



# EY UK 2017 Transparency Report

Volume 1



Building a better  
working world

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# Section 1

# Introductions



## Foreword from the EY UK Chairman

The past 12 months have been defined by political and economic change and, as you will read, EY UK has continued to be at the side of our clients to help them navigate the ever-changing globalised world.

We make a positive impact for our clients and other stakeholders by ensuring our focus on building a better working world is constant. Our report outlines how we do this, as we continue to serve the public interest.

Building trust in capital markets and economies, and maintaining positive relationships with our stakeholders, is central to the EY mission. Moreover, this report demonstrates our commitment to a central part of a better working world of which I am incredibly proud – our investment in the next generation of EY.

### Audit quality

Maintaining high audit quality across all of our engagements is of paramount importance to us. So I was delighted that the Financial Reporting Council (FRC) ranked 88% of our audits in the 'good or only limited improvements required' category in 2017, an improvement from our 2016 result of 85%. The FRC's target for audit quality is that all firms they inspect need to make continuous improvements, so that by 2018/19 at least 90% of FTSE 350 audits reviewed will be assessed as requiring no more than limited improvements. I am proud to say that we have already exceeded that target – achieving 92% in

relation to our FTSE 350 audits. The audit practice's singular focus on audit quality made this achievement possible.

FRC's audit quality review inspections for 2016/17 gives EY UK

**top ranking**



## People

EY UK's ability to deliver audits of exceptional quality on a long-term basis will be possible thanks to our focus on developing future leaders. We have taken steps to future-proof our business and evolve our recruitment strategy.

Additionally, the EY Foundation has led the way in working with a coalition of schools and employers to support young people, to give them fairer access to workplace opportunities and to improve their employment prospects when they leave school. Fantastic progress has also been made by opening up the EY student programme to talented young people from a variety of backgrounds. We removed the academic entry criteria and work experience examples from the application framework. I am delighted with the results in that 18% of our 2016 student intake would previously have been unable to apply. This is an achievement to be proud of, and we must continue to spread opportunity through these initiatives.

As we enter a period of urgent political negotiations and changing regulatory scenarios, it is more important than ever that we do not allow ourselves to become distracted from the primary goal of serving our clients' interests. I would like to take this opportunity to thank all of our people

for their hard work and resilience in delivering high-quality services against a backdrop of change and uncertainty.

## Technology and innovation

It is also essential that our teams can use technology, data analytics and artificial intelligence to help drive efficiencies and innovation in auditing. We are continuing to invest in this area.

EY UK is also collaborating with leading academics and business leaders, both in the UK and globally, to develop and test a new reporting framework that will enable companies to measure and report on their long-term value, accounting for their intangible as well as tangible assets. This innovation will look to address the long-term outcomes for stakeholders.

## Governance

We were delighted to welcome Rosemary Martin, Group General Counsel and Company Secretary of Vodafone Group plc, and Sir Peter Westmacott to EY UK, in November 2016 and April 2017 respectively, as new Independent Non-Executives (INEs). Sir Peter, as one of the UK's most distinguished diplomats, has served as British Ambassador to Turkey, France and the United States. Rosemary and Sir Peter, together with David Thorburn, are our three EY UK INEs. In recognition of their important role we have established an Independent Non-Executive Oversight Committee (IOC), a new and integral component in the governance of EY. I would like to thank Sir Richard Lambert, who stepped down as an INE this year, for his valued guidance, insightfulness and the support he provided to us over the past six years.

**Steve Varley, UK Chairman**

# Independent Non-Executive (INE) Directors



## Report from the Chair of the INE Oversight Committee (IOC)

This is my first report as the Chair of EY UK's new Independent Non-Executive (INE) Oversight Committee (IOC).

The committee was formed in the spring of this year, not only as part of our commitment to fulfilling our public interest responsibilities in the UK, but also, importantly, to ensure that EY responds promptly and effectively to the Financial Reporting Council's (FRC's) revised Audit Firm Governance Code (AFGC) against a backdrop of political and regulatory change in the UK during the period under review.

The FRC published its revised AFGC in July 2016, providing a new benchmark of good governance practice against which firms auditing listed companies can report. This will apply to EY UK from the start of our 2018 financial reporting period. The goal of the new code is to improve transparency and foster more productive engagement among firms, investors and INEs. Our roles and responsibilities as INEs are broader than before, and we have increased in number this year as part of our response to this.

To meet the challenges of the new Code, the UK board took the view that an IOC should be formed. The committee comprises three INEs – Rosemary Martin, Sir Peter Westmacott and myself – in addition to other executive attendees. As the Chair of the committee, it is my responsibility to report to the UK board on behalf of the INEs. This report covers the reporting period from 1 July 2016 to 30 June 2017.

We have worked together to create an approach that is beneficial both to the way in which EY works and to the public interest as a whole. The committee meets quarterly, with numerous ad hoc meetings throughout the year. In line with the AFGC, our work focuses on three areas:

- Promoting audit quality
- Securing EY's broader reputation, including its non-audit business
- Reducing the risk of failure

As part of this focus, we regularly review the work of EY UK's Audit Quality Board (AQB) and its Risk Oversight Committee (ROC), as well as the firm's internal controls, culture, whistleblowing policy, code of conduct, remuneration and incentive structures, and regulatory developments.

Initiatives aimed at improving audit quality have included:

- The first culture assessment in the UK firm, including a survey on its values: this provided the firm with a valuable insight on staff engagement levels and confirmed that audit quality, integrity and ethical behaviour are at the heart of what the UK firm does.
- Investment in new technology aimed at securing digital enablement of the end-to-end audit process: the global tools (EY Canvas, EY Helix and EY Atlas) together provide consistent and scalable platforms that allow audit teams to manage the complete audit processes.
- Developing and undertaking root cause analysis, including the implementation of a new bespoke tool.

In undertaking our work, we engage proactively with EY UK's senior leadership through our formal Board meetings, but equally we make efforts to meet the employees of the wider organisation in a number of ways, such as attending the UK Audit Quality Summit, conducting UK regional office visits and attending FTSE 100 client meetings with the audit teams. All three INEs attend the EY UK Board each quarter.

## Engagement with EY Global

EY is a global organisation, and in today's interconnected world its integrated approach is essential to deliver high-quality multinational audits.

I represent the UK INEs on the EY Global Governance Council (GGC) and Public Interest Committee (PIC), strengthening our relationships with international colleagues and ensuring that UK issues receive focus at both committees. The GGC advises EYG on policies, strategies and the public interest aspects of its decision making. The approval of the GGC is required for a number of significant matters that could affect EY.

The PIC, which I have chaired since April, is primarily concerned with monitoring audit quality in the member firms of the global organisation. Of course, the public interest extends far beyond audit quality, but it is a vital part of how EY member firms seek to serve the public interest. The EY Sustainable Audit Quality programme is the main focus of the PIC and aims to ensure that there is a globally consistent approach to delivering high-quality audits.

There is considerable international scrutiny on the accounting profession from its stakeholders – investors, as well as regulators, politicians, the public and the media. Therefore, EY's commitment to improving audit quality, and particularly its focus on sustainability, is heartening and the INEs will continue to monitor the progress of the Sustainable Audit Quality programme this financial year.

## Stakeholder engagement

Over the reporting period, the UK INEs have engaged with more than 30 institutional investors representing more than £1.5 trillion assets under management.

We have participated in a series of workshops with 12 institutional investors considering how corporate reporting could be improved, focusing particularly on how audit firms can use new technologies and gain a better understanding of big data to address the increasing importance of intangible value drivers such as human capital.

The UK INEs have also met with investors to discuss our roles and responsibilities, in particular the EY procedures for managing conflicts of interest and independence.

As a firm, EY UK continues to explore how it can support investors' goals of creating greater long-term shareholder value. A key milestone in achieving this was the unveiling of the Embankment Project for Inclusive Capitalism. The goal of the project is to help businesses explain how they create and deliver value for stakeholders, and to help investors understand, compare and measure how businesses deliver this value in the long term.

We also meet regularly with the FRC to ensure we understand its priorities and expectations of us. We represent EY UK on FRC working groups focused on topics such as its thematic review of audit firm governance and culture.

### Looking forward

In the coming months the UK INEs' focus will continue to be on the programmes and priorities set out above. In particular, we will support EY UK's drive for continuous improvement through the Sustainable Audit Quality programme, focusing on elements such as improving coaching, project management, challenge around estimates and assumptions, harnessing technology, consistency of execution and resourcing.

### Conclusion

As EY UK's INEs, we take our public interest responsibilities very seriously and are committed to playing our part in improving confidence in the firm through promoting audit quality, maintaining EY's reputation across all its service lines and minimising the risk of firm failure.

We would be delighted to hear your thoughts on this Transparency Report and answer any questions on our roles, responsibilities and work. Please do not hesitate to contact me: [david.thorburn@uk.ey.com](mailto:david.thorburn@uk.ey.com).

A handwritten signature in black ink that reads "D Thorburn". The signature is written in a cursive style with a large, stylized initial "D".

**David Thorburn, Chair of the IOC**

# Assurance and audit



## Message from the UK & Ireland Assurance Managing Partner and Head of EY UK Audit

The world around us is more unpredictable and more dynamic than ever before, and EY's ability to help provide confidence and trust in business to our society has never felt more important.

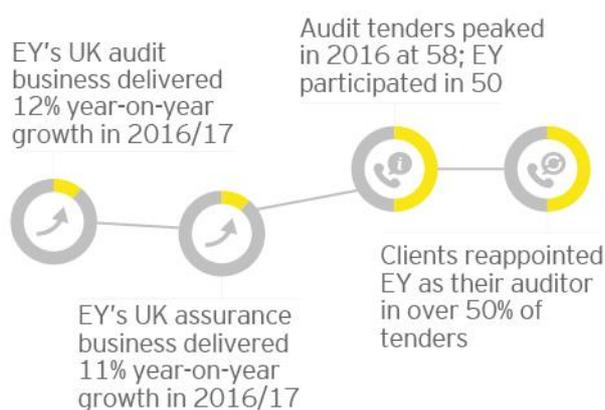
### Market performance

I am pleased to report that this year, despite a challenging backdrop, our audit revenues have grown 12% and the revenues from our teams in the whole of our Assurance business have grown by 11% on prior year. Assurance is the largest service line in the firm and reflects the importance of Audit to the business. Our margin has recovered by three percentage points, even taking account of our continued investment in technology and the transition costs of a number of new audits.

2016 saw the peak in large audit tenders and although the number has reduced this year, we are still seeing a lot of market change. We were particularly pleased that EY was successful in the tenders for the new auditors of Schrodgers and most recently BHP Billiton, the world's largest mining and mineral business.

The audit market is changing. It is my role to look ahead at how we continue to stay at the forefront of the profession in terms of innovation. Implementation of the new audit regulatory requirement for mandatory firm rotation and tendering has accelerated innovation and created a more competitive market – one in which we are well placed to thrive. However, the regulatory interplay between tendering and the increased

restrictions on non-audit services appear to have reduced choice for many companies.



## Audit quality

Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme. As has been mentioned already, we are very proud of our recent Financial Reporting Council (FRC) inspection results. It was especially pleasing to note that we had positive feedback from the regulator on the first-year audits inspected. In addition, our internal quality review results remain strong. And all this against a backdrop of transitioning to some of the largest audits in the market. We have demonstrated new capabilities and high standards in the most complex work in our sector. This is a strong performance and continues our journey of improvement.

## Audit technology

A new wave of digital technology is changing the way we work and live our lives, the way we consume information and the way we manage risk and reputations. Data is giving us insights into our business that we have never had before. The increasing use of automation is providing efficiencies and opportunities to do more, and faster. We need fully to understand how we can use data analytics and automation to improve quality in audit and assurance. I want to help EY lead this change in the profession.

If technology is changing how we work, then our skills must also adapt. There is a greater need for

changes to our business model to develop technology specialists and enable all our staff to gain new skills in technology.

## Stakeholder engagement

Working with our stakeholders and forging new strategic alliances has enhanced our understanding of key market issues. This year we organised a series of working groups with our regulators, policymakers and investors on topics of strategic importance, such as the impact of Brexit, the importance of culture and assessing long-term value. Our strategic engagement with the Investor Forum and our workshop initiatives – convening more than 30 UK-based investors over the year to discuss strategic issues facing the business – are key examples of our work with stakeholders this year.

Maintaining trust in the business world is a rapidly growing challenge and one which lies at the heart of the role of the profession. In addition, the perceived disconnect in the investment management value chain, balancing short-term and long-term objectives for all stakeholders in a business, accentuates the issue.

Increasingly, value lies in a company's purpose, its products, its people and its impact on the planet. If a company is going to demonstrate the value it is creating for all its stakeholders and build trust, it needs to be able to articulate its value across a wider group of non-financial areas such as employee skills, technology, reputation and social impact.

Some of these reasons are behind why the FRC is consulting on the amendments to the guidance on the Strategic Report and the Corporate Governance Code, which gives increased focus on the need for businesses to consider their impact on society and report on the broader matters that may affect the sustainability of the business over the longer term. They are also why EY announced its engagement with the Coalition for Inclusive Capitalism, where it will bring together CEOs from over 30 global companies to work on an 18-month proof of concept and validate a framework we developed that measures the long-term value a business creates for all its stakeholders.

This project – The Embankment Project for Inclusive Capitalism – is unique in the way that it brings participants from across the investment value chain to focus on the outcome metrics that provide evidence of value creation for stakeholders. It includes individual companies representing more than USD\$1.2 trillion of market value, investment companies with over USD\$18 trillion of funds under management and pension companies with more than USD\$4 trillion of funds.

This is a very exciting project whose objectives lie at the heart of the EY purpose of building a better working world.

## Investors

EY convened

**12** UK-based investors

to engage in various workshops on material topics

## Boards

EY brought together CEOs from

**30** global companies

together with the Coalition for Inclusive Capitalism, to discuss long-term value

## People investment

We are seeking to transform the way we recruit and train our people, provide a different career proposition to those who want it and consider what the profession of the future may look like. We recognise that part of EY's contribution to society is training accountants to meet the needs of business. This demand will impact the depth and speed of the change we can effect. EY is a part of a training ground for accountants that reaches business in every sector and in every corner of the globe. How EY people are trained and developed has implications for many enterprises, affecting how they grow and prosper.

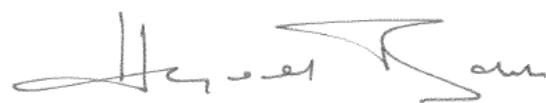
The way people want to work is changing. We have three separate sets of data that provide insight. We have carried out an Annual Quality Survey for the third year running and, new for this year, we have undertaken a Culture Assessment. These are discussed in Section 2 of this report – Trust in Audit. We also have data from the annual Global People Survey we run across the firm.

The results of these three surveys confirm that the people in our audit practice have sound values that are aligned with EY's values, strategy and purpose. Focus on audit quality is deeply embedded in our culture. Another theme was the importance placed on a good coaching environment which aligns with the investment we have made in this area using behavioural psychologists to work with us. However, people note that the hours worked can be long. We are supporting staff to take advantage of new technology and helping them to work less and achieve more. We also continue to explore even more flexible options for our staff as the traditional model of requiring a graduate or school leaver to undertake the standard accounting training programme may not be the future. Therefore, we are looking at training our people in digital and other specialised roles, to reflect these market and demographic changes.

## Summary

In its role as a global leader for the profession, EY must be agile and adaptive, while also maintaining the assurance and stability that lies at our core. This year, EY UK has demonstrated that we have been able to respond to fast-changing market dynamics. We will continue to seize the opportunities offered up by this rapidly changing world, both for our business and our clients. We hope to lead the way in innovation and collaboration.

We know that trust, ethics and transparency in the business world have become watchwords for ensuring societal confidence, for protecting corporate reputation and for delivering company performance. EY UK will continue to take its responsibilities seriously, to play our role in maintaining trust, in delivering transparency and in promoting ethical behaviour.



**Hywel Ball, Managing Partner Assurance and UK Head of Audit**

## Audit market developments

We continue to play a major role in the UK audit market, which the FRC estimates to be worth approximately £2.5bn in terms of fee income. The Big Four firms account for 78% or £1,972m of this total. The size of the market increases to £3.9bn when non-audit services to audit clients are included, with the Big Four accounting for 79% or £3,086mn.

Since 2012 we have achieved a net increase of five in our FTSE 100 client base (source: [page 18](#) of the FRC's *Developments in Audit 2016/17*), the biggest increase among the Big Four firms. We have also increased the proportion of our clients towards the top half of the FTSE 100 compared to the start of audit tendering. We are pleased to report that in situations where EY could be reappointed, clients have chosen to do so in over 50% of cases. This trend is consistent with the FRC's observation that there is a bias towards reappointing the incumbent in situations where reappointment is permitted.

During the year in review, EY was successful in the tenders for the audits of new audit clients including Schrodgers, De La Rue and Premier Oil. Since year end, EY was also successful in the audit tenders of BHP Billiton and Tate & Lyle.

### EU audit reform

The EU audit reforms, which came into effect from June 2016, have increased audit tendering activity. Since 2011, approximately two-thirds of FTSE 100 companies and half of the FTSE 250 have completed an audit tender. This illustrates that most companies anticipated the introduction of the new regulations and took action ahead of the rules being enacted. The number of tenders undertaken by companies in any one year peaked in the 2016 calendar year (at 58), of which we participated in 50. Tendering activity will fall in our next financial year (2017/18), particularly in the FTSE 100.

Although audit tendering has increased the level of competition among the Big Four, it has not opened up the large, listed market to other audit firms. For example, 99 of the FTSE 100 are still audited by the Big Four, the same number as in 2012.

Audit tendering has, however, encouraged firms to deliver audit services in more innovative ways. Technological investment is at the forefront of this innovation, enabling clients to derive both increased insight and confidence from the analysis of large data sets. However, despite the increased effort involved in audit tendering and the significant investments audit firms have made in technology, audit fees have remained largely unchanged. (Please see [pages 20-24](#) of the FRC's *Developments in Audit 2016/17*.)

Companies contemplating an audit tender must consider carefully the effect that a change of auditor will have on their procurement of non-audit services. The independence restrictions applicable to current and prospective auditors have resulted in situations where the choice available to companies is limited - an outcome that goes against the original intent of the tendering regulations of providing more auditor choice.

We would also encourage companies to consult their investors more thoroughly before embarking on a tender process. Feedback from the investor community suggests that this is an area for improvement.

As we look ahead to a period of fewer listed audit tenders, in addition to maintaining their commitment to high quality audits, our partners are spending time developing relationships with existing clients and building relationships at companies whose audit will be tendered in the future. We are also increasing our focus on the private market, where we see more tender activity arising.

