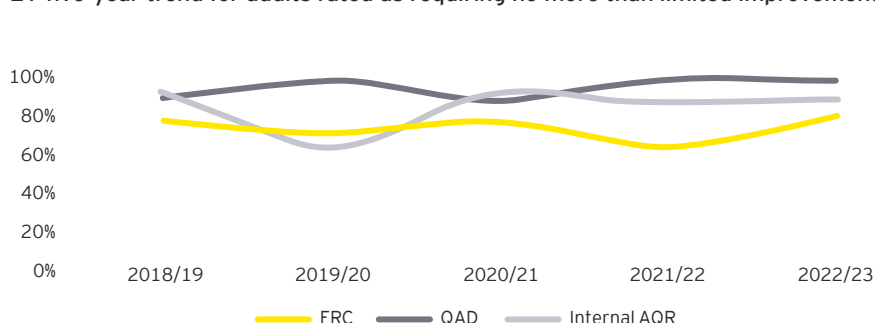
## Our audit quality ambition

We are committed to consistently delivering high-quality audits that serve the public interest.

Our refreshed audit quality strategy emphasises the importance of a purpose-led culture and is fundamental to delivering on our audit quality purpose.

We are also committed to continuous improvement and in 2022, it was announced that \$1bn would be invested globally in technology to support audit quality, of which the early developments are materialising. This investment is being supplemented by extensive and regular training and coaching of our teams, both in audit and for the various specialists that support the core team.

EY five-year trend for audits rated as requiring no more than limited improvements



Findings from all reviews are assessed through our root cause analysis programme. This considers the nature and severity of the findings driving any rating when determining the right actions to take in response.

Our global SAQ programme creates the framework under which we identify specific initiatives to implement these actions. The programme is structured into six core pillars.

## Global SAQ pillars



Since the start of our SAQ programme, we have implemented a wide variety of initiatives, many of which continue to support the delivery of high-quality audits today. These initiatives include:

- ▶ Audit Quality governance refreshed with the Audit Quality Executive Committee and Audit Board established (refer to page 18)
- ▶ Annual Audit Quality Summit and National Academies
- ▶ Global investment in technology improving our teams' connectivity, introducing increased automation, and leveraging leading data analytics tools supported by enhancements to our audit methodology
- ▶ Key behaviours which drive high-quality audits identified and embedded in our approach to all audits
- ▶ Use of audit quality indicators, including a global milestones programme to improve and monitor project management of our audits
- ▶ Significant investment made in additional support for audit teams through 'hot file' reviews, coaching packs, enhanced risk review processes and best practice documentation
- ▶ Greater linkage between audit quality and reward for audit partners and our people

- ▶ Annual audit trust awards to celebrate outstanding contributions to our quality-led culture from across our UK audit business at all levels, as well as from specialists who support audits
- ▶ 'Culture of Audit Quality' roadshows across the UK, communicating our desired audit culture and our audit quality strategy
- ▶ Introduction of a new technology-enabled 'one-stop-shop' that is easily accessible and supports teams in finding the right answers, information and good practice examples
- ▶ Implementation of ISQM 1, which became effective from 15 December 2022, and completion of the transition from our Internal Quality Control System to our System of Quality Management  
Our first evaluation was conducted on 30 June 2023.

## Our audit quality strategy

To deliver against our audit quality purpose, our strategy is built on a thorough review of those specific factors that most successfully deliver high-quality audits.

It is clear there is no one action that can ensure audit quality. It requires a carefully considered series of actions across our business that impact our audits on a daily basis.

The development and implementation of our strategy has been subject to ongoing review and challenge by our independent Audit Non-Executives (ANEs) and internal audit reviews.

In FY23 we focussed on three priority areas:

- ▶ More effective coaching and support
- ▶ Reduced work intensity
- ▶ Greater standardisation and simplification

The other audit quality initiatives in FY23 were:

- ▶ Audit culture with a focus on professional scepticism
- ▶ Preparing for ISQM 1

We designed the strategy to be adaptable, so as circumstances changed we could prioritise areas that have the greatest impact on audit quality. We successfully implemented a wide range of actions during FY23 with the key actions detailed on page 3. We regularly monitor the effectiveness of the strategy to ensure that it continues to assist in delivering against our audit quality purpose. We have seen improved inspection results in the current year and no adverse regulatory findings on areas where standardised enablement material was used. However, various data points including our root cause analysis indicate the need for greater consistency (particularly in the use of standardised enablement materials, documentation and coaching) and the continuance of the audit quality initiatives related to the priority areas.

## Audit quality initiatives FY24

### Purpose-led culture

A purpose-led culture is fundamental to our audits – this leads to the right teaming, the support and confidence to constructively challenge and being professionally sceptical at all times

### More effective coaching and support

More effective coaching throughout the audit leads to greater consistency and supports better project management

### Greater standardisation and simplification

More standardisation increases efficiency and leads to more consistent documentation

### Rebalancing work intensity

Rebalancing workloads will ensure a more equitable split of hours across our people giving more time to think, which should lead to greater consistency and sharing of best practice

We have refreshed our audit quality strategy for FY24, focussing on the following key areas:

- ▶ Purpose-led culture
- ▶ More effective coaching and support
- ▶ Rebalancing work intensity
- ▶ Greater standardisation and simplification

We will maintain our focus on standardisation and simplification and coaching. We have reframed 'reducing work intensity' as 'rebalancing work intensity,' a concept that better reflects the purpose of the workstream – with the focus being on balancing workloads to ensure a more equitable split of hours worked by our people.

Although culture was already addressed in our FY23 audit quality strategy, it has been given greater prominence in FY24. This change is in recognition of the fundamental role culture plays in the delivery of high-quality audits, and the contribution of every individual to our purpose-led culture.

ISQM 1 came into effect from 15 December 2022 and includes a more robust requirement for governance, leadership, and culture, with extensive monitoring to identify deficiencies and take corrective action where necessary. The focus is on quality objectives, and reaching a conclusion (through extensive evaluation work) on whether the system of quality management provides the firm with reasonable assurance that the quality

objectives are being met. The process is now business-as-usual for FY24 and as part of the refresh of our audit quality strategy for FY24, we considered the population of our ISQM 1 controls and concluded that these appropriately address all areas across our SAQ pillars. The annual evaluation conclusion for EY UK as of 30 June 2023 is that the System of Quality Management provides reasonable assurance that the objectives of the system of quality management are being achieved. Further details can be found in our EY UK [2023 Transparency Report](#).

For further details on the FY24 initiatives see pages 10 to 14.

## Other strategic actions

Other 'tactical' actions included in the FY24 audit quality strategy include:

Workstream/area	FY24 Actions
Climate	<ul style="list-style-type: none"> <li>▶ Appointment of subject matter experts within audit to continue to drive climate quality initiatives</li> <li>▶ Continued review and update of climate methodologies and guidance</li> <li>▶ Issuing of good practice examples</li> </ul>
IFRS 17 Insurance contracts	<ul style="list-style-type: none"> <li>▶ Creation of IFRS 17 methodology and guidance</li> <li>▶ Upfront coaching of teams through our enhanced quality control processes and support</li> </ul>
Economic environment	<ul style="list-style-type: none"> <li>▶ Focussed coaching available to teams in relation to 'hot topics'</li> <li>▶ Creation and distribution of macro economic risk review and accounting considerations analysis</li> </ul>



# Purpose-led culture

## Overview

A purpose-led culture is fundamental to our audits – this leads to the right teaming, the support and confidence to constructively challenge, and being professionally sceptical at all times. In addition to the six Global SAQ pillars, as set out on page 8, the fundamental elements underpinning the culture of our audit business are:

- ▶ The essential attributes of our audit business (right resources, right first time and right reward); and
- ▶ Our people, focussed on a common purpose – serving the public interest

## What we have achieved so far

During FY23, we:

- ▶ **Completed our 2022 'Enhancing our Culture of Audit Quality' roadshows** across the UK. These focussed on the continued drive of a cultural mindset shift to embed further challenge and professional scepticism into our work. A specific session was run earlier this year for our offshore delivery centre.
- ▶ **Developed onboarding training** for all staff in the form of a video emphasising the importance of culture, professional scepticism and challenge, all of which underpin audit quality.
- ▶ **Launched 'Better me'** which is dedicated time regularly set aside for all of our auditors across every grade to focus on training and personal development.

## What next?

In FY24, we will continue to drive the importance of a purpose-led culture and reinforce why this is fundamental to the quality of our audits. Specifically we will focus on:

- ▶ Completion of the Audit Quality Culture survey in July. Our 2023 survey showed that our cultural alignment index had risen to 96%, a 10% increase year-on-year. This means that our people are continuing to describe our culture in increasingly positive terms including: attention to detail; coaching/mentoring; scepticism; and continuous learning. That said, we know there is more work to do in helping people feel more confident to challenge the hierarchy within EY. This has been – and will continue to be – a focus of the Culture of Audit Quality roadshows.
- ▶ Reinforcing a cultural mindset in the form of what it means to be an audit professional. This includes setting clear role expectations, and continuing to drive the messaging on the importance of professional scepticism and having the confidence to challenge both internally and with the management of the companies we audit.
- ▶ Delivering the 2023 Culture of Audit Quality roadshows in hybrid sessions across a number of regional offices and London homes. Going forward, we plan to visit all regional offices and London homes on a rotational basis every two years. We will also hold an annual virtual wrap-up session for anyone who has not had a local event or are unable to make their local event. Specific virtual abridged sessions will be held for our offshore deliver centre and our specialists.
- ▶ Continuing the development of a framework for, and allocating a mentor to, each of our newly-promoted audit partners.



# Purpose-led culture

## Right resources

One of the fundamental elements underpinning the culture of our audit business, as noted on page 10, is 'right resources'. Resource allocation is a key focus for the rebalancing work intensity priority area, with further analysis planned across our highest-risk engagements to ensure that the teams have appropriate resources, realigning resource where required. See page 13 for further details.