## Maintaining high audit quality

Audit quality is one of the key selection criteria in virtually every audit tender and we continue to believe that audit quality should be a key differentiator in the audit market. Investors and audit clients rightly expect the highest standards. Driving even higher quality audits therefore drives everything we do.

Underpinning the delivery of our services are EY Helix and EY Canvas. EY Helix is our suite of data analytics offerings designed to bring relevant business insights to our clients. It consists of three key components: i) globally consistent and scalable platforms that allow audit teams to manage the end-to-end analytics processes; ii) innovative analytics tools, each one addressing specific audit areas and topics; and iii) account-based audit programmes using data analytics, audit methodology considerations and document templates. EY Canvas is the EY global online audit platform which lies at the heart of the audit. It incorporates a client portal that connects our clients directly with our audit teams, and EY Canvas mobile apps enable agile team working.

We have now completed the major transition effort associated with taking over the audits of RBS, Royal Dutch Shell, RELX and Associated British Foods. We have found that the incremental effort in the first year of an audit is significant in terms of the total number of hours required for the task, but making such an investment is the right thing to do.

Maintaining audit quality at a time of peak tendering activity, while taking on new audits and continuing to serve existing clients, has been a significant undertaking. We have introduced governance procedures to ensure that audit partners and staff have the capacity to tender for new audits, while also having sufficient time to dedicate to their existing audit clients.

Managing independence and potential conflicts is a critical part of evaluating whether we are able to tender for new audits. We review each client situation carefully to ensure there are no independence restrictions prior to tendering for an audit. We support the FRC's focus on the

independence rules as they are a matter of EU law.

Despite the challenges above, we improved our regulatory inspection record, with 88% of audits being rated as either good or only requiring limited improvements. The audits selected for review included some of those transitioned from other firms in earlier years. We are pleased that these audits achieved good results.



## Innovating the audit

We are excited about the future of auditing and our investments in digital technologies continue to fuel innovation around audit impact and quality. EY Canvas and EY Helix allow us to connect all of our global teams and clients seamlessly and consistently and use data in new ways for audit coverage and client insight.

Developments around the use of data are providing new opportunities to increase the sensitivity of the audit and focus our teams on the riskiest areas of our clients' businesses. For example, EY member firms have developed advanced analytics, using artificial intelligence (AI), that help our auditors to spot financial or regulatory issues and to look at entire populations of transactions rather than samples. We are also applying our best forensic tools, such as trade surveillance tools, to identify suspicious patterns of behaviour, often involving the analysis of vast amounts of unstructured documents, records and messages. At the same time we are developing process automation tools to reduce basic manual data preparation and analysis work, freeing up auditor time to focus on key areas of judgement and risk.

Given that culture is a key factor in determining the risk of companies experiencing major difficulties (such as fraud), we have developed an analytics-enabled culture platform to measure and assess a company's culture and link that to risk and performance. This is being used in our non-audit services, as well as featuring in the way we assess risk in some of our most complex global audits.

Our innovation efforts are also focused on helping to build wider trust in emerging technologies to support the UK Government's ambition to develop a world-leading economy. For example, we are championing data ethics and, in addition to AI mentioned above, we have also developed audit products for robotics and blockchain. We are also mindful of the need for standards and ethics that will influence the development and application of these technologies in a positive way, ensuring their optimum use and acceptance by all

stakeholders. For example, we are proud to be sponsoring this year's Huxley Summit, which will bring together business leaders, scientists and policymakers to discuss the ethical challenges of creating publically acceptable technical innovations. It will consider how scientists and innovators should understand and respond to public concern, and introduce greater transparency and auditability into the technologies now becoming an integral part of the way we work and live.

### **Evolving skills and opportunities**

With the diversification of our service offerings, our recruitment is also evolving. We continue to recruit the majority of our students from UK universities as graduates, but school leavers make up an increasing proportion of our trainees. This year we were delighted to celebrate the qualification as chartered accountants of our first 2012 cohort of school leavers. Through EY Apprenticeships, which provide an enhanced programme of training and pastoral care over a four-year training period, we will be supporting the Government's move to improve opportunities for individuals who do not want to attend university. We believe our Business Apprentice

programme, which enables students to earn while they learn, will increase the diversity of the talent pool we can access.

Almost 10% of our Assurance people now work in a full-time technology role. The majority work with analytics, including members of our dedicated audit analytics hub that serves the audit business. We have also increased our investment in other skills related to cyber, e-compliance and the forensic discovery of unstructured data. The need to grow the technology skills of our Assurance practice means we need to look beyond professional accountancy qualifications. We are therefore developing an apprentice scheme that will provide school leavers with the opportunity to study with a recognised university for an EY Assurance Digital degree while working full time. We expect high demand for this programme when it launches.

As our business becomes more complex, we need to offer our people the chance to develop their skills across the spectrum of what we do. Our 2017 students will enter our Assurance Experience programme. This offers the chance to work not only in all sectors of audit, but also across the other areas of our business. By developing individuals with broader skills and experience, we can respond to changing demand for our services while also enhancing our people's careers.

**Removing academic entry criteria for EY student programme raised intake by**

**18%**

## Reflections on policy and regulation

We started the year, in July 2016, with the uncertainty that surrounded the Referendum result of 23 June 2016 and ended the year after the first round of Brexit negotiations. Although the terms of our exit from the EU have yet to be agreed, there is a growing and understandable business focus on the shape of the future working agreement with the EU. During the year we also witnessed in the UK, among other things, the appointment of a new Prime Minister, the Article 50 notification to take the UK out of the EU, and a 'snap' general election.

Change is not confined to the UK though, as illustrated by the results in the French and US elections.

Against this backdrop of shifting political perspectives and priorities, it is more important than ever to keep abreast of regulatory and public policy developments and leverage the strength of the global EY network. Areas of regulatory focus this year have included corporate governance (including the governance arrangements of large private companies), executive remuneration, corporate reporting, data protection (including the implementation of the EU General Data Protection Regulation) and corporate culture.

In the audit profession, we also saw the launch and implementation of the FRC's revised 2016 Audit Firm Governance Code. Although the AFGC applies to financial periods beginning on or after 1 September 2016 (and will, therefore, be applicable to EY's next financial period), in last year's Transparency Report Steve Varley indicated that we hoped to have substantially implemented its provisions in the 2016/17 financial period. In seeking to implement as much of the 2016 AFGC as possible, we have made some positive changes to our internal governance arrangements.

### Looking ahead: 2018 will also bring challenges

**Business confidence:** Companies' confidence in the UK will clearly continue to rise or fall depending on the progress of the Brexit negotiations and whether the UK will be able to agree a two-year transitional period with the EU from March 2019. Lower confidence generally

leads to a lack of investment – long or short term – with implications for the health of the UK economy. Unfortunately, there are early warning signs that the ongoing uncertainty associated with Brexit is beginning to have a negative effect. For example, earlier in the year the Office for National Statistics (ONS) reported a slowdown in business investment, which fell by 1% compared with the three months to the end of September 2016.

**Public policy:** The European Union (Withdrawal) Bill is currently making its passage through the House of Commons. A further seven Brexit-related Bills and an estimated 800 to 1,000 statutory instruments are thought to be needed to ensure a fully functioning UK statute book on 30 March 2019.

**Populism and international trade:** If economies begin to falter and some members of society begin to feel excluded from a country's economic wealth, nations can become politically insular. The new administrations in the US, the rise of far right parties in, for example, France and Germany, and the outcome of the general election in the Netherlands, with Geert Wilders' Party for Freedom coming second, are examples of the rise in so-called populism and the desire for a new kind of politics. We do not yet know the implications for international trade and access to markets, but 'not knowing' is a challenge in itself, especially for business and investors.

**National security and regulatory intervention:** Threats to national security in the form of terrorism and criminality (e.g., cybercrime, corruption, bribery and money laundering) show no sign of abating. The UK's terrorist threat level remains at 'severe', and the number of companies subjected to cyber-attacks is on the rise. We found

that 57% of respondents to our *19th Global Information Security Survey* (from a sample of 1,735 CIOs) have had 'a recent and significant cybersecurity incident'. Indeed, 87% of board members and C-level executives said they lack confidence in their organisation's level of cybersecurity<sup>1</sup>. Apart from the reputational fallout of a data breach, the General Data Protection Regulation, which takes effect next year, will introduce significant financial penalties if companies fail to report a breach i.e., a fine of €20mn or 4% of gross annual turnover, whichever is the greater.

**Public interest:** Apart from the need for greater vigilance and controls to counter the threats mentioned above, business leaders also need to be mindful of their socio-economic responsibilities. Recent public debates about executive remuneration, tax planning and corporate governance in general have led to increased scrutiny of business. The 'public interest' dimension of business conduct will remain on the political agenda.

These and many other challenges lead us to one very important conclusion: risk and uncertainty are inevitable consequences of a multitude of interconnected developments, whether they stem from economic shocks, geopolitical changes or

other sources. These are forces beyond our immediate control, so we have to focus on the task of managing and mitigating the associated risks – and making the best decisions we can with the information at hand. Therefore, we need to be assured that the information we use is true and fair, balanced and understandable.

As auditors we understand the need for assurance, and the reliance placed on our opinions, and we are committed to helping ensure that companies produce the trustworthy information necessary for informed investment decisions. Not surprisingly, the emphasis placed on audit quality is greater than it has ever been, and this is driving us to become more innovative with developments such as audit data analytics, artificial intelligence and the use of behavioural psychologists to help coach and train our auditors.

Change creates uncertainties – and uncertainties create not only risks, but also opportunities, including an impetus to look at problems afresh, with an innovative perspective rather than accepting the status quo. Indeed, as Albert Einstein said, "We cannot solve our problems with the same thinking we used when we created them."

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<sup>1</sup> EY's 19<sup>th</sup> Global Information Security Survey 2016/17

# Section 2

## Trust in audit

### Delivering quality audits

We take seriously our role in helping to sustain stable capital markets, and executing high-quality audits continues to be a priority for EY UK and is fundamental to our business and our public service obligation. We are therefore committed to a significant and sustained investment in audit quality.

We are delighted that our continued investment in enhancing our audit quality has been reflected in the results of this year's FRC Audit Quality Review Team (AQRT) inspections. Once again no audits subject to review were identified as requiring significant improvements.

Consistent with our previous Transparency Reports, we disclose the Audit Quality Indicators (AQIs) agreed by the six largest audit firms in the UK through the Policy and Reputation Group (PRG). These AQIs provide an insight into factors that contribute to audit quality and include results of external and internal reviews, details of regulatory investigations and any sanctions, investment in training, and results of our annual audit quality survey.

While we have seen a sustained improvement in our audit quality, EY remains committed to further improvement. In the following sections we discuss our overall approach to audit quality and the areas of focus for our UK Sustainable Audit Quality programme. We also consider audit quality from the viewpoint of key stakeholders: investors, audit committees, companies, regulators and our people.

#### UK Sustainable Audit Quality programme

Now in its fourth year, our Audit Quality programme remains focused on implementing local initiatives alongside supporting the EY global

Sustainable Audit Quality (SAQ) programme. To date the programme has worked on all aspects of audit quality, including recruitment, training, allocation of resources, and rewarding and retaining the best auditors.

#### Tone at the top

We believe that the key to our success has been the focus of the firm's leadership in sponsoring this programme. When we commenced our SAQ programme in 2014, we did so with a summit to bring together all audit partners. We have continued with this initiative and, after the first year, extended the concept to run a summit for directors and senior managers. These summits set the tone for what we expect and provide a launch platform for new initiatives. At these events we hear from regulators and other stakeholders. Two of our Independent Non-Executives (INEs) attended the partner summit held in September 2017. Our annual audit quality survey results show that 99% of our people believe that they delivered, supported or contributed towards the delivery of quality audits during the 2017 reporting year and 95% of our people believe EY places sufficient emphasis on audit quality.

#### Audit Quality Board

The Audit Quality Board (AQB), established in 2014 as a permanent aspect of our governance

structure, continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AQB meets monthly and also holds an annual strategy session. The AQB reports to the EY UK Board. The chair of the AQB prepares a report on the AQB's work, which is presented to the INEs at IOC meetings. David Thorburn and Rosemary Martin have attended AQB meetings.

The AQB receives regular updates on regulatory matters, results of internal and external reviews, results of root cause analysis, resourcing, the SAQ programme and pursuit approvals, as well as a comprehensive dashboard on quality measures. The AQB also asks teams transitioning into large new audits to present to them. During the 2016/17 financial year, the AQB considered and agreed actions on a wide range of other topics, including culture, performance and reward, the use of specialists in audit and the FRC's survey of audit committees on the topic of audit quality.

### **Audit Quality Support Team**

Our Audit Quality Support Team (AQST), which started within the SAQ programme, reviews 40 to 50 audits each audit cycle providing challenge and guidance to the engagement teams. These are in-depth reviews carried out by experienced auditors independent of the audit team. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST has now become a business-as-usual function with a new leader. In the 2016/17 financial year, the AQST also carried out additional focused reviews and will continue to do so. The FRC, in its report on EY issued in June 2017, recognised the contribution of the AQST in supporting our audit teams and sharing examples of best practice.

### **Behavioural change**

In last year's Transparency Report, we noted that we had commissioned cognitive psychologists to model the working practices of our highest-performing teams. This work has been developed into the EY Expert Model. We are particularly excited that the EY Expert Model has been created by learning from the behaviours of our most

skilled teams and developing a model to enable all our people to replicate their success. Our focus over the past year has been on starting the rollout of the EY Expert Model, which will continue in the 2017/18 financial year. Teams that have already used the model have found it a great way to work.

### **Technology**

As already mentioned, we have outlined the significant investment EY has made in new technology, including the new EY audit software, EY Canvas and EY Helix. We are pleased this investment has been recognised by the FRC in its latest inspection report. The FRC specifically notes EY UK's effective coordination across group audits, which is underpinned by these technologies.

We have invested heavily in new data analytic capabilities. Our aim is to develop analytic tools and approaches that are embedded within the overall EY audit approach. The rollout of these tools is supported by our data analytic specialists. During the year, we have run practical workshops in offices to help people understand how best to apply the data analysis tools on their audit and we are monitoring and encouraging the switch to these tools.

### **Project management**

Other major areas of work over the past year include the implementation of a Milestones programme. This programme has two components: technological developments and behavioural change. The new Milestones functionality within EY Canvas helps to improve our project management and drive more effective use of our resources. Behaviourally, the Milestones programme is aimed at driving earlier and more effective planning, including timely partner involvement, which was identified by our 2015/16 root cause analysis as a key contributing factor to high-quality audits.

### **Root cause analysis**

Detailed root cause analysis (RCA) is an important part of our Audit Quality programme. RCA is carried out on audits where an issue has been

identified through either external or internal review processes. We also carry out RCA on audits that are identified as being of a particularly high standard. Our RCA focuses on ensuring that the underlying causal factors are properly identified and that the reviews are completed promptly.

The team reviewed 33 engagements during FY2017. The findings that triggered the RCA in each case were traced back to the relevant activity to determine what gave rise to them. The reviews then focused on interviews with key members of the audit team, potentially including the partner, director and senior manager, members of the wider audit team, the engagement quality control review partner and specialists. The interviews were focused on understanding what the interviewee considered to be the underlying factors specific to the engagement or circumstance that gave rise to the finding. In addition to the interviews, a number of data points for those audits were analysed.

We aggregated those engagement factors in order to identify the key themes, which have been incorporated into our plans for future actions. Our RCA work tells us there are several key factors behind our good results: a consistent message from the firm's leadership, early detailed partner involvement in audit planning, and the focus of our SAQ Programme. In our response to the FRC's June 2017 report, we included the findings from our RCA in the four areas highlighted as needing further focus. We comment further on those matters below.

## Investors

Stakeholder engagement is vital to EY. It helps us better understand the regulatory and governance issues that are important to investors on such topics as corporate governance, reporting, audit, assurance and other capital market issues. In turn this helps EY UK improve our accountability and decision making and better fulfil our public interest responsibilities.

At EY UK, we are continuously looking at innovative ways to broaden our reach within the investor community. In August 2016, we forged a strategic collaboration with the Investor Forum,

an investor-led organisation whose governance is independent of any trade associations. Its members are asset managers or owners, including pension funds, life assurers and sovereign wealth funds.

On 21 September 2016, the Investor Forum facilitated a workshop with 12 institutional investors to explore how audit firms can use new technologies and gain a better understanding of big data to address the increasing importance of intangible value drivers. Also, in the autumn of this reporting year, EY UK held an event – Dinner and Discussions with our Independent Non-Executives – creating an opportunity for our INEs to meet separately with our investors. This dialogue touched on topics such as how EY manages conflicts of interests and independence, as well as discussing how it assesses risks.

Another strategic priority for EY is to move away from short-term returns towards creating and sustaining value for a wider range of stakeholders over the long term. One way we are achieving this is through our alliance with the Coalition for Inclusive Capitalism, referred to in earlier sections of this report.

## Audit committees

The Audit Regulation and Directive (ARD) and the UK Corporate Governance Code contain provisions relating to the role of audit committees, including matters relating to the oversight of the external audit. These committees have an important role in ensuring that investors and other stakeholders have confidence in the quality and independence of the external audit.

This is why we have developed programmes that focus on increasing our dialogue with audit committees and non-executive directors of FTSE 350 and mid-market companies, in the context of audit quality. During the 2016/17 financial year, we brought together leading subject matter experts, including EY specialists, to discuss key boardroom issues of relevance to these stakeholders. More than 350 external guests attended our events during the year.

Globally, EY collaborates with the consultancy firm Tapestry Networks to engage with the chairs

of audit committees. Members of Tapestry's audit committee networks are all senior leaders from more than 300 public companies and a wide variety of public institutions. In June 2017, EY UK's Hywel Ball presented to the joint European and American network on long-term value activities of EY. EY will continue to engage with this network to help ensure we stay up to date with the key topics and themes of interest to audit committee chairs.

### **FRC's survey of audit committees**

The FRC undertakes an annual survey of audit committee chairs, gathering views on the quality of the audit they experienced in the last audit cycle. The results of this survey are shared with audit firms and included in the FRC's *Developments in Audit 2016/17* report.

In this year's report, 39% and 51% of audit committee chairs considered their auditor to be 'excellent' or 'above average' respectively. Only 10% rated their auditor as average. This is encouraging feedback for the whole of the UK audit profession.

The report includes further areas where audit committees can benefit from the auditor's experience:

- Using the auditor's insight to help audit committees understand the relative strengths and weaknesses of their entity
- Using the auditor's knowledge to focus on what might happen in the future as well as what has already happened
- Keeping them abreast of changes in regulatory requirements
- Being more proactive in 'training' the audit committee on recent changes in the sector

Some audit committee chairs believe the quality of reporting to their committees could be improved, with some highlighting the use of boilerplate wording as well as the receipt of too much documentation. We note in our review of regulator comments that one of the issues raised by the FRC

following its last review of our audits was a need to improve our reporting to audit committees.