## Improve staff attraction, recruitment and retention

A vital part of this is ensuring that we attract and retain a diverse range of people who share our values and commitment to serving the public interest and who take a personal pride in audit.

Our reputation as a great place to work enhances our ability to attract talented people.

EY was ranked **top 10** in the 2023 LinkedIn Top Companies list, published by LinkedIn in April 2023.

In recruiting candidates, we consider not only technical skills, but also attributes such as integrity, curiosity, ethics and the ability to collaborate in high-performing teams. We continue to recruit high-calibre individuals and have recruited more than 1,600 experienced auditors, graduates and apprentices over the past year, building a pipeline of talent for the future. This includes talent with dedicated technology skills to support the growing importance of technology in audit.

## How will we measure success?

We will consider the measures of success for this initiative to be:

- ▶ Sustained high Audit Quality Culture survey results.
- ▶ Better understanding of our purpose-led culture focussed on stakeholder and public interest and being confident to constructively challenge. Tracked through feedback from the Culture of Audit Quality roadshows and feedback from teams.
- ▶ New partners feeling better supported – tracked through feedback from mentors and mentees.

Retention of the best talent requires investment in and development of our people, together with recognition and reward of the right behaviours to keep our people engaged and make sure we have continuity of skills and experience.

## Diversity, equity and inclusiveness (DE&I)

We have a long-standing commitment to diversity, equity and inclusiveness (DE&I). This commitment to building high-performing, diverse, equitable and inclusive teams is especially important in audit, where diverse perspectives drive professional scepticism and critical thinking. Greater diversity and equity, combined with an inclusive culture, lead to better decision-making, stimulate innovation and increase organisational agility. In the March 2023 employee listening survey, 82% of auditors said the EY organisation provides a work environment where they feel free to be themselves, an increase of 3% compared to the March 2022 survey.

In 2022, we became one of the founding partners of the socio-economic diversity taskforce, Progress Together. This independent body focuses on boosting socio-economic diversity in UK financial and professional services.

Our first Neuro-Diverse Centre of Excellence (CoE) in the UK was launched in Manchester in January 2022. It is designed to fuel innovation in technology, bring a new dimension of creativity, and drive greater diversity and inclusion in the UK workplace.

Under our differential focus on race and gender, we have a target of 40% female and 20% ethnic minority (of which 15% will be Black) partners by July 2025. Please refer to our separate [Impact report](#) for further information on DE&I.

## Risks to manage

The main risk to achieving success within this focus area is if our culture is not conducive to high-quality audits and teams are not applying the appropriate level of challenge and professional scepticism.

We will address this risk through continued promotion of the importance of a purpose-led culture and the fact that each individual's contribution is important. This will be done through various methods including our Culture of Audit Quality roadshows, quarterly webcasts and onboarding material.

# More effective coaching and support

## Overview

As noted earlier in this report, our focus is on improved consistency in our audits. A lot of this consistency can be addressed through the standardisation and simplification of workpapers and forms. However, our root cause analysis identified that a number of our internal and external inspection findings were linked to inconsistency in the quality of coaching received, highlighting the need to continue to improve our coaching and the support offered to teams.

This focus area oversees the coaching initiatives and embedding of the support solutions that have been developed.

## What we have achieved so far

During FY23, we have:

- ▶ **Enhanced our quality enablement network** with dedicated local audit quality representatives in each office and London home. Dedicated time is carved out in their portfolios to provide support to their local offices.
- ▶ **Development of technology enabled support options** through our 'one-stop-shop' and new queries and consultation application (EY Compass). These support teams by allowing easier access to find the right answers, information and good practice examples. In addition to this, we have released a number of task-specific tutorial videos enabling on-demand coaching covering a number of topics.
- ▶ **Expanded our audit quality support team (AQST)** through the recruitment of additional resources enabling an increase in the number of AQST reviews. This includes AQST light reviews which offer experienced AQST member support to assist individual teams with specific areas of their audit rather than a full file review.

## What next?

In FY24, we will focus on refreshing and embedding the coaching initiatives so as to lead to greater consistency.

Specifically we will:

- ▶ Improve our on-the-job coaching through various methods as can be seen in the 'on-the-job coaching' icon. Our key focus will be on the enhancement of Purpose-Led Outcome Thinking (PLOT) throughout the audit and coaching support, including skills sessions, on building confidence.
- ▶ Embed our new queries and consultation application, EY Compass.

- ▶ Increase awareness and effective use of tools and enablers through various methods including promotion of our Conduct Portal (one-stop-shop), the Culture of Audit Quality roadshows and quarterly webcasts.
- ▶ Continue to utilise our quality enablement network to assist in the local execution of the audit quality strategy.
- ▶ Enhance AQST through greater upfront and ongoing facilitated coaching of audit teams and the development of topic-specific subject matter experts.

**82%** of our people felt they receive sufficient training and development to enable them to deliver quality audits.

## How will we measure success?

We will consider the measures of success for this initiative to be:

- ▶ Audit teams having better access to online resources and getting it right first time. To be tracked through a reduction in non-complex questions (e.g., questions on where to find information).
- ▶ Reduction of time spent reworking our workpapers – tracked through feedback from teams and internal quality reviewers. Our priority is right first time.



## Risks to manage

There are a number of risks and barriers to achieving success within this focus area, which include:

- ▶ **Lack of resource to deploy and execute coaching and support initiatives**  
Allocation of work is currently underway with utilisation of people in the business in order to share the workload across a larger group.
- ▶ **Our people not allocated adequate time for coaching**  
We will promote the importance of on-the-job coaching (e.g., use of PLOT) and various support options available to improve consistency, get things right first time, and better support project management.



# Rebalancing work intensity

## Overview

The outcome of our root cause analysis, feedback from our teams and development and analysis of our index tracker indicates that there is an inequitable split of hours across our people. Rebalancing workloads will ensure that the hours our people work are divided between them in a more equitable way. It should also allow our people more time to think which should lead to greater consistency.

### What we have achieved so far

During FY23, we have:

- ▶ **Developed a new index to track the work intensity of our people.** This index means that our progress is now quantifiable.
- ▶ **Started conversations with teams** across the business to understand what work intensity means, and what the barriers to a sustainable workload might be.
- ▶ **Performed a deep-dive across our highest risk engagements,** realigning resource to ensure appropriate team experience and additional support.
- ▶ **Launched our 'Lifehack' series,** sharing top tips for managing workloads.
- ▶ **Project management training** being delivered at our annual in-person Summer Academies for each office and London home.

### What next?

In FY24, we will continue to focus on working towards our ambition of an equitable split of work across the business such that everyone works a reasonable level of total hours across the year.

Specifically we will focus on:

- ▶ **Target operating model (TOM) and desired culture.** As noted above, we have developed a new index that means we can quantify and track the work intensity of our people. We will use this to analyse the split of hours across our people as we work towards equitable workloads. In addition to this, we will develop guidance and a toolkit to assist in providing clarity on the expected experience of an audit professional.
- ▶ **Workload** We will undertake a detailed review of our people's portfolios which will include the phasing of work to ensure

that individuals have a portfolio that's fit for purpose. This will mean that our people will have built in lower-intensity periods between busy times allowing them to 'recharge'. Our aim is to allow our people to be energised, ready and able to challenge and therefore consistently perform high-quality audits.

### ▶ Resource allocation

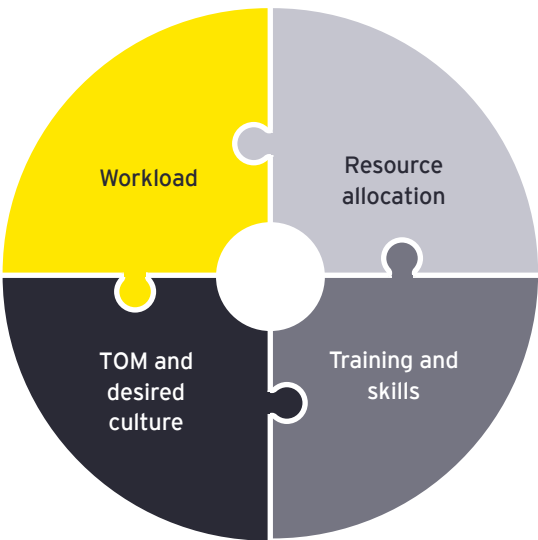
We will design a toolkit to promote local interventions with local cluster/business unit leaders being responsible for certifying the completion of resource interventions. In addition to this, we will perform a further analysis across our highest-risk engagements to ensure that the teams have appropriate resources, realigning resource where required.

### ▶ Training and skills

There are many tools and enablers currently available for our people to use. As mentioned on page 10, we have made these easier for our people to locate and will promote the use of our 'one-stop-shop'.

We will continue with our 'Lifehack' series sharing top tips for managing workloads.

In addition to this, we will consider the feedback from the project management training currently being rolled out and develop further training. We will also develop and roll out a framework for a focussed project management role on larger audits.



### How will we measure success?

We consider the measures of success for this initiative to be:

- ▶ Reduction in the number of people working excessive hours above their standard contracted hours (whilst allowing for a normal level of overtime)
- ▶ Engagements with the right resources at the right time tracked through feedback from teams, quality representatives and quality control reviews

### Risks to manage

The key risk/barrier to achieving success within this focus area is:

- ▶ **Local leadership and engagement teams do not prioritise time to support the actions to rebalance work intensity** We will provide a toolkit to promote local interventions and communicate the importance of the strategy and actions.

# Greater standardisation and simplification

## Overview

Our root cause analysis on inspection findings highlighted examples of good practice in relation to clear documentation on various areas. However, it also indicated that there is a continued need for improved consistency in our audits. Promoting the standardisation of best-practice tools and approaches to our work is an important response to this need.

Standardisation enables a simplified but more effective audit, allowing team members to be clearer on the task requirements and senior auditors to focus on challenging the judgements involved in the audit and ensuring we have the right quality evidence.