### **Companies**

The EU's audit reforms came into effect on 17 June 2016. They not only affect the audit profession, but also companies subject to a statutory audit. The principal changes introduced were:

- The introduction of mandatory auditor rotation
- Further restrictions on the provision of non-audit services
- Changes to certain auditing standards

Many companies affected by the new requirements had already begun responding by tendering their audits and rotating where appropriate. We have rotated into a number of new audits this year and the FRC included in its review some audit appointments we took over in earlier years. It is pleasing to note that, in its comments on our audits, the FRC recognises the effort we have made on the new audits it reviewed.

It is also encouraging that so many companies initiated tender processes in good time. This is important for ensuring they have maximum choice, particularly because of the tighter restrictions on the provision, by auditors, of non-audit services to audit clients. In order to enable maximum choice at a tender, we are encouraging companies to plan at least 18 months in advance and to have a clear strategy that sets out all the professional services they are likely to need (not just audit) and from whom. They also need to understand as early as possible what services they already receive from those firms being invited to tender for the audit or other services. This can help to avoid any unnecessary limitation of their choice of preferred provider.

From EY UK's perspective, as a leading provider of audit and non-audit services, we will continue to tender for new client appointments as appropriate. High levels of tendering activity do require considerable resources, including the time and attention of our senior people. However, we take our professional and public interest

responsibilities extremely seriously and will not seek appointment as auditor for any company unless we are satisfied that we can deliver an independent, high-quality audit.

We made changes to our audit methodology and our independence policies to address the new requirements introduced by the audit reforms. We have benefited from the insight provided by the FRC's review of how the profession has applied the changes and we have, in certain areas, made further changes to our policies to reflect the feedback we received.

## Regulators

EY UK is subject to external inspection by the FRC's Audit Quality Review Team (AQRT), the ICAEW's Quality Assurance Department (QAD) and the US Public Company Accounting and Oversight Board (PCAOB). We comment below on the status and results of each regulator's review of our work in turn. We conclude with a note on regulatory findings and some final comments on the review of

the status of the audit profession following on from the publication of *Developments in Audit* by the FRC as the designated competent authority for statutory audit in the UK.

### *Financial Reporting Council*

The FRC published its report on its latest review of EY in June 2017. The public inspection reports rate audits in three categories as follows: 'good or limited improvements required', 'improvements required' or 'significant improvements required'. This year, 88% of our inspected audits were assessed as requiring no more than limited improvements - a result that has improved for the third consecutive year. The FRC set a target for FTSE 350 audits - that by 2019 over 90% should require no more than limited improvements. We are delighted that we achieved that target, with 92% of our FTSE 350 audits reviewed assessed as requiring no more than limited improvements. The full results from the AQRT's June 2017 inspection report, and the results from the preceding two years, are as follows:

	2017	%	2016	%	2015	%
Good or limited improvements required	15	88	17	85	8	50
Improvements required	2	12	3	15	6	38
Significant improvements required	0	0	0	0	2	12

In its report, the AQRT note the following initiatives as having contributed to the overall quality of audits reviewed:

- Continued development and enhancement of the firm's Audit Quality programme
- Introduction of a new global software tool, EY Canvas
- Simplification and rationalisation of the firm's methodology and guidance

The AQRT highlights the following areas of good practice:

- The interaction of the audit team with both the firm's and management's specialists, including robust reporting by the firm's specialists to audit teams in areas of judgement
- The extent of the group auditor's involvement in, and evaluation of, the component auditors' work, including improved communications and exchange of audit information (partly due to the introduction of the Canvas software)
- The testing of IT and other controls to conclude on whether they were operating effectively

The report also notes the effort made on the two first-year audits reviewed to understand the business and plan the audit.

We have carried out RCA and are working on improvement plans on the areas that the AQRT highlight as requiring action. These are addressed below.

### Individual audits

**Area:** Apply increased rigour or improve evidence of the challenge of management's estimates and assumptions in impairment testing and valuations of investments.

**Our response:** Our 2017 RCA indicated that teams did not always appreciate what was required in order to convey the level of challenge and rigour they had applied. We also concluded that, in some cases, teams did not step back to consider the completeness of their evidence and whether it would enable an experienced auditor,

having no prior connection with the audit, to understand the full extent of the work carried out. We addressed these findings through our 2017 training and through further support to audit teams from our AQST. We have extended the scope of the AQST to include additional focused reviews covering selected audit areas, as well as the normal cycle of full reviews.

**Area:** Improve the design of audit procedures for revenue, particularly in relation to data analytics and completeness.

**Our response:** Our RCA indicated that, although the use of data analytics resulted in overall improvements in our audit approach, teams lacked familiarity with aspects of the new approach. Our RCA also indicated that some audit teams had prioritised higher risk aspects of revenue, but improvement was needed in the audit work addressing completeness (i.e., understatement) of revenue recognised during the financial period, assessed as an area of lesser risk. We have provided training in these areas and have run practical workshops to help people further. We have also issued further practical guidance to audit teams on testing for completeness. The audit of revenue will remain a focus area for our AQST, with particular emphasis on completeness of revenue and effective use of data analytics.

**Area:** Continue to improve the quality of written communications with audit committees on significant findings.

**Response:** On those occasions where the extent of our reporting to audit committees was less extensive, our RCA indicated that teams considered that they had covered the relevant matters in discussion or that the audit committee had expressed a preference for more concise reporting. We have subsequently provided additional training in this area and refreshed our templates to facilitate better commentary on significant findings. The results of the audit committee chair survey formed the basis of a session at the annual audit quality summits run in September 2017. There is always a challenge in striking the right balance in our written communications, making sure we explain fully the judgement, our considerations and why we

have concluded as we have, while also keeping communications manageable and concise. However, we are committed to continuous improvement in this area and look forward to understanding the views of the various stakeholders after the next audit cycle.

### Review of firm-wide procedures

**Area:** Make enhancements to staff appraisal processes.

**Response:** The review carried out by the FRC was on annual reviews completed for the period ended 30 June 2015. In 2016, we increased our investment in all key aspects of our annual staff appraisal process to reflect and embed the importance we place on audit quality.

In particular:

- We issued detailed guidance to staff and those involved in the staff appraisal process on the importance of audit quality in the performance management and year-end rating process. This included targeted guidance on how internal and external inspection grades should be considered in the process, plus further guidance on tailoring performance objectives to individual audit quality development needs.
- We issued guidance for partners and team members involved in audits with adverse internal or external inspection ratings to make sure findings and specific assessment comments were accurately reflected in the following year's objectives.
- We undertook a comprehensive compliance programme in relation to the setting of staff objectives, including detailed guidance, monitoring, escalating and following up with individuals to ensure that the 2016/2017 objectives were completed by the deadline set.

### Conclusion on FRC reviews

While the continued improvement in the quality of audit engagements inspected by the AQRT reflects the sustained investment made by the firm and our people since 2014, we believe that continuously improving audit quality is key to promoting confidence in the capital markets, and although we are pleased with our quality results, we remain committed to long-term investment in improving audit quality and innovation across all of our audits.

In addition to its review of our corporate audits, the AQRT also inspected a number of our local government audits as discussed further below within the section on our internal reviews.

### ICAEW's Quality Assurance Department (QAD) findings

The last QAD inspection took place in 2016 and its report was issued in the spring of 2017. The QAD noted: 'Audit work on most of the files we reviewed was of an overall high standard.' Eleven of the 12 files reviewed were rated as 'satisfactory' or 'generally acceptable'. However, one engagement was rated 'significant improvement required'. The finding which drove this conclusion was the omission of a material FRS102 transitional deferred tax adjustment. This error had been identified during the firm's internal review process prior to the QAD review, and a plan was in place to address the specific finding on this audit.

The QAD also undertook a follow-up review of one of the engagements it had reviewed in the previous year, concluding that the engagement was 'generally acceptable'.

	2017 Report	2016 Report	2015 Report
Satisfactory	6	6	7
Generally acceptable	5	3	2
Improvement required	0	1	1
Significant improvement required	1	1	0

## *Public Company Accounting Oversight Board (PCAOB)*

EY UK is inspected every three years by the PCAOB and an inspection commenced during May 2017. The PCAOB chose three engagements to review and its work is ongoing. We expect its public report to be released in 2018. In addition to the public report, the PCAOB also provides a private report to the firm setting out any deficiencies in the wider quality control processes operated. This report is only made public if the PCAOB believes that these deficiencies have not been appropriately addressed in the year following the issuing of the report.

The previous inspection report, issued in April 2016, identified deficiencies in respect of two engagements with financial years ending 31 December 2013. The deficiencies related to the testing of controls and performance of substantive audit procedures over certain accounts in the financial statements.

We have undertaken work to address the deficiencies identified in the private report and the PCAOB has concluded that it is satisfied with our remediation activity.

### **Regulatory actions**

Our firm is regulated and subject to professional disciplinary action in cases of potential misconduct.

As noted in our 2015 and 2016 Transparency Reports, we have been under investigation by the FRC in relation to our conduct with respect to the audit of Tech Data Limited (formerly known as Computer 2000 Distribution Ltd) in 2012. This investigation was concluded by way of settlement in October, the terms of which involved both the firm and the former partner receiving a reprimand, and the payment of fines of £1.8m and £59,000 respectively.

There are no other ongoing FRC investigations relating to EY UK's audit work.

## **Financial Reporting Council's *Developments in Audit 2016/17***

In July 2017 the FRC published its *Developments in Audit 2016/17* report, which sets out further details of the results of its audit firm inspections, its main findings and the key challenges it sees for the audit profession. The FRC noted that overall, based on all firms inspected, the number of audits assessed as requiring no more than limited improvements has increased by 2% to 78% for 2016/17, with 82% of FTSE 350 audits meeting that standard.

The FRC reported no overall change in audit quality, but an increase in quality for FTSE 350 audits was offset by a higher proportion of audits outside the FTSE 350 requiring more than limited improvements. We are proud that we have achieved the objective set by the FRC in respect of FTSE 350 audits ahead of its deadline of 2019. However, the focus of our SAQ programme remains on continuous audit quality improvement for all audits we perform.

### **Our people**

In this section we cover the following topics:

- Training
- Our internal review processes
- What our people tell us

### **Training**

Our investment in training continues to support our audit quality ambitions and once again this year we have made a significant investment in our training curriculum. All partners and staff are set minimum continuing professional development (CPD) requirements (discussed further in Volume 2) and those individuals involved in audits regulated by the PCAOB undertake specific training covering the relevant audit and accounting standards.

As discussed further below, our people believe our training programme is enabling them to deliver high-quality audits. In the last two calendar years, we have delivered the following mandatory structured training hours, principally relating to audit and financial reporting:

	2016	2015	2014
Senior 2	83	76	70
Senior 3	56	69	52
Manager	66	72	52
Senior manager	47	48	35
Director/Partner	47	48	35

While our training curricula are designed each year to reflect the current needs of the business, the variations for Senior 3 and Managers are primarily due to one-off training during 2015 relating to new audit technologies. The increase in Senior 2 training hours is a result of their inclusion in summer training sessions.

### Our internal reviews

Each year a review of a sample of our audit engagements is undertaken. The review is conducted in the summer months and inspects audits performed in the previous year – so audits reviewed in the summer of 2017 are primarily from audits of December 2016 accounts, although we also seek to design our sample to cover a range of audits, not just those with December year ends.

The review is performed by EY UK professionals from offices other than that in which the audit in question was undertaken, as well as a significant proportion of reviewers drawn from other EY member firms. The reviews are subject to oversight from senior partners of EY member firms, which further supports the rigour, integrity and consistency of the process.

The review process is intended to cover every Responsible Individual (RI) – partners and directors authorised to sign audit reports – at least every three years, and every FTSE 350 audit every six years. Other audits are selected for review to cover a cross-section of the audit practice. However, the selection is weighted towards those engagements with higher risk factors. Over the last three years, we reviewed 38% of our RIs in 2017, 42% in 2016 and 44% in 2015.

During the previous year we discussed with the FRC the results of its thematic review of audit quality monitoring. In the light of those discussions, we continued to seek to improve the quality of the Audit Quality Review (AQR) process in 2017 through:

- Providing further guidance and training to reviewers on how points identified in the reviews should be followed up, what constitutes appropriate mitigation of a finding and how that should be verified, to ensure that final conclusions appropriately reflect and are supported by findings
- Further pilots of focused reviews on 12 engagements during the 2017 AQR cycle (four in 2016)
- Reviewing a sample of UK components when group audits are reviewed

We continue to assess the effectiveness of our process and will look to make further improvements as appropriate.

We evaluate the results of our review on a three-point scale:

1 = no or minor findings

2 = findings that were more than minor but less than material

3 = material findings

The results of recent reviews are as follows:

	2017 Review	%	2016 Review	%	2015 Review	%
1	72	81	71	75	65	78
2	12	13	18	19	14	17
3	5	6	6	6	4	5
Total	89	100	95	100	83	100

In addition to the corporate AQR process, we also undertake reviews of our public sector audit engagements. These reviews are undertaken using the same process as the corporate AQR, but are performed in December of each year, reflecting the fact that public sector audit work is undertaken in the summer. The results are provided to Public Sector Audit Appointments Ltd (PSAA) and included in its assessment of the quality of our work in this sector.

The results of recent reviews are as follows:

	2016	%	2015	%	2014	%
1	3	38	5	63	6	67
2	4	50	3	37	3	33
3	1	12	0	0	0	0
Total	8	100	8	100	9	100

PSAA also commissions inspections of firms conducting local audits by the FRC's AQRT. The AQRT inspected three financial statements opinions and one Value For Money (VFM) arrangements conclusion file from EY's 2015/16 PSAA work and provided an updated commentary on the applicability of firm-wide procedures to our audits. Having considered the review points raised by the AQRT, the PSAA assessed one of the financial statements audits as 'good', one as 'acceptable with limited improvements required', and one as 'significant improvements required'. The VFM arrangements conclusion work was assessed as 'acceptable with limited improvements required'.

For audits with material findings arising from our internal reviews, EY UK develops and implements a remedial action plan. A quality improvement plan is also developed for each office subject to review. We communicate lessons learned from the reviews to our audit practice and include them in future training. The results are also built into the work of our SAQ programme, discussed previously. AQR results play an important part in our assessment of partner and staff quality, which is in turn a key input into individuals' promotion and reward. This is described further in Volume 2.

In 2016, we undertook an exercise to investigate the root causes of the findings identified by our AQR process. This work and the results are

discussed further above. The 2017 AQR results will be included in our 2017/18 RCA exercise.

As well as reviewing individual audit engagements, our AQR process also involves a review of our cross-firm processes and controls in a number of areas: client acceptance and continuance; consultations and pre-issuance reviews; people processes (recruitment, assignment of staff, learning and performance evaluation); and compliance with the ICAEW Audit Regulations. Changes in our processes, procedures or systems are considered in the light of findings from this review.

### What our people tell us

Each year our partners and staff complete the EY Global People Survey (GPS), which provides a

comprehensive overview of staff engagement and morale across the EY network. During 2017, a cultural assessment has been run across the whole of EY UK. Additionally, EY UK also runs an annual Audit Quality Survey which focuses on audit quality and provides valuable feedback from our audit engagement teams.

Looking specifically at our Audit Quality Survey, this is completed annually by our UK audit professionals.

Our success in meeting our stated audit quality ambitions is dependent on the individuals delivering our audit engagements. It is therefore critical that we listen to our people and provide the support they need to achieve sustainable audit quality.

The relevant AQIs from the survey are as follows:

Questions	% Positive 2017	% Positive 2016	% Positive 2015
EY places sufficient emphasis on audit quality	95%	93%	91%
Delivering quality audits is a priority for me	98%	98%	99%
I delivered, supported or contributed towards the delivery of quality audits during FY2017	99%	98%	98%
The teams I work with had sufficient resources to enable them to deliver quality audits during FY2017 <sup>2</sup>	64%	50%	36%
I receive sufficient training and development to enable me to deliver quality audits	83%	84%	81%

In line with prior years, audit quality remains a priority for EY UK and the vast majority our people have once again contributed to delivering high-quality audits.

It is also pleasing that our continued investment in training and development, through dedicated Audit Quality Summits and targeted summer training, is providing our people with the skills they need to deliver quality audits.

We set out last year the steps we had taken to alleviate the pressure on our people, including the significant investment in additional headcount. Additionally, we have invested in new audit technologies and the rollout of the EY Expert Model to help our teams use our resources better in order to further alleviate pressure. We are pleased to see the positive trend on the question relating to resources available.

<sup>2</sup> We have changed the question slightly in 2016 reflecting feedback received that it better helps our people to reflect on the actual experiences during the prior year. In 2015 the question we asked was "I have sufficient time and resources to deliver quality audits".

## Culture

Historically, we have monitored our culture through our Global People Survey. However, over the past year we challenged ourselves to do more – to assess objectively and robustly the health of our culture and its impact on audit quality, our people, business performance and risk.

### Our approach to assessing our culture

After considering a number of approaches to assessing culture, the EY UK Board agreed that, in addition to our annual Global People Survey and audit quality surveys, we would leverage our EY Cultural Assessment model already in use to assess the culture of client businesses.

Our EY Cultural Assessment model looks at organisational culture through the four focal areas of performance, operational, political and social, with a particular emphasis on uncovering the less tangible political and social dynamics that impact individual decision making.

Our methodology used qualitative and quantitative data, including new data gathered through our cultural assessment survey sent to all people across EY UK. It also made use of existing structured and unstructured data, including a comprehensive range of human resource, performance, finance, quality and risk metrics, as well as focus groups to explore particular areas further. Advanced data analytics and statistical modelling were also used to integrate and analyse the data sources, giving a more robust understanding of the numerous dimensions of our culture, and showing how they tangibly affect our business outcomes.

Our assessment work was led by a core team from our Assurance business, structured as a client engagement with robust programme management and quality reviews throughout. Expert advice was provided in the development of the EY Cultural Assessment approach from external academic professionals. In addition, independent input was provided to the EY assessment from a team of students from the London School of Economics (LSE) through our sponsorship of a study related to the measurement of culture.

### Culture assessment key findings

Our EY UK Cultural Assessment approach was designed to assess alignment between our people's individual values, our stated ideal culture (including our purpose, values and strategy) and our people's perceptions of our current culture as they experience it in reality. It also identifies potential areas of cultural stress within our business and helps us to understand better how these may affect our people, sustainable audit quality, business performance and risk.

Key findings include evidence that:

- **Our people's personal values align with EY's stated purpose, strategy and values**

We surveyed our people to understand better their core values as individuals, and then mapped what our people said against EY's values, our strategy and purpose of building a better working world. Across the business, there was strong alignment between our people's personal values and our stated ideal, giving us confidence that we have the right people to deliver on our purpose.

- **Our strategic priorities are dominant in EY's current culture**

There is evidence that the EY strategic priorities are well embedded in our culture. In particular, the results from our data analytics work broadly support our diversity and inclusiveness (D&I) activities and findings from the EY UK-sponsored LSE study on measuring culture. EY teams with greater diversity experienced lower levels of cultural stress, and this in turn was seen to correlate with better performance against plan. This strengthens the case for further focus on our D&I agenda.

- **Quality is a dominant focus area in the UK Audit culture**

Across our Assurance practice, and specifically within our UK Audit business, a focus on quality is recognised by our people as deeply embedded in our culture. We identified four areas of synergy between our audit quality framework and culture, and applied multiple techniques for monitoring the health of our culture around those areas. Long hours were seen as a specific trait of our audit culture that we considered could pose a risk to sustainable audit quality. For that reason, among others, it is one that we are looking to mitigate, including through the use of technology.

In addition, our analytics work helped us to establish statistically valid relationships between data and cultural health. We identified seven existing operational data points that act as valid indicators of cultural health. Increases in employee engagement, percentage of planned total engagement revenue and female employee ratio were all found to correlate with increases in cultural health. Increases in the percentage of planned margin achieved, illness proportion, lost sales and teams' utilisation ratios all correlated with decreases in cultural health. Monitoring these metrics will enable us to gauge our cultural health and stress levels more accurately in future. In turn, we expect this will have a positive impact on our people, audit quality, business performance and managing risk.

We have also seen a desire by our people for more focus by the business on our purpose, which in part has driven our work in the Embankment Project.

## **Responding to 2017 culture assessment findings**

The 2017 assessment findings have been shared in depth with the EY UK Board, INEs and UK management teams across all service lines.

The results have been used to both inform existing activities and change efforts and to instigate new leadership interventions.

Management teams have used the results to inform strategy and performance plans. Specifically, EY UK Chairman Steve Varley has launched a *Building a better working world* focus as one of four strategic priorities. Within Audit, the culture assessment results have been integrated with the focus on driving sustainable audit quality, presented to all partners, directors and senior managers and discussed in the context of the wider Assurance change programme.

Across non-audit service lines, the results have been used to a lesser extent. However, where there was evidence of cultural stress at levels above industry benchmarks, leadership teams have intervened to undertake further RCA and are providing increased support to address any underlying issues.

The establishment of statistical correlations between various performance metrics and cultural health provide an opportunity for more regular monitoring of our culture, and offer EY UK's leaders tangible insights that we can apply to improve the impact of our culture on audit quality, our people and business performance.

## Diversity and inclusiveness

### Powered by different perspectives

Being an inclusive employer is a fundamental part of our business strategy, driven by our clients and led from the top of the EY organisation. That is because the future of our business depends on our ability to provide innovative solutions, which can only happen if we can recognise and harness the most diverse range of thoughts, experiences, and skills.

Through our D&I strategy we have worked hard to create an environment where different perspectives and experiences are valued and rewarded. We are committed to helping diverse talent thrive, whether through our support for working families or targeted action to level the playing field for women and ethnic minorities.

We participate in a number of Government initiatives such as the Equalities Office's 'Think, Act, Report' framework, and HM Treasury's Women in Finance Charter. We also founded and sponsored the National Equality Standard (NES) in 2013, helping to create the UK's first universal assessment scheme for D&I compliance.

### Championing diversity at every level of the business

In our day-to-day work at EY, we do all we can to create a culture where people feel they belong. This drive to create an inclusive environment is overseen by senior leadership, but our employees are passionate advocates themselves. As a result, we have seen first-hand how working in more diverse teams improves performance and client satisfaction, and our people tell us they are happier and more productive when they are free to be their true selves at work.

### Sponsored from the top

Our leaders contribute to the diversity debate with our clients and other external organisations. For example, we supported the work of the Parker Review, which calls for greater ethnic diversity in FTSE boardrooms, and we celebrate the success of ethnic minority leaders in business and all walks

of life through our support of the Power List and the Asian Achievers Awards.

### Driven by our people

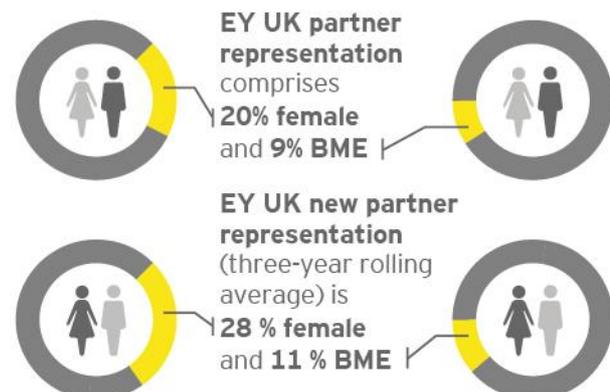
We have a number of employee networks that offer a great way for employees to connect with colleagues of the same origin, ethnicity, religion, or life-stage, as well as those who want to find out more or show their support. We also have a number of colleagues across the business who actively and independently express their views on a range of D&I topics through blogs and other channels.

### Underpinned by Inclusive Leadership

We believe that everyone should have access to the same opportunities for success, so we developed an award-winning Inclusive Leadership programme, which has been rolled out to over 2,000 business leaders in total. The programme equips people to create a greater sense of belonging for all our people.

### Taking targeted action to level the playing field – holding ourselves to account

We rigorously monitor our performance as an inclusive employer, setting ourselves clear diversity targets across all our people processes. UK Chairman Steve Varley and UK FSO Managing Partner Omar Ali meet the EY UK senior business leaders every month to review progress on our D&I targets.

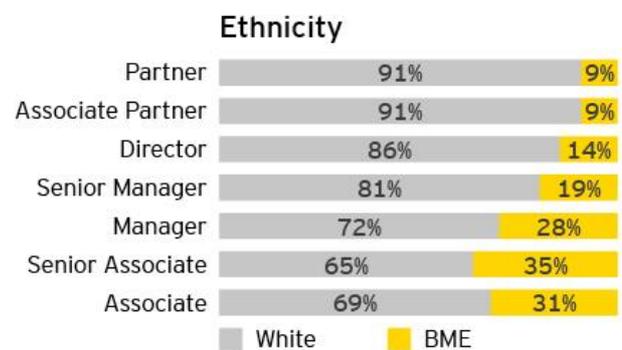
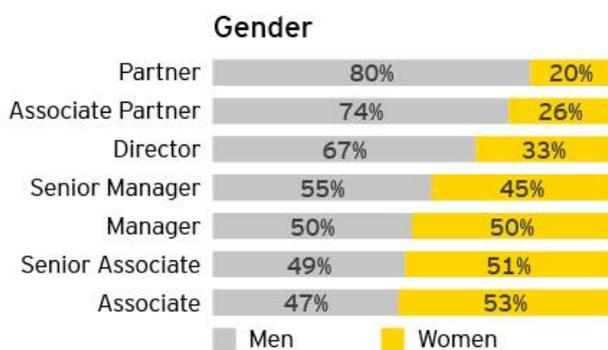


We are particularly committed to addressing the proportion of women and ethnic minorities across the organisation, and to accelerating the diversity of our leadership.

EY UK aims to have at least 30% female and 10% black and minority ethnic (BME) representation in our new partner intake, measured over a rolling

three-year period. In 2017, those figures stand at 28% and 11% respectively. We have a longer-term aim to achieve these targets in both our leadership team and our wider partner population.

The overall representation of our current population by grade and by gender and ethnicity is displayed below:



EY UK has introduced over 20 progressive initiatives to improve the representation of diverse talent and further reduce the firm's pay gap for both gender and ethnicity. These include:

- Career Watch, which provides sponsorship to high potential female and BME talent from senior leaders in the firm
- EY's BME Leadership development programme, which encourages participants and their business leaders to be agents of change, to develop and support their authentic leadership and to ensure they build a network to support their leadership journey
- EY Reconnect, a 12-week programme offering a supported route back into work with induction, coaching and mentoring for talented individuals who have had a career break of between two and 10 years

In addition, we removed the academic screening criteria for our student recruitment in 2015, which has increased the diversity of our entry-level programmes. Our Business and Digital Apprenticeships further widened the opportunities for people to join EY.

We also collaborate with other organisations to support this work across the sector. For example, we helped establish the 30% Club cross-company mentoring scheme for women, which has now touched over 1,500 participants from 85 organisations. Through our membership of Access Accountancy, we work with other firms to ensure our work experience and employment opportunities reach students from disadvantaged social backgrounds.

## EY helped establish the 30% Club mentoring scheme for women

30% Club has supported **1,500** participants from **85** organisations

## Pay gap reporting

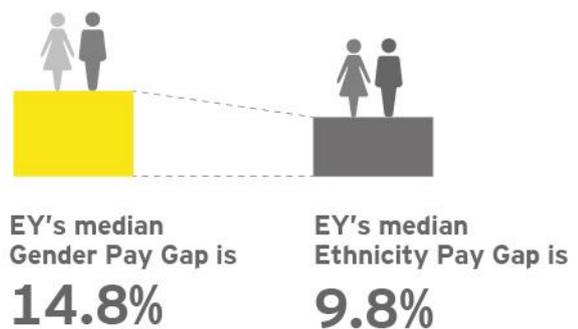
In accordance with UK law, we are required to report each year on our gender pay gap. Based on the Government's methodology, EY's median gender pay gap is 14.8% and we estimate it to have fallen by 10% from the equivalent calculation in 2012.

However, pay gaps don't just affect women, which is why EY UK has chosen to publish voluntarily its ethnicity pay gap as well, and we encourage other organisations to do the same to ensure appropriate focus is given to all underrepresented groups of talent. EY UK's median ethnicity pay gap was calculated at 9.8%.

Unlike equal pay, which refers, for example, to what a male peer is paid versus a female peer, a pay gap is the result of gender or ethnic representation imbalance in an organisation, e.g.,

having more women in junior roles or fewer women in senior roles, relative to men. This means a pay gap is inevitable until organisations have fair representation at every level – something we are passionate about achieving.

Full disclosure of our pay gap figures in line with regulatory requirements can be found [here](#).



# Section 3

## Managing risk

### Internal quality control system

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

The regional partners are responsible for implementing and maintaining the necessary control systems. In maintaining a sound system of internal control and risk management and in reviewing its effectiveness, we have used the framework set out in the FRC's 2014 *Guidance on Risk Management, Internal Controls and Related Financial and Business Reporting*. This internal control system is designed to manage rather than eliminate the risk of failure to achieve the objectives of the firm, and can only provide reasonable and not absolute assurance against material misstatement or loss.

#### EY's role as auditor

EY UK's reputation for providing high-quality professional audit services independently, objectively and ethically is fundamental to our success as independent auditors. We continue to invest in initiatives to promote enhanced objectivity, independence and professional scepticism. These are fundamental attributes of a high-quality audit.

At EY UK, in our role as auditors we bring together qualified teams to provide our services, drawing on our proven experience across industry sectors and services. We continually strive to improve our quality and risk management processes so that the quality of our service is at a consistently high level.

We recognise that in today's environment – characterised by continuing globalisation and the rapid movement of capital – the quality of our audit services has never been more important. We therefore continue to invest heavily in developing and maintaining our audit methodology, tools and other resources needed to support quality service delivery.

While the market and stakeholders continue to demand high-quality audits, they also demand increasingly efficient and effective delivery of audit services. In addition to the investment mentioned, EY continues to seek ways to improve the effectiveness and efficiency of our audit methodology and processes, while maintaining audit quality.

We seek to learn from external and internal inspection activities and to identify root causes so that we can continually improve audit quality, and we believe that taking effective and appropriate actions to improve quality is an important part of the audit inspection process. We work to understand where our audit quality has fallen short of our expectations and those of our stakeholders.

EY has designed and implemented a comprehensive set of global audit quality control policies and practices. These policies and practices meet the requirements of the International Standards on Quality Control issued by the

International Auditing and Assurance Standards Board (IAASB). EY UK has adopted these global policies and procedures, and has supplemented them as necessary to comply with local laws and professional guidelines, and to address specific business needs.

We also execute the EY AQR programme to evaluate whether our system of audit quality control has operated effectively so as to provide reasonable assurance that EY UK and our people comply with applicable professional and internal standards and with regulatory requirements. For further details on our AQR programme, see Section 2 of this Volume.

## Independence

EY UK invested heavily in the ongoing enhancement of understanding and compliance with ethical and regulatory matters, engaging closely with the regulators and INEs. The firm's Independence and Ethics Partner is also a member of the FRC's Technical Advisory Group, developing a close understanding of the position of our regulators and helping develop interpretations of the regulatory restrictions and guidance for the profession.

During the reporting year, some 15,000 staff received mandatory computer-based training courses on independence, anti-money laundering, health and safety, anti-bribery and data privacy – a commitment of over 40,000 hours. EY takes a zero tolerance approach to breaches of our compliance requirements; for example, staff can be removed from client work until they have completed mandatory training.

Additionally, ethics and independence seminars, webcasts and workshops were held in 12 offices throughout the country and at mandatory academies for our Assurance staff. Over 4,000 staff received such training.

We confirm that an internal review of our independence policies and procedures was conducted during the 2017 reporting year. The result of this review was reported to members of the EY UK Board, the EY Global Audit Committee, the EY Global and EMEIA Area managing partners and other senior risk management and

independence persons. We also confirm that a review of independence compliance has been carried out. Additional information can be found in Volume 2 (Independence practices).

## Managing potential and actual conflicts of interest

As a member of EYG we apply EY's global policy on conflicts. The policy, formulated on the principles of international and local professional rules on ethics, forms the framework for the client and engagement acceptance and continuance process as far as it relates to conflict of interests. The global EY approach to conflicts identification and management reflects both the importance of the IESBA Code of Ethics and nature of EY and EY clients. The Global Conflicts Leader is an experienced member firm partner and is supported by the Global Conflicts Executive. There are EY centres of excellence with teams of experienced individuals around the world. EY UK remains actively involved in developing the global policy and Guidebook and in ensuring the quality of conflicts identification and management. Any significant conflicts involving UK clients will be escalated to the EY UK Ethics Partner and the EY UK Head of Risk Management who will involve relevant service line leaders and service line quality leaders. These individuals sit on, or have direct access to, the EY UK Board and the Independent Non-Executives (INEs).

Before a new engagement code can be opened, client engagement teams are required to complete engagement acceptance procedures, which may include a conflict check to identify any circumstances or known facts that might create a conflict of interest. There are certain services and situations where conflict checks are always required. Client engagement teams are required to remain alert to potential conflicts of interest that might arise during the engagement and to carry out secondary conflict checks, where necessary. When an actual or potential conflict of interest is identified, engagement teams are instructed to apply safeguards to eliminate the threat or reduce it to an acceptable level or to withdraw from the engagement.

If the required safeguards cannot be established, the engagement team is directed to cease the activity that is causing the conflict. There are certain engagements that could result in an unmanageable conflict of interest with an audit client counterparty and would therefore be declined by the firm.

In summary, the conflicts check process is integral to our client and engagement acceptance procedures and fundamental to managing risk and complying with our ethical obligations.

### **Ethics and whistleblowing**

The EY Global Code of Conduct provides an ethical framework on which EY member firms and EY people base their decisions and actions.

### **Tone at the top**

Tone at the Top communications are issued regularly by the leadership to the business. The number and quality of the Tone at the Top communications are monitored and assessed each year by the EY EMEA Risk Management team. In FY2017, 139 communications were captured in our Tone at the Top submission. A range of different topics are covered to include quality in service delivery, with a particular focus on audit quality, changes to the UK Independence Policy and a number of other topics (including data security, client and engagement acceptance, a cultural survey and risk management procedures). To increase the effectiveness of delivery, EY UK uses a variety of different delivery methods such as emails, webcasts, daily news alerts, posters and plasma screens and online games.

### **Audit Firm Governance Code**

The Audit Firm Governance Code issued by the FRC, and developed jointly with the ICAEW, requires the firm to conduct, at least annually, a review of the effectiveness of its system of internal control. Following the issue of a revised

2016 code by the FRC, which is applicable to us from July 2017 (i.e., our 2017/18 financial year), we have continued actively to review the governance processes over our system of internal controls for compliance with the 2016 code, so that it continues to be both effective and robust.

### *Risk Oversight Committee*

In 2016 we established our UK Risk Oversight Committee (ROC) to support the EY UK Board in its assessment and management of risk. The ROC meets monthly to discuss the activities undertaken to manage and monitor the firm's principal risks. This year we have strengthened the ROC's membership by including further representation from our Financial Services practice, and made various enhancements to our internal control governance processes to drive continuous improvement.

These include:

- Appointing a partner from our Advisory practice to lead our Risk Review and Internal Audit activities, reporting to the Risk Oversight Committee
- Considering a Risk Appetite Framework, designed to support a more responsive and effective risk management process and clearer stratification for the governance of the firm's most significant risks
- Using the Risk Appetite Framework and other considerations to define a subset of Principal Risks for closer scrutiny by the EY UK Board
- Conducting a formal exercise to assess the impact of selected principal risks on the viability of the EY UK business model, future performance, solvency and liquidity

## Enterprise risks

EY UK maintains a Key Risk Register containing details of the most significant risks faced by the firm, the controls and procedures implemented to mitigate these risks and the mechanisms for monitoring the most significant controls.

The content of this register is determined through regular discussion among members of the senior management team, documented and formalised by risk professionals from within the firm's Risk service line and challenged and approved by the Risk Oversight Committee. The output of this process is reviewed by the EY UK Board. New risks are added as appropriate throughout the period.

A balanced approach allows the degree of controllability to be taken into account when

considering the effectiveness of mitigation, recognising that some activities carry inherent risk that may be outside the firm's control. A formal review of the Risk Register, with Risk Owners, is conducted annually. Risk Owners are required to certify that the register is a complete record of the most significant risks under their control, that their evaluation is reasonable and that controls are operating as designed.