This initiative continues to build upon the high-quality outcomes across many of our audits, and leverages best practice from these to develop standard work programmes and templates that will drive greater consistency.

## What we have achieved so far

During FY23, we issued the following:

- ▶ **Topic-specific methodologies** for a number of areas that have common characteristics, including a work programme for revenue on construction contracts, group oversight work enabler, and hedging framework.
- ▶ **Good practice documentation** and standardised wording for areas including impairment and our use of specialist work papers, where standardised information can be used by a number of audit teams.

## What next?

In FY24, we will release more standardised work programmes and best-practice documentation. We will also launch Centres of Excellence (CoEs) for areas with common attributes.

Specifically our short-term focus is to:

- ▶ Develop and release standardised frameworks and work programmes for a number of areas, including pensions, deferred tax, leases, journal entry testing and risk assessment.
- ▶ Further release of good practice documentation and standardised working for areas including Independence, climate and fraud.
- ▶ Adoption of EY Global standardised work papers when available (topics currently being developed by Global and considered for adoption in the UK include cash, property plant and equipment, and accruals).
- ▶ Exploration and launch of CoEs where work can be performed centrally and consistently. This will include a pension assets CoE.

## How will we measure success?

We consider the measures of success for this initiative to be:

- ▶ Reduced duplication of audit effort through the simplified processes, documentation and enablers – tracked through feedback from teams.
- ▶ Clear, concise and consistent documentation – tracked through feedback from our internal review and quality control processes.
- ▶ Feedback from our external inspections through their identification of good practice and absence of findings in areas where best practice has been developed.

## Risks to manage

There are a number of risks and barriers to achieving success within this focus area, which include:

- ▶ **Lack of resource to develop enablement** (see page 12)
- ▶ **Professional practice department (PPD) capacity**  
We will agree timetables in advance with our PPD group which is required to review the standardised forms, workpapers and enablers prior to release.
- ▶ **Failure of business to use tools and enablers**  
The launch of our Conduct Portal, supported by our Audit Quality Sharepoint – a 'one-stop-shop' that helps our teams to easily access the relevant tools and enablers. In addition to this, the recent launch of our queries and consultation application, EY Compass, helps teams to navigate common questions.
- ▶ **Duplication of effort due to lack of awareness**  
We have regular interactions with the Global innovation teams and our quality enablement network representatives across all locations to share and reinforce key messages with audit teams locally, helping them to share good practice and reduce the risk of duplication of effort.

# How this translates to a quality audit for companies

On the previous pages, we have set out our key focus areas, actions and risks for FY24. We now look at how these translate into a quality audit for companies. With our audit quality focus areas, overall strategy, System of Quality Management, and the Three Lines of Defence (see page 19 for details) in mind, we have considered this from the point of view of our stakeholders. To illustrate, we have considered the perspectives of an Audit Committee Chair and specifically outlined the questions we believe they would consider.



## The questions above are all addressed by our audit quality strategy focus areas, specifically:

- ▶ Resourcing interventions as described on page 13, which include:
  - ▶ Appropriate intervals of intensity built into portfolios allowing our people to be focussed, and able to think clearly and effectively whilst working on engagements. This will result in risks being addressed in the most efficient way and consistent high-quality audits.
  - ▶ Ensuring that we have appropriate teams with the relevant experience for each audit.
- ▶ Additional support in the form of our AQST and engagement quality control review (See page 12 for further details).
  - ▶ Providing training and tools to equip our people so that they understand what it means to be an audit professional and are better able to build a greater knowledge of the industries they work in. See page 10 and 14 for further details.
  - ▶ Providing teams with the tools to clearly and concisely document the work done and challenges made
- ▶ through the release of specific methodologies, standardised enablers and working papers, and good-practice examples. See page 14 for details.
- ▶ Providing teams with project management training and encouraging the use of existing project management tools to ensure audits are properly planned and executed, with any challenges and issues raised as early as possible in the audit process. See page 13 for details.



# Audit in the spotlight

In recent years there have been various reputational challenges faced by EY globally, along with the wider profession. In the section below, we have set out seven notable issues and the steps we're taking to address them.

## Workplace culture

In July 2023, EY Oceania released the findings of an independent and comprehensive review into its workplace culture. The independent review was a deep examination of workplace culture, work practices and psychological health and safety in EY Oceania's two largest Member firms, Australia and New Zealand. A copy of the report can be found [here](#).

The report included a number of key findings and overall, the vast majority of people felt safe in EY Oceania workplaces. However, there were instances identified where negative experiences have had a significant impact on individuals, teams and the firm. The report includes 27 recommendations to help EY Oceania make meaningful improvements to work place culture and positively promote the wellbeing of its people.

Our latest UK People Pulse survey results indicate that the majority of our people feel included and supported by the people they interact with each day and that they feel free to be themselves. However, we recognise there is more to be done and learnt from to ensure our people have an exceptional experience at EY.