Risk	Description	Activities to manage and monitor risks
Disruption	Inability to adjust, adapt, and take advantage of market trends that will shape the future of our sector	Strengthening of and investment in UK Digital Strategy. Investment in assets, technology and alliances to provide the insights, skills and platforms needed to respond to disruptive trends. Creation of service line teams to consider and react to market trends in respect of service offerings and ways of working.
Service failure resulting from quality, compliance or other service issues	Loss of our licence to operate, significant service failure that has an adverse reputational impact which impacts on business opportunities	Comprehensive and well-established internal quality and compliance procedures to address the risks of service failure, including: <ul style="list-style-type: none"> <li>• Staff recruitment and development procedures</li> <li>• Client and engagement acceptance and continuance</li> <li>• Service line-specific policies designed to assist client teams in understanding and managing the risk of poor quality or non-compliant service delivery (e.g., breach of independence)</li> <li>• Quality review procedures over service delivery and continued enhancement of Audit delivery tools</li> <li>• Fraud detection controls embedded within Audit methodology</li> <li>• Fraud training programmes</li> <li>• Code of Conduct Committee</li> <li>• Controls to monitor margin</li> <li>• Ongoing monitoring of client circumstances to manage the risk of unexpected client failure</li> <li>• Annual certification by staff on independence rules</li> <li>• Easy-to-access portals containing the information staff need to conduct their work to the required standards</li> </ul>

Risk	Description	Activities to manage and monitor risks
Data breach	Fines, sanctions, and reputational damage due to the inability to properly manage and protect confidential data	<p>Comprehensive and well-established internal quality management procedures consistent with industry standards, best practice and legal requirements to address the risks of data breach, including:</p> <ul style="list-style-type: none"> <li>• Information governance policies and supporting guidance</li> <li>• Regular training and reminders for staff on the importance of data protection, including what to do in the event of data loss and an annual declaration that they have read and understood requirements</li> <li>• Enhanced procedures in recruitment, induction and leaver processes</li> <li>• IT Asset Encryption</li> <li>• Periodic testing of controls and levels of staff awareness</li> </ul> <p>Continued investment in cyber security controls (see later section on cyber risk ).</p>
Cyber risk	Risk of major and complex cybersecurity attacks	We have made significant investments over the past five years to install leading cybersecurity software and processes, and have a dedicated team of internal and external cybersecurity experts who actively hunt, monitor and defend our systems (see later section on cyber risk).
Major programme failure	Failure to effectively implement internal programmes leading to significant operational disruptions	UK Steering Committee established for major programmes, including reporting to the UK Board for those considered to be of highest risk. Regular review by our Internal Audit function of programme governance and risks of delivery. Appropriate training and communication activities to ensure business readiness.
Market deterioration and pressure for lower pricing	Negative impact on sustainable margins due to market deterioration and pressure for lower prices	The EY Account Management Framework establishes procedures and responsibilities for monitoring of relationship and margin health and identification of new opportunities, with practices for assessing service quality and client satisfaction. Training programmes have been rolled out to all service lines to support the ongoing development of strong commercial acumen. Tools and governance processes operating to support appropriate margin decisions. Investment in technology to promote more efficient ways of working.
Brexit	Changes to geopolitical environment adversely affecting the performance of EY UK	A Brexit Steering Committee has been established to consider the impact on the UK firm, its staff and clients. A sub-set of the steering group, made up of senior partners and key support functions, operates as a rapid response team, enabling quick decisions on key issues as a response to significant change.

Risk	Description	Activities to manage and monitor risks
Failure to attract, retain and manage talent	Inability to attract and retain the best available talent impacting ability to provide quality services to key clients	Processes and procedures in operation at a firm and service line level to manage the recruitment, retention and management of staff. These include: <ul style="list-style-type: none"> <li>• Strengthened induction and post-induction programmes at staff and partner level</li> <li>• Regular leadership communications covering strategy and performance</li> <li>• Multi-year talent programmes, including D&amp;I initiatives</li> <li>• Simplified annual performance management processes</li> <li>• Annual benchmarking of total reward by grade, location and competency groups</li> <li>• Annual employee survey with formulation of action plans</li> </ul>
Regulatory change	Potential losses (e.g., financial and/or reputational) resulting from changes in regulations or in the inability to comply with the existing regulatory environment	The EY UK Regulatory & Public Policy team is responsible for monitoring regulatory and policy developments impacting the UK firm. This, combined with feedback from our regulators, INEs, EY Global Public Policy Committee and the UK Professional Practice team, is used in the continual update of service line methodologies, processes and training programmes.

The Risk Oversight Committee monitors as part of its normal course of business the continued adequacy of risk management activities in light of external events. Two areas of heightened risk are Cyber and Physical Security and more detail is provided below in respect of the controls we operate to manage and monitor these ever present risks.

### Cyber risk

Managing the risk of major and complex cybersecurity attacks is a part of doing business for all organisations, with attacks being reported on an almost daily basis. While no systems are immune from the threat of cyber-attacks, EY UK is vigilant in the steps we take to secure our environment and protect clients' data. We take a proactive approach to cyber, implementing technologies and processes necessary to manage and minimise our risk globally. We maintain information security and data privacy programs, consistent with industry standards and applicable legal requirements, designed to protect against unauthorised disclosures of data. We have a

dedicated team of internal and external cybersecurity experts who actively monitor and defend our systems.

Beyond our technical and process controls, everyone at EY is required to affirm in writing their understanding of the principles contained in our Global Code of Conduct and their commitment to abide by them and to participate in an annual security awareness learning activity. We have various policies outlining the due care that must be taken with technology and data, including but not limited to our Global Information Security Policy, and a global policy around the Acceptable Use of Technology. We recognise the importance of timely communication where appropriate. Our people receive regular and periodic communications reminding them of their responsibilities around these policies and general security awareness practices.

### Physical security

We have a responsibility for, and are committed to, safeguarding our people and assets (buildings,

contents, information, and intellectual property) against reasonably foreseeable threats that could result in injury, loss, damage or impairment from criminal, hostile or malicious activity. EY UK continually reviews risks and applies recognised best practices, as recommended by the UK Government and the private sector, which are necessary to mitigate them. We ensure they comply with UK law and with security requirements set out in EY Global Risk Management Policies.

Our security disciplines focus on:

- Emergency preparedness and response
- Business continuity
- Physical security
- Asset protection
- Travel security
- Executive and meeting protection

All offices of EY UK have a security risk assessment, conducted by security professionals, focusing on safeguarding and preventing unauthorised access to our people, proprietary information, critical equipment and material, at least annually. Accordingly, we allocate significant resources to ensure that a secure and safe working environment for partners, staff, clients

and visitors is in place. Our partners and people are expected to comply with a robust security policy and with EY UK's security procedures, which include individual responsibilities to observe security awareness information disseminated to them with guidance, tools, training materials, and ongoing compliance monitoring and reporting, managed centrally.

### **Internal controls assurance**

The Risk Oversight Committee reports to the EY UK Board and provides assurance over the effectiveness and operation of the key internal controls related to those risks that have been assessed as 'critical' in the Key Risk Register. The ROC obtains this assurance through a programme of internal audit reviews focused on these critical risks. It approves the overall plan for each year, confirms the terms of reference for each internal audit, and reviews the final internal audit reports and adequacy of management actions.

### **Statement on the effectiveness of the firm's system of internal control**

As part of its annual procedures and in compliance with the Audit Firm Governance Code, the EY UK Board confirms that it has performed a review of the effectiveness of the system of internal control, including consideration of the process undertaken to:

- Update the Risk Register for significant risks, controls and monitoring mechanisms.  
In summary, this involved meetings with senior members of the firm's management to whom all significant risks are assigned. This was followed by a meeting of the Risk Oversight Committee to challenge and approve the updated Risk Register and a certification by Risk Owners of the risks under their control.
- Audit the effectiveness and operation of the key internal controls related to those risks that have been assessed as 'critical' in the Key Risk Register.

As well as the internal audits conducted, this process also includes:

- Reports and findings from regulatory reviews
- A review of the conclusions of our external auditors, including comments in relation to the control environment

In the course of this review of effectiveness of internal control, we have not identified any significant weaknesses but have identified actions that we believe will strengthen controls to manage and mitigate significant risks. On the basis of the reviews carried out, the EY UK Board is satisfied that the firm's systems of internal control are operating effectively.

### **Statement on the effectiveness of the functioning of the internal quality control system**

In accordance with Article 13(2) (d) of the EU Audit Regulation and the Schedule to The Local Auditors (Transparency) Instrument 2015, and based on the practice review carried out in 2016, we confirm that we are satisfied that our internal quality controls and systems are, in general, robust and operate effectively and allow us to readily identify any areas of potential improvement or refinement. We continually seek to improve all aspects of our business and we use the findings of the practice review, other internal reviews and external regulatory reviews to enhance our processes.

# Section 4

## Governance and management bodies

### Our governance

Volume 2 describes our legal structure, ownership and governance, as well as the EY network arrangements, in greater detail.

EY is the global organisation of member firms of Ernst & Young Global Limited. It includes Ernst & Young Europe LLP (EY Europe), which is authorised by the ICAEW, and has voting control of EY UK. As a normal condition of authorisation, all partners of EY Europe (i.e., not just those who are UK based or who are accountants or auditors) became affiliated members of the ICAEW. This means that they are all subject to, among other things, the ICAEW's ethical and professional standards.

Under this model, the EY UK Board and management team is subject to oversight by EY Europe and to the governance agreements established by Ernst & Young EMEA Limited and Ernst & Young Global Limited. The EY UK leadership team is subject to regular review of its actions and its performance across all areas of business activity. EY UK's management participates in a number of international EY fora, which enables it to share best practice with peers, along with other approaches and different techniques for running EY UK sustainably.

Although decision making is local, the regular review process provides another level of informed challenge to proposed decisions and plans. Additional detail on our UK governance is given below.

In the United Kingdom, Ernst & Young LLP is a limited liability partnership, owned by its members, incorporated in England & Wales and a member firm of Ernst & Young Global Limited (EYG), a UK company limited by guarantee. In this report, we refer to ourselves as 'EY UK', 'we', 'us' or 'our'. EY refers collectively to the global organisation of the member firms of EYG.

Details of entities related to EY UK can be found in its statutory financial statements.

At 1 July 2017, EY UK had 698 partners and operated from 20 offices across the UK as well as in Jersey and Guernsey.

The firm's governance and management bodies that are relevant to the purpose of the Audit Firm Governance Code (AFGC) include the Board of EY UK and a number of supporting committees, as explained below.

At 1 July 2017  
**EY UK had 698**  
Partners

Operating from **20 offices**  
across the UK as well as in Jersey and Guernsey

## The Board of EY UK (the Board)

The Board of EY UK is appointed by the Europe Operating Executive of EY Europe and the UK Country Managing Partner (CMP), who has full authority to deal with the firm's general and operational management. The CMP is appointed by the Europe Managing Partner of EY Europe, who has the right to remove the CMP, with the consent of the Europe Operating Executive, having consulted with the Board and appropriate partners.

The CMP of EY UK is Steve Varley. The role of the CMP includes:

- Representing EY UK
- Providing leadership for the partners and employees EY UK
- Acting as the interface with regulators and governmental authorities

The CMP leads the Board, which is responsible for the commercial, financial and reputational standing of the firm as a whole, implementing the admission of new members, liaising with members,

approving the financial statements and other matters delegated to it from time to time by the Europe Operating Executive.

The Board met on four occasions during the reporting period ending 1 July 2017 and, in addition, routinely conducts business through electronic fora.

Board members serve for a period appropriate to their experience and their other roles and responsibilities.

The standing agenda of the Board considers the following issues to help ensure that the purpose of the AFGC is achieved: the firm's commercial, financial and reputational interests; alignment of the firm's values; risks and regulatory matters; audit independence and audit matters more generally.

In respect of its governance and management of the firm, the Board is supported by the committees set out below. Since the 2016 Transparency Report, the INE Oversight Committee (IOC) has also been formed of the newly appointed UK Independent Non-Executives.



## EY UK key performance indicators (KPIs) on firm governance

In the 2017 reporting period, the EY UK Board considered proposed KPIs and, following discussion, agreed the following:

**Leadership** – The EY UK Board should meet at least four times per annum. The gender and BME diversity of the Board should reflect that of the partnership. There should be a minimum attendance target of 80%, over a rolling 12-month period, for the Board meetings.

**Values** – As part of the firm’s culture assessment, the firm should hold an annual People Survey, with the Board acting upon the cultural aspects of the findings. On at least a bi-annual basis, the Board should receive reports on the UK’s compliance with the Global Code of Conduct.

**Independent Non-Executives** – There should be at least three UK INEs, and the INE Oversight Committee should meet at least four times per

annum. On an annual basis, the Board must satisfy itself that the INEs remain independent from EY UK.

**Operations** – The Audit Quality Board should meet at least six times per annum to oversee the focus on sustainable audit quality. With respect to risk management, the Risk Oversight Committee should meet at least six times per annum, with the goal of no material failings or weaknesses in the firm’s internal controls.

**Reporting** – The Board should review the annual Transparency Report to satisfy itself that it is fair, balanced and understandable, and complies with the Audit Firm Governance Code, or explains otherwise.

**Dialogue** – The Board should satisfy itself, on at least an annual basis, that a formal programme of investor dialogue is occurring.

EY UK will report on the performance of our governance system against these KPIs in the 2018 Transparency Report.

Composition of the Board:

Board members	Title	Length of appointment to Board (to nearest year)
Steve Varley (Chair)	UK Chairman and Managing Partner	6 years
Omar Ali	UK Managing Partner Financial Services	2 years
Lisa Cameron	General Counsel, Managing Partner Risk Management UK&I	7 years
Lynn Rattigan	UK Chief Operating Officer	2 years
Debbie O’Hanlon	National Markets Partner	1 year
Ian Baggs	Managing Partner, Assurance, UK Financial Services	2 years
Robert Overend	UK Country PPD and UK Audit Compliance Principle	7 years
Eamonn McGrath	UK Head of Regulatory & Public Policy	2 years
Alisdair Mann	Chief Operating Officer for the Integrated Financial Services Business	7 years
Hywel Ball	Managing Partner, Assurance, UK & Ireland and UK Head of Audit	6 years

Biographical details of each of the Board members are included at Appendix I. Records of attendance at the Board meetings to 1 July 2017 are given at the end of the later section, The firm's other Governance and Management bodies.

### The Independent Non-Executive (INE) Oversight Committee (IOC)

The IOC's role is collectively to enhance the firm's performance in meeting the purpose of the AFGC, focusing on (but not being limited to) oversight of

the firm's policies and processes for meeting the principal AFGC objectives. The INEs' duties, which are exercised through the IOC, are 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

The membership of the IOC is as follows:

IOC members	Title	Length of appointment to IOC
David Thorburn (Chair)	Independent Non-Executive, Chairman of the IOC	Since inception of IOC in April 2017
Rosemary Martin	Independent Non-Executive	Since inception of IOC in April 2017
Sir Peter Westmacott	Independent Non-Executive	Since inception of IOC in April 2017

Biographical details of the INEs are included at Appendix I. Details of the attendance of the UK INEs at the EY UK Board meetings are given at the end of the later section, The firm's other Governance and Management bodies. Attendance of the UK INEs at the EY UK Board meetings ensures that the UK INEs have visibility of the entirety of the business of EY UK. The appointment of three UK INEs and the position of the UK INEs within the governance structure of EY UK meets the requirements of the AFGC. For information on the work of the INEs, see the report from the Chair of the IOC in this volume.

### 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.

Since the 2016 Transparency Report, the following INEs have been appointed or retired:

Name	Appointed	Retired
Sir Richard Lambert		30 April 2017
Rosemary Martin	1 November 2016	
Sir Peter Westmacott	1 April 2017	

## INEs' activities

For the work of the INEs, see the report from the Chair of the IOC earlier in this volume.

## Independence of INEs

Prior to appointment, INEs are interviewed by the Independence Partner and briefed on the ongoing independence requirements and any firm issues. The INEs are required to confirm their independence in accordance with the firm's policy, which was formulated from consideration of the FRC's Ethical Standard, Audit Firm Governance Code and the UK Corporate Governance Code. This policy requires, among other things, that EY is prohibited from having any direct or material indirect business relationship with the INE (other than the contract covering the INE services) or any entities for which the INE is an officer, director or substantial stockholder except in circumstances where EY is considered to be a consumer in the ordinary course. The INEs confirm their independence in accordance with the EY requirements both on appointment and annually thereafter.

## EY support

INEs are entitled to request all relevant information about EY UK's affairs, including access to relevant partners, as is reasonably necessary to discharge their duties. EY UK provides INEs with full administrative support in performing their duties and access to advice from professional advisers at EY UK's expense (subject to consultation with the Chair to establish and

approve the appropriate means of obtaining this professional advice). The INEs have the benefit of a policy of directors' and officers' insurance in respect of their roles.

Additionally, EY UK's Independence and Ethics Partner is an integral part of the quarterly IOC agenda, offering the INEs regular updates on EY UK's compliance activities and current issues.

## INE remuneration

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

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

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

Sir Peter receives an additional £25,000 for advice to the EY UK Board on international geopolitical and governmental issues. David Thorburn also receives an additional sum from EY for his global role as an INE.

## Risk Oversight Committee (ROC)

For the role of the ROC, please refer to Section 3, Managing risk, Internal quality control system.

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

ROC members	Title	Length of appointment to ROC
Lisa Cameron (Chair)	General Counsel, Managing Partner Risk Management UK&I	Since inception of ROC in October 2016
Eamonn McGrath	UK Head of Regulatory & Public Policy and Audit Partner	Since inception of ROC in October 2016
Christabel Cowling	Chief Operating Officer of the UK Assurance Business and Audit Partner	Since inception of ROC in October 2016
John Cole	UK Risk Partner	Since inception of ROC in October 2016
Chris Bowles	Partner – Financial Services	Since appointment to ROC in May 2017

## Audit Quality Board (AQB)

For the role of the AQB, please refer to Section 2, Trust in Audit.

The EY UK Head of Audit will act as AQB Chair. The AQB Chair will select other AQB members based on their roles and expertise, with their period of appointment reflecting this.

AQB members	Title	Length of appointment to nearest year
Hywel Ball (Chair)	UK Managing Partner Assurance and Head of Audit	2 years
Robert Overend	UK Country Professional Practice Director and UK Audit Compliance Principle	2 years
Bob Forsyth	UK Audit Quality Leader	2 years
Ian Baggs	Managing Partner, Assurance, UK Financial Services	2 years
Michael-John Albert	Financial Services Audit Quality Leader	2 years
Justine Belton	UK Implementation and Enablement Leader	2 years
Javier Faiz	Audit Partner – Financial Services	2 years
John Headley	Financial Services Professional Practice Director	2 years
Colin Brown	Audit Practice Leader for National Markets	1 year
Mike Rudberg	Audit Practice Leader London	2 years
Peter McIver	Audit Practice Leader London	Since appointment to AQB in April 2017

## The firm's other Governance and Management bodies

### Code of Conduct Committee (CCC)

The CCC acts on behalf of all EY UK partners in helping to ensure that partners adhere to the EY Global Code of Conduct.

Each service line proposes a representative (with relevant experience and holding non-management positions) whose appointments are then approved by the Board. Appointees serve for a period of three years, and their appointment can be extended by a further three years.

### CCC members

Iain Wilkie (Chair)

Dave Hales

Sarah Williams

Malcolm Burke

George Hardy

Colin Dempster

Rute Aparicio

Fiona Sheridan

John Liver

## UK Audit Committee (UKAC)

In the current year EY UK established its own audit committee to take over the role previously performed by the EY Europe LLP Audit Committee.

The UK Audit Committee (UKAC) reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. It is also responsible for making recommendations in relation to the appointment of the external auditor and for approving the remuneration and terms of engagement 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 financial period 2017 the UK Audit Committee met twice and:

- Approved the appointment and fees of the external auditor

- Approved the audit plan, considering the risks identified by the external auditors
- Reviewed the audit results as reported by the external auditor
- Reviewed and recommended the approval of the financial statements to the Board

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

## Pension Sub-committee (PSC)

The PSC acts as a consultative body when there are strategic pension decisions that may have significant financial or reputational implications for EY UK.

PSC members are appointed by the EY UK Board. At least three members will be members of the Board, with the others being selected based on relevant experience. Members will serve for a period appropriate to their experience and their other roles and responsibilities.

### UKAC members

Douglas Nisbet (Chair)

Stuart Wilson

Lloyd Brown

Chris Voogd

### PSC members

Lynn Rattigan (Chair)

Eamonn McGrath

Alisdair Mann

Taylor Dewar

Angela Dawes

Julianna Oladipo

	Board	IOC	ROC	AQB	CCC	UKAC
Date of formation		April 2017	Oct 2016			May 2017
Target frequency	Quarterly	Quarterly	Monthly	Monthly	Quarterly	Bi-Annually
# of meetings held	4*	1	9	9	3	2
Number of meetings attended						
Steve Varley	4					
Hywel Ball	4			6		
Lisa Cameron	4		8			
Alisdair Mann	3					
Robert Overend	4			9		
Lynn Rattigan	3					
Eamonn McGrath	4		9			
Omar Ali	3					
Ian Baggs	4			6		
Debbie O'Hanlon	4					
David Thorburn	4	1				
Rosemary Martin	3	1				
Sir Peter Westmacott	1	1				
Christabel Cowling			8			
John Cole			9			
Chris Bowles			2**			
Michael-John Albert				8		
Bob Forsyth				9		
Justine Belton				7		
Javier Faiz				7		
John Headley				9		
Colin Brown				5		
Mike Rudberg				4***		
Peter Mclver				1***		
Iain Wilkie					3	
Dave Hales					2	
Sarah Williams					3	
Malcolm Burke					3	
George Hardy					3	
Colin Dempster					2	
Rute Aparicio					2	
Fiona Sheridan					2	
John Liver					1	

	Board	IOC	ROC	AQB	CCC	UKAC
Date of formation		April 2017	Oct 2016			May 2017
Target frequency	Quarterly	Quarterly	Monthly	Monthly	Quarterly	Bi-Annually
# of meetings held	4*	1	9	9	3	2
Number of meetings attended						
Douglas Nisbet						2
Stuart Wilson						2
Lloyd Brown						2
Chris Voogd						2
Paul Swain						
Maggie Stilwell						
Caroline Artis						
Jane Goldsmith						
Paul Sparkes						
David Sellick						
Nigel Moden						
Mark Fitzgerald						
Ben Smith						
Linda Henry						
Clare Duffy						
Catherine Budd						
Cathy Waddington						

*Chart excludes PSC, which was formed in August 2017*

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

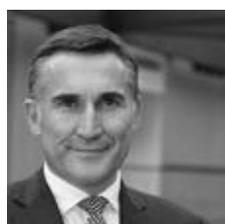
*\*\* Chris Bowles became a member of the Risk Oversight Committee on 15 May 2017, and attended two out of two possible meetings for the period covered.*

*\*\*\* Mike Rudberg, as London Audit Practice Leader until 31 March 2017, attended four out of seven possible meetings for the period covered, with Peter McIver (who then assumed the role of London Audit Practice Leader) attending one out of the two remaining meetings.*

# Appendix I

## Governance and management bodies - member biographies

### The EY UK Board members



Steve Varley – EY UK Chairman and UK&I Managing Partner – 12 years with EY

Steve is the EY UK Chairman and is also a member of EY's Europe, Middle East, India and Africa (EMEIA) Area Operating Executive.

Steve joined the firm in 2005 and has over 22 years of client and consulting business experience in various sectors, including pharmaceuticals, oil and gas and public services.

In January 2014, Steve was appointed by the Prime Minister as Business Ambassador for the professional services industry. He is a founding member of the Social Business Trust and a member of its Investment Committee. He is also a member of the 30% Club and an active supporter and speaker on diversity and inclusiveness. He is a member of the International Chamber of Commerce (ICC) Advisory Board and is on the Board of Loughborough University.



Omar Ali – Managing Partner UK Financial Services – 16 years with EY

Omar is Managing Partner of EY UK's Financial Services business. Omar was appointed to this role in October 2015, and now leads a team of 200 partners and more than 4,000 staff, with responsibility for some of the largest EY clients globally.

Omar was previously UK Banking and Capital Markets Leader, a position he held from January 2012. Omar joined EY in 2001, becoming partner in 2006, and he ran the UK Financial Services Banking Consulting business from 2008 to 2011.

Omar is also a Board member of TheCityUK and the National Skills Academy for Financial Services. In addition to his leadership responsibilities, Omar continues to focus on his portfolio of clients.



Ian Baggs – Managing Partner, Assurance, UK Financial Services – 30 years with EY

Ian has been with EY for 30 years, making partner in 1997. He leads the UK Financial Services Assurance practice, a role he was appointed to in December 2015, and is an executive board member of EY UK, as well as being a member of the firm's Audit Quality Board.

Prior to this Ian held various leadership positions, including UK Banking & Capital Markets Leader from 2003 to 2008 and Deputy Global Banking & Capital Markets Leader from 2011 to 2015. He started his career in the Assurance practice and has worked with many of the world's largest global banks and securities firms. He continues to serve both audit and non-audit clients across the banking sector, and brings deep experience of global financial markets and products, including business and operating models, corporate governance, regulatory supervision and the broader regulatory environment.

## The EY UK Board members



Hywel Ball – Managing Partner, Assurance, UK & Ireland and UK Head of Audit – 34 years with EY

Hywel has been with EY for over 30 years, 20 of those as a partner providing services for clients across a range of sectors, including many FTSE 100 companies. Hywel was EY EMEA Industry Leader for the Energy and Utilities sector and Managing Partner of EY UK in Scotland. He has in-depth knowledge of regulation and dealing with regulatory change and has wide experience coordinating multinational assignments on large companies, in both an audit and non-audit capacity.



Lisa Cameron – General Counsel, Managing Partner Risk Management, UK&I – 19 years with EY

Lisa is a dual-qualified lawyer who joined EY in 1998. A litigator by background, she is responsible for all legal issues affecting EY UK. She and her team advise leadership and partners on matters of contract, regulation, governance, transactions, employment, and overall practice protection.

Lisa assumed the role of General Counsel in 2007, having become a partner in 2006. Since 2009 she has additionally held the position of Managing Partner for Risk Management, in which she is responsible for EY UK's risk management procedures and implementation, including those relating to Independence.



Alisdair Mann – Global Vice Chair – Treasury and Managed Services Leader FSO – 14 years with the firm

Alisdair is the Global Vice Chair – Treasury and Managed Services Leader for the EMEA Financial Services Office. Until 30 June 2017 he was COO for EMEA FSO. His role on the EY UK Board is to represent the UK FSO market segment. His recent client experience has centered on advising the boards of global financial services organisations on their complex programmes of regulatory change.



Eamonn McGrath – UK Head of Regulatory & Public Policy, Audit Partner – 40 years with EY

Eamonn has been an Audit partner with EY UK in London and Manchester for 30 years. He is an FCA (ICAEW) and has a BA (Hons) in Accounting & Finance from Lancaster University.

His audit background is primarily in the plc marketplace, having served clients in the property, engineering, retail and service sectors. He has extensive experience of working with audit committees in the UK, Japan and North America. His experience at board and audit committee level is mainly in relation to corporate governance, risk management and financial reporting. Eamonn is also a member of EY UK's Professional Standards Panel. Eamonn assumed the role of EY UK Head of Regulatory & Public Policy in July 2015. In this role he oversees relationships with the key regulators.

Eamonn is also the Audit Committee Chairman of the charity Inter Mediate.



Debbie O'Hanlon – National Markets Partner – 17 years with EY

Debbie leads EY's regional business in the UK and is a member of the UK&I Leadership Team. An audit partner for 14 years, she has 30 years' experience in the profession, working with a range of listed, private and public sector businesses across the country.

Debbie has spent a number of years working in the not-for-profit sector, as an advisor and in executive and non-executive positions. She is currently a Trustee and Treasurer for the EY Foundation.

## The EY UK Board members



Robert Overend – UK Country PPD and UK Audit Compliance Principle – 35 years with EY  
Robert became an Audit partner at EY UK in 1995.

He was a partner in the firm's Accounting Technical Group (Head of Department and member of the firm's Global IFRS Policy Committee 2007-10) and (from 2010) became the firm's Audit Compliance Principal and Professional Practice Director.

In addition, Robert is a past member of the Audit Practice Board's Technical Advisory Group, and a member of the Accounting Standards Board.



Lynn Rattigan – Chief Operating Officer – 16 years with EY

Lynn has spent her entire career in professional services. She has been a partner at EY UK since 2001, with three years on EY UK's Leadership Team as Deputy COO, and from January 2015, Lynn joined the EY UK Management Team as COO.

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

## The Independent Non-Executive Oversight Committee



Rosemary Martin – INE – appointed on 1 November 2016 and a member of the IOC since April 2017

In addition to her role as Group Counsel and Company Secretary to Vodafone, Rosemary is also an advisory board member of the Oxford Internet Institute and has a seat on the Listing Authority Advisory Panel of the FCA, which is a non-statutory panel advising the FCA on policy and regulation.

Rosemary previously served as CEO of the Practical Law Group, having spent 11 years with Reuters Group Plc in various roles, including Group General Counsel and Company Secretary. Before joining Reuters she was a partner with Mayer, Brown, and Rowe & Maw. Rosemary was a non-executive director of HSBC Bank Plc (the European arm of HSBC Group) until 2016 and a member of the Corporate Governance Advisory Committee of the ICAEW for a five-year term.



David Thorburn – INE – appointed on 1 June 2016 and a member of the IOC since April 2017

David is an External Member of the Bank of England's Prudential Regulatory Committee and chairs the Chartered Banker Institute 2025 Foundation.

David is a Chartered Banker and former CEO of Clydesdale and Yorkshire Banks. He is also a former Chairman of CBI Scotland, the Scottish Financial Services Skills Gateway and the Advisory Board at Strathclyde Graduate School of Business.

David is a Past President of The Chartered Institute of Bankers in Scotland, and former Board Director of the British Bankers Association and Scottish Financial Enterprise. He was a founder member of the Professional Standards Board of the Chartered Banker Institute.

David's competencies include accounting, based on his practical experience during his 37 years in banking, where he served latterly as CEO of Clydesdale Bank PLC and attended the Board Risk & Audit Committee, together with his current role at the Bank of England.

## The Independent Non-Executive Oversight Committee



Sir Peter Westmacott – INE – appointed on 1 April 2017 and a member of the IOC since April 2017

Sir Peter Westmacott was British Ambassador to the United States from January 2012 until he retired from the UK Diplomatic Service in January 2016. He spent a semester at Harvard's Kennedy School of Government as a Resident Fellow.

Sir Peter was British Ambassador to France from 2007-2012 and to Turkey from 2002-2006. His 40-year diplomatic career included four years in Iran before the 1979 revolution and a secondment to the European Commission in Brussels. He was the Foreign and Commonwealth Office's Director for the Americas from 1997-2000 and Deputy Under Secretary of State from 2000-2001. From 1990-1993, he was Deputy Private Secretary to His Royal Highness The Prince of Wales. He is a Distinguished Ambassadorial Fellow at the Atlantic Council, Deputy Chairman of Tellus Matrix LLP and an Advisory Director of Campbell Lutyens & Co.

## The Risk Oversight Committee



Chris Bowles – Partner in Financial Services – 34 years with EY

Chris has led EY UK's Financial Services Risk Practice since 2010. For the last two years he has also been Head of Markets for the FS Advisory service line.

Chris joined the firm in 1983 in Audit, transferring to Advisory in 1991. His primary client focus has been on the wholesale banking and capital markets clients of the firm, including acting as EY UK client service partner for two global investment banks, and leading the sector for five years to 2010. He continues to lead the firm's advisory services to capital markets clients.



Lisa Cameron – General Counsel, Managing Partner Risk Management, UK&I – 19 years with EY

Lisa is a dual-qualified lawyer who joined EY in 1998. A litigator by background, she is responsible for all legal issues affecting the firm. She and her team advise partners on matters of contract, regulation, governance, transactions, employment, and overall practice protection.

Lisa assumed the role of General Counsel on becoming Partner in 2006. Since 2009 she additionally held the position of Managing Partner for Risk Management, in which she is responsible for the firm's risk management procedures and implementation, including those relating to Independence.



John Cole – UK Risk Partner – 45 years with EY

John Cole (FCA, MCISI) is a partner in the EY UK Financial Services Practice. He qualified as an accountant in 1979 and was made a partner in 1988 and has spent most of his career supporting clients on transactions. He joined the EY UK Financial Services practice over 10 years ago, having spent the previous 10 years focusing on services to private equity funds.

John spent eight years as a partner representative on the EY Europe Advisory Council and the EY Global Advisory Council, latterly as a member of both the finance and audit committees.

For the past three years, he has been EY UK Risk partner reporting to Lisa Cameron as head of Risk.

## The Risk Oversight Committee



Christabel Cowling – Chief Operating Officer of the Assurance Business in the UK and Audit Partner – 15 years with EY

Before joining EY, Christabel worked for PwC. She has extensive experience in the areas of auditing multinational listed groups under IFRS and of reporting accountant work for corporate transactions. Prior to her current role, she worked in Leeds, Birmingham and London and was seconded to Washington DC for seven months in 2008, where she met over 25 US utilities to discuss the impact of IFRS on financial and regulatory reporting. Christabel has strong technical experience including IFRS, US GAAP, US SOX, corporate governance and advising on financial reporting issues. One of her main strengths is her ability to build relationships with her clients and effectively manage service delivery. She has strong technical capabilities and experience of reporting to boards and audit committees.



Eamonn McGrath – UK Head of Regulatory & Public Policy, Audit Partner – 40 years with EY

Eamonn has been an Audit partner with EY UK in London and Manchester for 30 years. He is an FCA (ICAEW) and has a BA (Hons) in Accounting & Finance from Lancaster University.

His audit background is primarily in the plc marketplace, having served clients in the property, engineering, retail and service sectors. He has extensive experience of working with audit committees in the UK, Japan and North America. His experience at board and audit committee level is mainly in relation to corporate governance, risk management and financial reporting. Eamonn is also a member of EY's UK Professional Standards Panel. Eamonn assumed the role of UK Head of Regulatory & Public Policy in July 2015. In this role he oversees relationships with the key regulators.

Eamonn is also the Audit Committee Chairman of the charity Inter Mediate.

## The Audit Quality Board



Michael-John (MJ) Albert – Financial Services Partner – eight years with EY

Michael-John has over 24 years' experience working in financial services around the world. He joined EY in the UK in 2009. Prior to this he was a partner in the South African practice of Deloitte for eight years. He led the FS practice in the Western Cape and was an advisor to the South African Regulator on risk management. He is a member of the ICAEW after passing the ICAS qualification exams in 2009 and is also a member of the South African Institute of Chartered Accountants. Michael-John leads our Professional Practice for EY's Financial Services Practice in the UK, responsible for overseeing quality assurance and compliance.



Hywel Ball – Managing Partner, Assurance, UK & Ireland and UK Head of Audit – 34 years with EY

Hywel has been with EY for over 30 years, 20 of those as a partner providing services for clients across a range of sectors, including many FTSE 100 companies. Hywel was EY EMEA Industry Leader for the Energy and Utilities sector and Managing Partner of EY UK in Scotland. He has in-depth knowledge of regulation and dealing with regulatory change and has wide experience coordinating multinational assignments on large companies, in both an audit and non-audit capacity.

## The Audit Quality Board



**Justine Belton – UK&I Implementation and Enablement leader, Assurance partner – 26 years with EY**

Justine is a partner in the EY UK Assurance professional practice department with responsibility for implementation and enablement within Audit.

She joined the firm in 1991, making partner in 2002. Justine has worked principally in the oil and gas practice serving a range audit clients from small start-ups to FTSE 100. Her current role focuses on supporting the audit practice to deliver high-quality audits through the implementation of new global audit technologies and audit requirements, sharing best practice in audit execution and delivering relevant training to the practice.

Justine sits on the ICAEW's Learning & Professional Development Board and the ICAEW Audit and Assurance faculty committee. She is a former member of the Oil Industry Accounting Committee.



**Colin Brown – Audit leader for National Markets – 23 years with EY**

Colin joined the firm in 1994 and has over 23 years of business experience in various sectors, including FMCG, travel and leisure and oil and gas. Colin has worked almost exclusively with large, complex FTSE 100 and FTSE 250 companies. In addition, Colin served as an advisor to the Audit Committee of the Manchester Growth Company, a group of companies whose purpose is to drive forward Greater Manchester's economic development.



**Javier Faiz – Banking & Capital Markets – partner – 20 years with EY**

Javier is a partner in Banking & Capital Markets and COO of Financial Services Assurance in EY UK, responsible for a department of over 1,200 people and revenues of £150mn. He is also a member of the ICAEW.

Javier joined EY in 1997 and has over 20 years of client and consulting business experience in financial services. Javier is fluent in three languages and has spent his EY career at the EY member firm offices in London, Sydney and Madrid.

Javier is an EY UK partner in the Financial Services practice, focusing on retail, corporate and investment banking and works with major international financial services organisations. Javier leads the audit for several UK-based retail and corporate banking institutions, with experience in Sarbanes-Oxley compliance, SEC reporting, IFRS and matters of accounting estimates such as impairment provisioning.



**Bob Forsyth – UK Audit Quality Leader – 37 years with EY**

Bob is a senior client-serving audit partner who leads our Audit Quality Programme and is Deputy Chairman of the Audit Quality Board. He works with the AQB, the business and the regulator to ensure continuous improvement in our audit quality.

Bob joined EY UK in 1980, starting in Aberdeen, with time in Singapore and Cambridge but predominantly in London as an audit partner for large public and private groups. He has also held a number of senior management roles including several market roles.

Bob is also on the Board of the London Air Ambulance charity.

## The Audit Quality Board



**John Headley – Partner in Financial Services Insurance – 30 years with EY**

John joined EY in 1987 and has been a partner since 2001. He has led and continues to lead the audit of FTSE 350 plcs across the financial services sector. He has acted as reporting accountant on several FTSE 100 / 350 IPOs and has been engagement quality control review partner for major EY clients.