We have reviewed the report and have analysed and considered

the insights and recommendations from a UK perspective. Whilst we are in the process of determining specific actions relating to this analysis, we already have a number of UK-specific initiatives in place that we have been working on. These include:

- ▶ Culture of Audit Quality roadshows – promoting the importance of having the confidence to internally challenge. (See page 10)
- ▶ Increasing accountability for staff by setting clear role expectations. (See page 10)
- ▶ Undertaking a detailed review of our people's portfolios, which is an important part of our rebalancing work intensity priority area. This includes a review of phasing of work to help our people to be focussed and able to think clearly and effectively. (See page 13)
- ▶ Various DE&I initiatives including: being one of the founding partners of the socio-economic diversity taskforce, Progress Together; and opening our first Neuro-Diverse Centre of Excellence in Manchester. (See page 11)

## Public sector audits

Since 2017/18 there has been a deterioration in the timeliness of local audit in England, with delays compounding during the COVID-19 pandemic, leading to a persistent and significant backlog of audit opinions. We have continued to invest in our public sector audit team to support the long-term sustainability of public audit, through enhanced recruitment campaigns. We have successfully recruited at all levels, expanding the team, including new Key Audit Partners. We continually review our portfolio of appointments to ensure that we remain appropriately resourced to deliver high-quality public audit. On 17 July 2023, Lee Rowley, MP, Parliamentary Under-Secretary of State for Local Government and Building Safety, gave evidence to the UK Parliament's Levelling

Up, Housing and Communities Committee inquiry into Financial Reporting and Audit in Local Authorities.

He outlined that work was ongoing to address this area and develop a sustainable solution to the timeliness challenges which the local audit sector in England has faced in recent years. Further work is being completed with the aim of implementing agreed changes by the end of 2023. As auditor to a significant proportion of the local audit market, EY UK is working with the government, along with other stakeholders, to support the development of more detailed proposals to address the backlog and develop a sustainable solution.

## Ongoing FRC audit investigations

We currently have seven open investigations, with year ends ranging from 2017 to 2021, in relation to audits we have undertaken. Three of the seven relate to investigations announced since the publication of our 2022 UK Audit Quality report.

We are committed to working with the FRC to understand and respond to any findings that may arise from their investigations which are directed to ourselves and those of other firms. More generally, we embrace the FRC's approach to audit firm supervision, and will keep working with the FRC and other stakeholders to

ensure our audits serve the public interest and build trust and confidence in business and the capital markets. Delivering the high-quality audits expected of us is our priority, and we are investing an additional \$1bn globally in our audit and technology processes. Our refreshed audit quality strategy emphasises the importance we place on of a strong audit culture and professional scepticism.

Further details on our open investigations can be found in the [Transparency Report](#).

## Climate-related risks and impacts on financial statements

Climate change continues to present risks to the companies we audit. It is one of a range of business risks that we consider as part of our audits.

A wider range of stakeholders, including customers, employees, suppliers, governments and civil society are scrutinising corporate behaviour, alert to any gap between what companies claim and what they are actually doing. This increases the expectations placed on auditors and the demand for assurance on metrics is continuing

to widen beyond financial performance. As part of our contribution to the debate about the future of audit, we have included the audit of the impact of climate change as a workstream in our audit quality strategy.

We welcome all opportunities for engagement with the investor community on this important topic.

Please refer to page 9 for the FY23 focus of this workstream.

## Personal independence

Whilst not in relation to EY UK, the Public Company Accounting Oversight Board (PCAOB) determined, in 2023, that EY Spain and EY Sweden have unsatisfactorily addressed criticisms expressed in the 2019 PCAOB inspection reports of their quality controls over compliance with the firm's independence policies, for the reporting of personal financial relationships by managerial rank employees. We take our independence obligations very seriously. Following these inspections reports, EY has implemented and communicated to its employees changes and enhancements in policies, processes, consequences, communications, and training to increase compliance with the reporting requirements. Although

these remedial measures have contributed to progress in improving compliance in this area, EY agrees with the PCAOB that we have more work to do. We remain squarely focussed on the continued strengthening and enhancement of our quality controls. The Financial Report Council performed testing in relation to financial independence of individuals as part of their 2022/23 inspection cycle, specifically their review of our firm-wide procedures. This resulted in the identification of some good practice examples in the area of personal independence, which were reported in our annual public report published in July 2023.

## Exam answer sharing

There have been no further public announcements on this matter since the issues described in our 2022 UK Audit Quality report. We continue to place integrity and ethics at the forefront of everything we do.

We have continued to take steps to reinforce our culture of compliance, ethics, and integrity in the past. We will continue to take extensive actions, including disciplinary steps, training, monitoring, and communications that will further strengthen our commitment in the future.

Sharing answers on any assessment or exam is a violation of our Code of Conduct and is not tolerated at EY. The firm's response to this unacceptable past behaviour has been swift, thorough, and robust.

Globally, we continue to build awareness and prevention in countries around the world to set the standard for ethical behaviour in our industry. Please refer to our [Transparency Report](#) for additional information on our ethics and whistleblowing policies.

## Wirecard

Since the publication our 2022 UK Audit Report, the German regulator (APAS) has concluded its investigation into EY Germany and Wirecard. We await its final and formal conclusions.