John is currently head of EY UK's FSO professional practice, responsible for interaction with the FRC as audit regulator for UK FS clients and overseeing risk management and audit quality for the UK FS audit practice. He is a member of the EY UK Professional Standards Panel responsible for reviewing FTSE 350 extended audit opinions and supporting client teams in resolving complex or contentious technical matters, including going concern assessments.

John was the global client service partner for Resolution Limited / Friends Life Group for five years until November 2013 and for Resolution plc from 2004 to 2008, leading the audit and transaction-related due diligence and reporting accountant work.

John was a key member of the EY Aviva audit team from 1996 to 2007. During that period he was second partner on the group audit, led the UK GI audit, led EY's audit of Aviva's transition to IFRS and was involved in major transactions.



**Peter Mclver – London Audit Practice Leader – two years with EY**

Peter is a Senior Audit Partner in the London Assurance practice. He has been a partner for 21 years, concentrating on external audit and corporate transactions such as IPOs, capital and debt raisings, private equity transactions, and mergers and acquisitions for listed companies.

Before moving to London two years ago, Peter was a partner with the EY Perth Australia practice for nine years and prior to that was with Deloitte for 20 years', including 10 years as a partner and four years as the Assurance leader of Deloitte in Perth.

Peter has worked in the UK, US, Australia (Sydney and Perth) during his career. A qualified UK and Australian Chartered Accountant, he has more than 30 years professional external audit experience in his role.

Peter has significant listed public company experience (ASX and LSE) and has helped emerging businesses grow and achieve their strategic goals. This includes work with key stakeholders, PE funds and advisors to enable successful outcomes.



**Robert Overend – UK Country PPD and UK Audit Compliance Principle – 35 years with EY**  
Robert became an Audit partner at EY UK in 1995.

He was a partner in EY UK's Accounting Technical Group (Head of Department and member of the firm's Global IFRS Policy Committee 2007-10) and (from 2010) became the firm's Audit Compliance Principal and Professional Practice Director.

In addition, Robert is a past member of the Audit Practice Board's Technical Advisory Group, and a member of the Accounting Standards Board.



**Mike Rudberg – London Audit Practice Leader – 12 years with EY**

Michael was the London Audit Practice Leader during the year.

Michael joined EY Canada in 1996, where he trained as an auditor until he moved to EY UK's London office in 2000. He remained at EY until 2003, at which time he left to become a financial controller at Sky Plc. Having gained experience working in industry, Michael joined EY UK in 2005. Michael has been an Audit Partner since 2008 and has served a number of clients, with a focus on companies in the Technology, Media & Entertainment and Telecommunications sectors.

Michael is a Chartered Accountant, having qualified with the Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of Scotland.

# Appendix II

## 2010 Audit Firm Governance Code

The following table maps the 2010 Audit Firm Governance Report to where you can find out how EY has applied the principles and provisions in practice.

Principles and provisions of the 2010 AFGC	How EY UK is addressing the principles and provisions
<b>A. LEADERSHIP</b>	
A.1 Owner accountability Principle The management of a firm should be accountable to the firm's owners and no individual should have unfettered powers of decision.	Volume 1, Section 4 – Governance and management bodies Volume 2 – About Us
A.1.1 The firm should establish board or other governance structures, with matters specifically reserved for their decision, to oversee the activities of the management team.	Volume 1, Section 4 – Governance and management bodies Volume 2 – About Us
A.1.2 The firm should state in its transparency report how its governance structures and management team operate, their duties and the types of decisions they take.	Volume 1, Section 4 – Governance and management bodies and Section 2 – Trust in Audit Volume 2 – About Us and Commitment to quality
A.1.3 The firm should state in its transparency report the names and job titles of all members of the firm's governance structures and its management team, how they are elected or appointed and their terms, length of service, meeting attendance in the year, and relevant biographical details.	Volume 1, Section 4 – Governance and management bodies Volume 1, Appendix I – Governance and management bodies – member biographies
A.1.4 The members of a firm's governance structures and management should be subject to formal, rigorous and ongoing performance evaluation and, at regular intervals, members should be subject to re-election or re-selection.	Volume 1, Section 4 – Governance and management bodies Volume 2 – Revenue and remuneration (Partner remuneration) We will report on performance evaluation against the new KPIs in our Transparency Report for financial year 2018.

Principles and provisions of the 2010 AFGC	How EY UK is addressing the principles and provisions
<p>A.2 Management Principle A firm should have effective management which has responsibility and clear authority for running the firm.</p>	<p>Volume 1, Section 4 – Governance and management bodies and Section 2 – Trust in Audit Volume 2 – About Us and Commitment to quality</p>
<p>A.2.1 Management should have terms of reference that include clear authority over the whole firm including its non-audit businesses and these should be disclosed on the firm’s website.</p>	<p>Volume 1, Section 4 – Governance and management bodies Volume 2, About Us, which further explains our management structure. We are currently undertaking a review of our website to update for compliance with the 2016 revised Audit Firm Governance Code.</p>
<p><b>B. VALUES</b></p>	
<p>B.1 Professionalism principle A firm should perform quality work by exercising judgement and upholding values of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour in a way that properly takes the public interest into consideration.</p>	<p>Volume 1, Section 2 – Trust in Audit and Section 4 – Governance and management bodies Volume 2 – Commitment to quality</p>
<p>B.1.1 The firm’s governance structures and management should establish and promote throughout the firm an appropriate culture, supportive of the firm’s public interest role and long term sustainability. This should be achieved in particular through the right tone from the top, through the firm’s policies and practices and by management publicly committing themselves and the whole firm to quality work, the public interest and professional judgement and values.</p>	<p>Volume 1 – Foreword from the EY UK Chairman, Report from the Chairman of the IOC and the Message from the Managing Partner of Assurance, EY UK Head of Audit Volume 1, Section 2 – Trust in Audit Volume 1, Section 4 – Governance and management bodies</p>
<p>B.1.2 The firm should have a code of conduct which it discloses on its website and requires everyone in the firm to apply.</p>	<p>Volume 2 – Commitment to quality Volume 1, Section 4 – Governance and management bodies The EY Global Code of Conduct is available from our <a href="#">website</a></p>
<p>B.2 Governance Principle A firm should publicly commit itself to this Audit Firm Governance Code.</p>	<p>Volume 1 – Report from the Chairman of the IOC</p>
<p>B.2.1 The firm should incorporate the principles of this Audit Firm Governance Code into an internal code of conduct.</p>	<p>Volume 1, Section 3 – Managing Risk Volume 2 – About Us and Commitment to quality</p>

Principles and provisions of the 2010 AFGC	How EY UK is addressing the principles and provisions
<p>B.3 Openness principle</p> <p>A firm should maintain a culture of openness which encourages people to consult and share problems, knowledge and experience in order to achieve quality work in a way that properly takes the public interest into consideration.</p>	<p>Volume 1, Section 2 – Trust in Audit</p> <p>Volume 2 – Commitment to quality</p> <p>The EY Global Code of Conduct is available from our <a href="#">website</a></p>
<p><b>C. INDEPENDENT NON-EXECUTIVES</b></p>	
<p>C.1. Involvement of independent non-executives principle</p> <p>A firm should appoint independent non-executives who through their involvement collectively enhance shareholder confidence in the public interest aspects of the firm’s decision making, stakeholder dialogue and management of reputational risks including those in the firm’s businesses that are not otherwise effectively addressed by regulation.</p>	<p>Volume 1 – Report from the Chairman of the IOC</p> <p>Volume 1, Section 4 – Governance and management bodies</p>
<p>C.1.1 Independent non-executives should: have the majority on a body that oversees public interest matters; and/or be members of other relevant governance structures within the firm. They should also meet as a separate group to discuss matters relating to their remit.</p>	<p>Volume 1 – Report from the Chairman of the IOC</p> <p>Volume 1, Section 4 – Governance and management bodies</p> <p>EY has three UK INEs. The UK INEs have been members of the Independent Non-Executive Oversight Committee (IOC) since its inception in April 2017. David Thorburn also represents the UK INEs on EY’s Global Governance Committee and Public Interest Committee.</p>
<p>C.1.2 The firm should disclose on its website information about the appointment, retirement and resignation of independent non-executives, their duties and the arrangements by which they discharge those duties and the obligations of the firm to support them. The firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes independent non-executives.</p>	<p>Volume 1 – Report from the Chairman of the IOC</p> <p>Volume 1, Section 4 – Governance and management bodies</p>
<p>C.2 Characteristics of independent non-executives principle</p> <p>The independent non-executives’ duty of care is to the firm. They should command the respect of the firm’s owners and collectively enhance shareholder confidence by virtue of their independence, number, stature, experience and expertise.</p>	<p>See Volume 1, Section 4 – Governance and management bodies</p> <p>Volume 1, Appendix I – Governance and management bodies – member biographies</p>

Principles and provisions of the 2010 AFGC	How EY UK is addressing the principles and provisions
<p>C.2.1 The firm should state in its transparency report its criteria for assessing the impact of independent non-executives on the firm's independence as auditors and their independence from the firm and its owners.</p>	<p>See Volume 1, Section 4 – Governance and management bodies The INE's independence was assessed upon their appointment and is assessed on an ongoing basis. Appropriate provisions are in place to monitor this as EY is appointed as a new auditor.</p>
<p>C.3 Rights of independent non-executives principle Independent non-executives of a firm should have rights consistent with their role including a right of access to relevant information and people to the extent permitted by law or regulation, and a right to report a fundamental disagreement regarding the firm to its owners and, where ultimately this cannot be resolved and the independent non-executive resigns, to report this resignation publicly.</p>	<p>Volume 1, Section 4 – Governance and management bodies Rights and responsibilities are set out in a Letter of Appointment and Service.</p>
<p>C.3.1 Each independent non-executive should have a contract for services setting out their rights and duties</p>	<p>Volume 1, Section 4 – Governance and management bodies</p>
<p>C.3.2 The firm should ensure that appropriate indemnity insurance is in place in respect of legal action against any independent non-executive.</p>	<p>Volume 1, Section 4 – Governance and management bodies</p>
<p>C.3.3 The firm should provide each independent non-executive with sufficient resources to undertake their duties including having access to independent professional advice at the firm's expense where an independent non-executive judges such advice necessary to discharge their duties.</p>	<p>Volume 1, Section 4 – Governance and management bodies</p>
<p>C.3.4 The firm should establish, and disclose on its website, procedures for dealing with any fundamental disagreement that cannot otherwise be resolved between the independent non-executives and members of the firm's management team and/or governance structures.</p>	<p>EY's Dispute Resolution procedures are set out in the INEs' Letters of Appointment and Service. We are currently undertaking a review of our website to update for compliance with the Audit Firm Governance Code.</p>
<p><b>D. OPERATIONS</b></p>	
<p>D.1 Compliance principle A firm should comply with professional standards and applicable legal and regulatory requirements.</p>	<p>Volume 1, Section 2 – Trust in Audit Volume 2 – Commitment to Quality</p>
<p>D.1.2 The firm should establish policies and procedures for individuals signing group audit reports to comply with applicable standards on auditing dealing with group audits including reliance on other auditors whether from the same network or otherwise.</p>	<p>Volume 1, Section 3 – Managing Risk</p>

Principles and provisions of the 2010 AFGC	How EY UK is addressing the principles and provisions
D.1.3 The firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest.	Volume 1, Section 3 – Managing risk Volume 2 – Independence practices
D.1.4 The firm should take action to address areas of concern identified by audit regulators in relation to the firm's audit work.	Volume 1, Section 2 – Trust in Audit
D.2 Risk management principle A firm should maintain a sound system of internal control and risk management over the operations of the firm as a whole to safeguard the owners' investment and the firm's assets.	Volume 1, Section 3 – Managing Risk Volume 2 – Commitment to quality and Independence practices
D.2.1 The firm should, at least annually, conduct a review of the effectiveness of the firm's system of internal control. The review should cover all material controls, including financial, operational and compliance controls and risk management systems.	Volume 1, Section 2 – Trust in Audit and Section 3 – Managing Risk Volume 2 – Commitment to quality
D.2.2 The firm should state in its transparency report that it has performed a review of the effectiveness of the system of internal control, summarise the process it has applied and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary.	Volume 1, Section 3 – Managing risk
D.2.3 In maintaining a sound system of internal control and risk management and in reviewing its effectiveness, the firm should use a recognised framework such as the Turnbull Guidance and disclosure in its Transparency Report the framework it has used.	Volume 1, Section 3 – Managing Risk
D.3 People management principle A firm should apply policies and procedures for managing people across the whole firm that support its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code.	Volume 2 – Commitment to quality; and Continuing Education of Audit Professionals Volume 1, Section 1 – Assurance and Audit

Principles and provisions of the 2010 AFGC	How EY UK is addressing the principles and provisions
D.3.1 The firm should disclosure on its website how it supports its commitment to the professionalism, openness and risk management principles of the Audit Firm Governance Code through recruitment, development activities, objective setting, performance evaluation, remuneration, progression, and other forms of recognition, representation and involvement.	Volume 1, Section 3 – Risk Management See this Transparency Report and the section of the EY UK website where this report sits
D.3.2 Independent non-executives should be involved in reviewing people management policies and procedures.	Volume 1 – Report from the Chairman of the IOC
D.4 Whistleblowing principle A firm should establish and apply confidential whistleblowing policies and procedures across the firm which enable people to report, without fear, concerns about the firm’s commitment to quality work and professional judgement and values in a way that properly takes the public interest into consideration.	Volume 1 – Report from the Chairman of the IOC and Section 3 – Managing Risk Volume 2 – Commitment to quality (Instilled professional values)
D.4.1 The firm should report to independent non-executives on issues raised under its whistleblowing policies and procedures and disclose those policies and procedures on its website.	Volume 1 – Report from the Chairman of the IOC Volume 2 – Commitment to quality (Instilled professional values)
<b>E. REPORTING</b>	
E.1 Internal reporting principle The management team of a firm should ensure that members of its governance structures, including owners and independent non-executives, are supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.	The EY UK management team and INEs have been supplied with appropriate and timely information.
E.2 Financial statements principle A firm should publish audited financial statements prepared in accordance with a recognised financial reporting framework such as International Financial Reporting Standards or UK GAAP.	See the Ernst & Young LLP financial statements available from Companies House.
E.2.1 The firm should explain who is responsible for preparing the financial statements and the firm’s auditors should make a statement about their reporting responsibilities.	See the Ernst & Young LLP financial statements, available from Companies House.
E.2.2 The firm should report that it is a going concern, with supporting assumptions or qualifications as necessary.	See the Ernst & Young LLP financial statements, available from Companies House.

Principles and provisions of the 2010 AFGC	How EY UK is addressing the principles and provisions
<p>E.3 Management principle</p> <p>The management of a firm should publish on an annual basis a balanced and understandable commentary on the firm's financial performance, position and prospects.</p>	<p>Volume 2, Revenue and remuneration</p> <p>Volume 1 – Report from the Managing Partner of Assurance and Head of UK Audit (Audit Market Developments)</p>
<p>E.3.1 The firm should include in its management commentary principal risks and uncertainties, identifying those related to litigation, and report how they are managed in a manner consistent with the requirements of the applicable financial reporting framework.</p>	<p>Volume 1, Section 2 – Trust in Audit and Section 3 – Managing risk</p>
<p>E.4 Governance reporting principle</p> <p>A firm should publicly report how it has applied in practice each of the principles of the Audit Firm Governance Code excluding F.2 on shareholder dialogue and F.3 on informed voting and make a statement on its compliance with the Code's provisions or give a considered explanation for any non-compliance.</p>	<p>Volume 1 – Report from the Chairman of the IOC</p> <p>See this Transparency Report and the section of the EY UK website where the report sits.</p>
<p>E.4.1 The firm should publish on its website an annual transparency report containing the disclosures required by Code Provisions A.1.2, A.1.3, C.2.1, D.1.3, D.2.2 and D.2.3.</p>	<p>The EY UK Transparency Report for financial period 2017 (comprised of Volume 1 and Volume 2) contains disclosures required under Code Provisions A.1.2, A.1.3, C.2.1, D.1.3, D.2.2 and D.2.3.</p>
<p>E.5 Reporting quality principle</p> <p>A firm should establish formal and transparent arrangements for monitoring the quality of external reporting and for maintaining an appropriate relationship with the firm's auditors.</p>	<p>Volume 1, Section 4 – Governance and management bodies (UK Audit Committee)</p>
<p>E.5.1 The firm should establish an audit committee and disclose on its website information on the committee's membership and terms of reference which should deal clearly with its authority and duties, including its duties in relation to the appointment and independence of the firm's auditors. On an annual basis, the firm should publish a description of its work and how it has discharged its duties.</p>	<p>Volume 1, Governance and management bodies (UK Audit Committee)</p>

Principles and provisions of the 2010 AFGC	How EY UK is addressing the principles and provisions
<b>F. DIALOGUE</b>	
<p>F.1 Firm dialogue principle</p> <p>A firm should have dialogue with listed company shareholders, as well as listed companies and their audit committees, about matters covered by this Audit Firm Governance Code to enhance mutual communication and understanding and ensure that it keeps in touch with shareholder opinion, issues and concerns.</p>	<p>Volume 1 – Report from the Chairman of the IOC; Report from the EY UK Managing Partner of Assurance and EY UK Head of Audit</p> <p>Section 2 – Trust in assurance</p>
<p>F.1.1 The firm should disclose on its website its policies and procedures, including contact details, for dialogue about matters covered by this Audit Firm Governance Code with listed company shareholders and listed companies. These disclosures should cover the nature and extent of the involvement of independent non-executives in such dialogue.</p>	<p>Volume 1 – Report from the Chairman of the IOC; Report from the EY UK Managing Partner of Assurance and EY UK Head of Audit; and Section 2 – Trust in Audit</p>
<p>F.2 Shareholder dialogue principle</p> <p>Shareholders should have dialogue with audit firms to enhance mutual communication and understanding.</p>	<p>Volume 1 – Report from the Chairman of the IOC; Report from the EY UK Managing Partner of Assurance and EY UK Head of Audit; and Section 2 – Trust in Audit</p>
<p>F.3 Informed voting principle</p> <p>Shareholders should have dialogue with listed companies on the process of recommending the appointment and re-appointment of auditors and should make considered use of votes in relation to such recommendations.</p>	<p>In our dialogue with investors we encourage engagement with listed companies.</p>

# Appendix III

## 2016 Audit Firm Governance Code

In July 2016, the FRC published a revised version of the Audit Firm Governance Code. This revised 2016 Code is applicable for financial years beginning on or after 1 September and replaces the original code, which was issued in 2010.

Appreciating that the revised code does not apply to this year's report, EY UK has endeavored to

include as many of the new disclosures as possible within this report or on our website.

The following table maps the 2016 Audit Firm Governance Report to where you can find out how EY has applied the principles and provisions in practice.