As noted in our prior year report, both EY Germany and EY globally have taken action and are committed to continuous improvement in audit quality, implementing innovations in our risk and audit

procedures regarding fraud, leveraging data and the power of advanced technology.

In the UK, all FTSE 350 engagements continue to leverage, where appropriate, our Forensic and Integrity Services (FIS) practice expertise to support our teams in assessing fraud risk and other indications of management bias.

# UK audit quality governance

There are several global roles and functions that have direct accountability for creating, implementing, improving and monitoring activities related to audit quality control. We have embedded and built upon these global roles to develop a clear structure for the oversight and monitoring of audit quality in the UK.

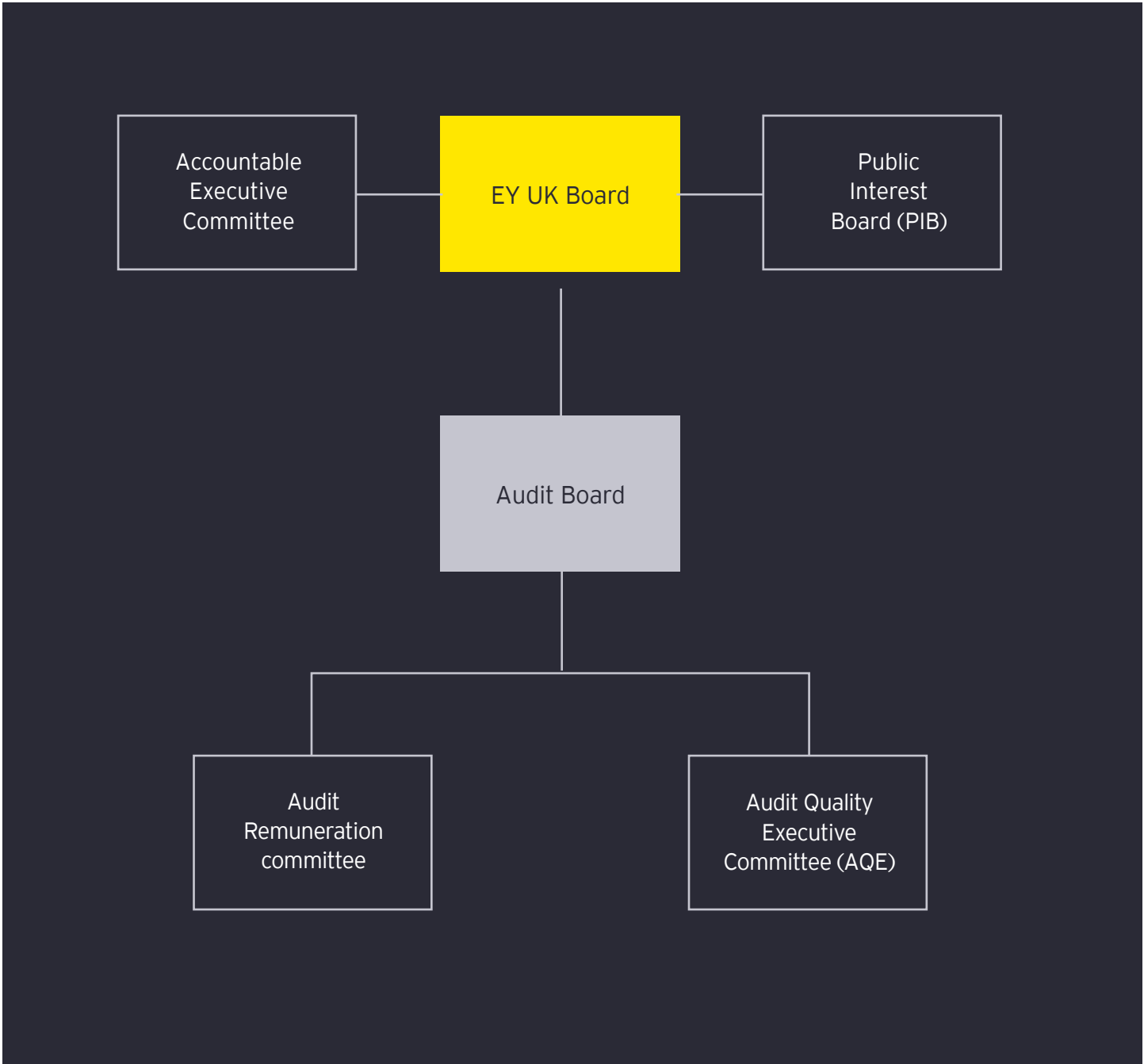
In readiness for operational separation reform, changes to our firm's governance structure were implemented which have been in place since 1 July 2021. The

revised structure has strengthened our oversight of audit quality.

It builds on our culture of challenge through various levels of review, including from our independent Audit Non-Executives (ANEs), who bring a range of diverse experiences to the Audit Board they sit on. Further details on each of these bodies can be found on the next page.

In addition to the bodies included on the diagram below is the UK Country Committee

(UKCC). The purpose of the UKCC is to manage the operations of the firm with respect to matters that have, or may have, a UK country-specific impact, including legal, regulatory, and reputational matters and financial resilience. The UKCC reports directly into the EY UK Board.



## EY UK Board

The EY UK Board is the ultimate governance body of EY UK and is responsible for promoting and protecting the interests of the firm and the general and operational management of the firm as a whole, including overseeing compliance with all applicable professional regulatory and legal requirements.

The composition of the Board is made up of seven roles-based appointments, three representatives of the UK&I and FS Partner Fora which are comprised of elected individuals, and up to two co-opted members. There were no co-opted EY UK Board members in FY23.

## Public Interest Board (PIB)

The remit of the PIB is to enhance the firm's performance in meeting the purpose of the Audit Firm Governance Code (AFGC), which has the following principal objectives: to promote audit quality; to help the firm secure its reputation more broadly, including that of its non-audit business; and to reduce the risk of firm failure. In connection with the AFGC's purpose, the PIB is responsible for the independent oversight of the firm's policies and procedures in relation to financial resilience, governance and leadership, values and culture, and risk management and resilience. Review of the people strategy and people policies and procedures, to help ensure the public interest is protected, is a standing item on the PIB's agenda.

The Public Interest Board is formed of Independent Non-Executives (INEs) including the chair, Tonia Lovell and three role-based members consisting of the UK Country Managing Partner, FS Managing Partner and the head of UK risk.

## Audit Board and Audit Remuneration committee

The Audit Board and Audit Remuneration Committee were established in order to fulfil the Financial Reporting Council's requirements on the operational separation. The role of the Audit Board is to provide independent oversight of the firm's pursuit of audit quality improvement by ensuring that people in the EY UK Audit Practice are focussed above all on the delivery of high-quality audits in the public interest, having regard to the need to ensure that audit remains an attractive and reputable profession and to increase deserved confidence in audit.

The Audit Board is comprised of Audit Non-Executives and three EY executives. Three of the four Audit Non-Executives (ANEs) are also firm-wide INEs. In January 2023, David Thorburn, the Chair of the Audit Board, resigned with immediate effect in order to take on a role on the Transaction Committee for the proposed structural separation of the firm. Philip Tew took over as interim chair. Following the decision not to proceed with the structural separation, David Thorburn was re-appointed as both an INE and ANE in May 2023, with Philip Tew continuing to act as interim UKAB Chair. On 18 September 2023, Ruth Anderson and Carl Hughes were both appointed to the roles of INE and ANE, with Ruth Anderson taking over from Philip Tew as Chair. Mirdul Hedge resigned on the same day. The EY executives on the Audit Board are the UK Head of Audit, UK FS Head of Audit and the Audit Compliance Principal.

In addition, EY has also established an Audit Remuneration Committee as a sub-committee (ABRemCo) of the Audit Board. The Audit Remuneration Committee is comprised solely of ANEs and its role is to oversee the remuneration of audit partners. Following his reappointment David Thorburn did not re-join the ABRemCo.

## Accountable Executive Committee

The Accountable Executive Committee is responsible for ensuring the FRC's principles and outcomes for operational separation are delivered, embedded and monitored.

The Accountable Executive Committee is chaired by Hywel Ball, UK&I Regional Managing Partner and LLP Board Chair. Other members include the UK FS Managing Partner and the UK Chief Operating Officer.

## Audit Quality Executive Committee

The AQE oversees all matters relating to audit quality. It is chaired by the UK Quality Enablement Leader (QEL) and meets monthly. Other members include the UK Head of Audit, FS Head of Audit, Audit Compliance Principal, Audit Monitoring Officer and the QELs for the UK&I and FS audit businesses. In addition, specialist oversight committees have also been put in place to monitor specialist resourcing, training and communication as part of operational separation.

### UK Quality Enablement Leaders

The UK QELs lead the audit quality programme in the UK. To reflect specific skills and experience, we have separate QELs for financial services and non-financial services audit functions. UK QELs are representatives in the regional and global QEL networks.

### Professional Practice Directorate

PPD is a global network of technical subject-matter specialists in accounting and auditing standards, who consult on accounting, auditing and financial reporting matters. They also perform various practice monitoring and risk management activities.

## Our Three Lines of Defence

Our Three Lines of Defence are made up of:

### Audit teams and auditors

- ▶ The first line of defence is comprised of our front-line staff supported by service-line quality teams.
- ▶ Key activities include client and engagement acceptance and risk management during project and audit delivery.

### Independent review and consultation

- ▶ Experienced risk management professionals in independence, financial crime, enterprise risk management, data protection and business resilience.
- ▶ Policy development, framework, tools, advice, guidance, monitoring and assurance are provided by the second line.

### Internal audit

- ▶ Professionals deliver the annual internal audit programme within the firm's consulting service line.
- ▶ This team is committed to continuous improvement and reports regularly to the PIB and EY UK LLP Board on progress against the firm's Quality Improvement Programme.

The views from our independent regulators are, of course, a further important source of feedback.



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