Principles and provisions of the 2016 AFGC	How EY UK is addressing the principles and provisions
<b>Leadership</b>	
A.1 Owner accountability Principle The management of a firm should be accountable to the firm's owners and no individual should unfettered powers of decision.	Volume 1, Section 4 – Governance and management bodies Volume 2 – About Us
A.1.1 The Firm should establish a board or equivalent governance structure, with matters specifically reserved for its decision, to oversee the activities of the management team.	Volume 1, Section 4 – Governance and management bodies Volume 2 – About Us
A.1.2 The firm should state in its transparency report how its governance structures and management operate, their duties and the types of decisions they take. In doing so the firm should explain how its governance structure provides oversight of both the audit practice and the firm as a whole with a focus on ensuring the Code's purpose, is achieved. If the management and/or governance of the firm rests at an international level it should specifically set out HOW management and oversight of audit is undertaken and the Code's purpose achieved in the UK.	Volume 1, Section 4 – Governance and management bodies and Section 2 – Trust in Audit  Volume 2 – About Us and Commitment to quality
A.1.3 The firm should state in its transparency report the names and job titles of all members of the firm's governance structures and its management, how they are elected or appointed and their terms, length of service, meeting attendance in the year, and relevant biographical details.	Volume 1, Section 4 – Governance and management bodies  Volume 1, Appendix I – Governance and management bodies – member biographies

Principles and provisions of the 2016 AFGC	How EY UK is addressing the principles and provisions
<p>A.1.4 The members of a firm’s governance structures and management should be subject to formal, rigorous and ongoing performance evaluation and, at regular intervals, members should be subject to re-election or re-selection.</p>	<p>Volume 1, Section 4 – Governance and management bodies  Volume 2 – Revenue and remuneration (Partner remuneration).  We will report on performance evaluation against the new KPIs in our Transparency Report for financial year 2018.</p>
<p>A.2 Management Principle  A firm should have effective management which has responsibility and clear authority for running the firm.</p>	<p>Volume 1, Section 4 – Governance and management bodies and Section 2 – Trust in Audit  Volume 2 – About Us and Commitment to quality</p>
<p>A.2.1 Management should have terms of reference that include clear authority over the whole firm including its non-audit businesses and these should be disclosed on the firm’s website.</p>	<p>Volume 1, Section 4 – Governance and management bodies  Volume 2 – About us which further explains our manager structure  We are currently undertaking a review of our website to update for compliance with the 2016 revised Audit Firm Governance Code.</p>
<p><b>Values</b></p>	
<p>B.1 Professionalism principle  A firm should perform quality work by exercising judgement and upholding values of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour in a way that properly takes the public interest into consideration and meets auditing and ethical standards.</p>	<p>Volume 1, Section 2 – Trust in Audit and Section 4 – Governance and management bodies  Volume 2 – Commitment to quality</p>
<p>B.1.1 The firm’s governance structures and management should establish and promote throughout the firm an appropriate culture, supportive of the firm’s public interest role and long term sustainability. This should be achieved in particular through the right tone from the top, through the firm’s policies and practices and by management publicly committing themselves and the whole firm to quality work, the public interest and professional judgement and values.</p>	<p>Volume 1 – Foreword from the EY UK Chairman, Report from the Chairman of the IOC and the Message from the EY UK Managing Partner of Assurance and EY UK Head of Audit  Section 2 – Trust in Audit  Section 4 – Governance and management bodies</p>
<p>B.1.2 Firms should introduce KPIs on the performance of their governance system, and report on performance against these in their transparency reports.</p>	<p>Volume 1, Section 4 – Governance and management bodies  Performance against these KPIs will be included in our Transparency Report for financial year 2018.</p>
<p>B.1.3 The firm should have a code of conduct which it discloses on its website and requires everyone in the firm to apply. The Board and independent non-executives should oversee compliance with it.</p>	<p>Volume 2 – Commitment to quality  Volume 1, Section 4 – Governance and management bodies  The EY Global Code of Conduct is available from our <a href="#">website</a>.</p>

Principles and provisions of the 2016 AFGC	How EY UK is addressing the principles and provisions
<p>B.2 Governance Principle A firm should publicly commit itself to this Audit Firm Governance Code.</p>	<p>Volume 1 – Report from the Chairman of the IOC offers our compliance statement</p>
<p>B.2.1 The firm should incorporate the principles of this Audit Firm Governance Code into an internal code of conduct.</p>	<p>Volume 1 – Section 3, Managing Risk Volume 2 – About Us and Commitment to quality</p>
<p>B.3 Openness principle A firm should maintain a culture of openness which encourages people to consult and share problems, knowledge and experience in order to achieve quality work in a way that properly takes the public interest into consideration.</p>	<p>Volume 1, Section 2 – Trust in Audit Volume 2 – Commitment to quality The EY Global Code of Conduct is available from our <a href="#">website</a>.</p>
<p><b>Independent Non-Executives</b></p>	
<p>C.1. Involvement of independent non-executives principle A firm should appoint independent non-executives to the governance structure who through their involvement collectively enhance the firm's performance in meeting the purpose of the Code.</p>	<p>Volume 1 – Report from the Chairman of the IOC Volume 1, Section 4 – Governance and management bodies</p>
<p>C.1.1 Independent non-executives should number at least three and be in the majority on a body that oversees public interest matters; and/or be members of other relevant governance structures within the firm. They should also meet as a separate group to discuss matters relating to their remit. They should have full visibility of the entirety of the business but should pay particular attention to and report on risks to audit quality and how they are addressed. If a firm considers that having three INEs is inappropriate given its size or number of public company clients, it should explain this in its transparency report and ensure a minimum of two at all times. Where the firm adopts an international approach to its management it should have at least three INEs with specific responsibility and relevant experience to focus on the UK business and to take part in governance arrangements for this market; or explain why it regards a smaller number to be more appropriate, in which event there should be a minimum of two.</p>	<p>Volume 1 – Report from the Chairman of the IOC Volume 1, Section 4 – Governance and management bodies EY has three UK INEs. The UK INEs have been members of the Independent Non-Executive Oversight Committee (IOC) since its inception in April 2017. David Thorburn also represents the UK INEs on the EY Global Governance Committee and Public Interest Committee.</p>

Principles and provisions of the 2016 AFGC	How EY UK is addressing the principles and provisions
<p>C.1.2 The firm should disclose on its website and in its transparency report information about the appointment, retirement and resignation of independent non-executives; their remuneration; their duties and the arrangements by which they discharge those duties; and the obligations of the firm to support them. The firm should report on why it has chosen to position its independent non-executives in the way it has (for example, as members of the main Board or on a public interest committee). The firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes independent non-executives.</p>	<p>Volume 1 – Report from the Chairman of the IOC Volume 1, Section 4 – Governance and management bodies</p>
<p>C.1.3 The independent non-executives should report in the firm’s transparency report on how they have worked to meet the purpose of the Code defined as: Promoting audit quality. Helping the firm secure its reputation more broadly, including in its non-audit businesses. Reducing the risk of firm failure.</p>	<p>Volume 1 – Report from the Chairman of the IOC</p>
<p>C.1.4 Independent non-executives should have regular contact with the Ethics Partner, who should under the ethical standards have a reporting line to them.</p>	<p>Volume 1, Section 4 – Governance and management bodies</p>
<p>C.2 Characteristics of independent non-executives principle The independent non-executives’ duty of care is to the firm. They should command the respect of the firm’s owners and collectively enhance shareholder confidence by virtue of their independence, number, stature, experience and expertise. They should have a balance of relevant skills and experience including of audit and a regulated sector. At least one independent non-executive should have competence in accounting and/or auditing, gained for example from a role on an audit committee, in a company’s finance function, as an investor or at an audit firm.</p>	<p>Volume 1, Section 4 – Governance and management bodies Volume 1, Appendix I – Governance and management bodies – member biographies</p>
<p>C.2.1 The firm should state in its transparency report its criteria for assessing the impact of independent non-executives on the firm’s independence as auditors and their independence from the firm and its owners.</p>	<p>See Volume 1, Section 4 – Governance and management bodies The INEs’ independence was assessed upon their appointment and is assessed on an ongoing basis. Appropriate provisions are in place to monitor this as EY UK is appointed as a new auditor.</p>

Principles and provisions of the 2016 AFGC	How EY UK is addressing the principles and provisions
<p>C.3 Rights and responsibilities of independent non-executives principle Independent non-executives of a firm should have rights consistent with their role including a right of access to relevant information and people to the extent permitted by law or regulation, and a right to report a fundamental disagreement regarding the firm to its owners and, where ultimately this cannot be resolved and the independent non-executive resigns, to report this resignation publicly.</p>	<p>Volume 1, Section 4 – Governance and management bodies Rights and responsibilities are set out in a Letter of Appointment and Service.</p>
<p>C.3.1 Each independent non-executive should have a contract for services setting out their rights and duties</p>	<p>Volume 1, Section 4 – Governance and management bodies</p>
<p>C 3.2 Independent non-executives should be appointed for specific terms and any term beyond nine years should be subject to particularly rigorous review and explanation.</p>	<p>Volume 1, Section 4 – Governance and management bodies</p>
<p>C 3.3 The responsibilities of an independent non-executive should include, but not be limited to, oversight of the firm’s policies and processes for: Promoting audit quality. Helping the firm secure its reputation more broadly, including in its non-audit businesses. Reducing the risk of firm failure</p>	<p>Volume 1 – Report from the Chairman of the IOC Volume 1, Section 4 – Governance and management bodies</p>
<p>C.3.4 The firm should ensure that appropriate indemnity insurance is in place in respect of legal action against any independent non-executive in respect of their work in that role.</p>	<p>Volume 1, Section 4 – Governance and management bodies</p>
<p>C.3.5 The firm should provide each independent non-executive with sufficient resources to undertake their duties including having access to independent professional advice at the firm’s expense where an independent non-executive judges such advice necessary to discharge their duties.</p>	<p>Volume 1, Section 4 – Governance and management bodies</p>
<p>C.3.6 The firm should establish, and disclose on its website, procedures for dealing with any fundamental disagreement that cannot otherwise be resolved between the independent non-executives and members of the firm’s management team and/or governance structures.</p>	<p>EY UK’s Dispute Resolution procedures are set out in the INEs’ Letters of Appointment and Service. We are currently undertaking a review of our website to update for compliance with the revised Audit Firm Governance Code.</p>

Principles and provisions of the 2016 AFGC	How EY UK is addressing the principles and provisions
<b>Operations</b>	
<p>D.1 Compliance principle A firm should comply with professional standards and applicable legal and regulatory requirements. Operations should be conducted in a way that promotes audit quality and the reputation of the firm. The independent non-executives should be involved in the oversight of operations.</p>	<p>Volume 1, Section 2 – Trust in Audit Volume 2 – Commitment to Quality</p>
<p>D.1.2 The firm should establish policies and procedures for individuals signing group audit reports to comply with applicable standards on auditing dealing with group audits including reliance on other auditors whether from the same network or otherwise.</p>	<p>Volume 1, Section 2 – Trust in Audit Volume 1, Section 3 – Managing Risk</p>
<p>D.1.3 The firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest.</p>	<p>Volume 1, Section 3 – Managing Risk Volume 2 – Independence practices</p>
<p>D.1.4 The firm should take action to address areas of concern identified by audit regulators in relation to the firm’s audit work.</p>	<p>Volume 1, Section 2 – Trust in Audit</p>
<p>D.2 Risk management principle A firm should maintain a sound system of internal control and risk management over the operations of the firm as a whole to safeguard the firm and reassure stakeholders.</p>	<p>Volume 1, Section 3 – Managing Risk Volume 2 – Commitment to quality and Independence practices</p>
<p>D.2.1 The firm should, at least annually, conduct a review of the effectiveness of the firm’s system of internal control. Independent non-executives should be involved in the review which should cover all material controls, including financial, operational and compliance controls and risk management systems as well as the promotion of an appropriate culture underpinned by sound values and behaviour within the firm.</p>	<p>Volume 1, Section 2 – Trust in Audit; and Section 3 – Managing Risk Volume 2 – Commitment to quality</p>
<p>D.2.2 The firm should state in its transparency report that it has performed a review of the effectiveness of the system of internal control, summarise the process it has applied and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary.</p>	<p>Volume 1, Section 3 – Managing risk (Statement on the effectiveness of the firm’s system of internal control)</p>

Principles and provisions of the 2016 AFGC	How EY UK is addressing the principles and provisions
D.2.3 The firm should carry out a robust assessment of the principal risks facing it, including those that would threaten its business model, future performance, solvency or liquidity. This should reference specifically the sustainability of the audit practice within the UK.	Volume 1, Section 3 – Managing Risk
D.3 People management principle A firm should apply policies and procedures for managing people across the whole firm that support its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code.	Volume 1, Section 1 – Assurance and Audit Volume 2 – Commitment to quality, Continuing Education of Audit Professionals
D.3.1 The firm should disclosure on its website how it supports its commitment to the professionalism, openness and risk management principles of the Audit Firm Governance Code through recruitment, development activities, objective setting, performance evaluation, remuneration, progression, and other forms of recognition, representation and involvement.	Volume 1, Section 3 – Risk Management See this Transparency Report and the section of the EY UK website where this report sits
D.3.2 Independent non-executives should be involved in reviewing people management policies and procedures, including remuneration and incentive structures, to ensure that the public interest is protected.	Volume 1 – Report from the Chairman of the IOC
D.4 Whistleblowing principle A firm should establish and apply confidential whistleblowing policies and procedures across the firm which enable people to report, without fear, concerns about the firm’s commitment to quality work and professional judgement and values in a way that properly takes the public interest into consideration. The independent non-executives should be satisfied that there is an effective whistleblowing process in place.	Volume 1 – Report from the Chairman of the IOC and Section 3 – Managing Risk Volume 2 – Commitment to quality (Instilled professional values)
D.4.1 The firm should report to independent non-executives on issues raised under its whistleblowing policies and procedures and disclose those policies and procedures on its website.	Volume 1 – Report from the Chairman of the IOC Volume 2 – Commitment to quality (Instilled professional values)
<b>Reporting</b>	
E.1 Internal reporting principle The management of a firm should ensure that members of its governance structures, including owners and independent non-executives, are supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.	The EY UK management team and INEs have been supplied with appropriate and timely information.

Principles and provisions of the 2016 AFGC	How EY UK is addressing the principles and provisions
<p>E.2 Governance reporting principle A firm should publicly report how it has applied in practice each of the principles of the Audit Firm Governance Code and make a statement on its compliance with the Code's provisions or give a considered explanation for any non-compliance</p>	<p>Although the revised 2016 AFGC does not apply to the 2017 Transparency report, we have included our work to implement the new provisions in this report.</p>
<p>E.2.1 The firm should publish on its website an annual transparency report containing the disclosures required by Code Provisions A.1.2, A.1.3, B.1.2, C.2.1, D.1.3, D.2.2, E.2.2 and E.3.1.</p>	<p>The EY UK Transparency Report for FY2017 (comprised of Volume 1 and Volume 2) is compliant with: A.1.2, A.1.3, C.2.1, D.1.3 and D.2.2 KPIs have been disclosed as required under B.1.2 and are being implemented in financial year 2018. E.2.2 is currently not applicable. A full solvency and liquidity assessment under D.2.3 and confirmation under E.3.1 will be carried out in the 2018 financial period.</p>
<p>E.2.2 In its transparency report the firm should give details of any additional provisions from the UK Corporate Governance Code which it has adopted within its own governance structure.</p>	<p>No additional provisions of the UK Corporate Governance Code have been adopted beyond those that are reflected in the AFGC.</p>
<p>E.3 Transparency principle A firm should publish on an annual basis in its transparency report a commentary on the firm's performance, position and prospects.</p>	<p>Volume 2 – Revenue and remuneration Volume 1 – Report from the Managing Partner of Assurance and Head of UK Audit (Audit Market Developments)</p>
<p>E.3.1 The firm should confirm that it has carried out a robust assessment of the principal risks facing the audit firm, including those that would threaten its business model, future performance, solvency or liquidity. The firm should describe those risks and explain how they are being managed or mitigated.</p>	<p>Volume 1, Section 3 – Managing risks A full solvency and liquidity assessment under D.2.3 and confirmation under E.3.1 will be carried out in the 2018 financial period.</p>
<p>E.3.2 The transparency report should be fair, balanced and understandable in its entirety.</p>	<p>The report is produced with extensive subject matter expert input and is subject to PPD review and ultimately approved by the Board and INEs.</p>
<p>E.4 Reporting quality principle A firm should establish formal and transparent arrangements for monitoring the quality of external reporting and for maintaining an appropriate relationship with the firm's auditors.</p>	<p>Volume 1, Section 4 – Governance and management bodies</p>
<p>E.4.1 The firm should establish an audit committee and disclose on its website information on the committee's membership and terms of reference which should deal clearly with its authority and duties, including its duties in relation to the appointment and independence of the firm's auditors. On an annual basis, the audit committee should publish a description of its work and how it has discharged its duties.</p>	<p>Volume 1, Section 4 – Governance and management bodies We are currently undertaking a review of our website to update for compliance with the revised Audit Firm Governance Code.</p>

Principles and provisions of the 2016 AFGC	How EY UK is addressing the principles and provisions
<p>E.5 Financial statements principle A firm should publish audited financial statements prepared in accordance with a recognised financial reporting framework such as International Financial Reporting Standards or UK GAAP, and should be clear and concise.</p>	<p>See the Ernst &amp; Young LLP financial statements, available from Companies House.</p>
<p>E.5.1 The firm should explain who is responsible for preparing the financial statements and the firm's auditors should make a statement about their reporting responsibilities, preferably in accordance with the extended audit report standards.</p>	<p>See the Ernst &amp; Young LLP financial statements, available from Companies House</p>
<p>E.5.2 The firm should state whether it considers it appropriate to adopt the going concern basis of accounting and identify any material uncertainties to its ability to continue to do so, with supporting assumptions or qualifications as necessary.</p>	<p>See the Ernst &amp; Young LLP financial statements, available from Companies House.</p>
<b>Dialogue</b>	
<p>F.1 Firm dialogue principle A firm should have dialogue with listed company shareholders, as well as listed companies and their audit committees, about matters covered by this Audit Firm Governance Code to enhance mutual communication and understanding and ensure that it keeps in touch with shareholder opinion, issues and concerns.</p>	<p>Volume 1 – Report from the Chairman of the IOC; Message from the UK &amp; Ireland Assurance Managing Partner and EY UK Head of Audit Volume 1, Section 2 – Trust in Audit</p>
<p>F.1.1 The firm should disclose on its website its policies and procedures, including contact details, for dialogue about matters covered by this Audit Firm Governance Code with listed company shareholders and listed companies. It should also report on the dialogue it has had during the year. These disclosures should cover the nature and extent of the involvement of independent non-executives in such dialogue.</p>	<p>Volume 1 – Report from the Chairman of the IOC; Report from the EY UK Managing Partner of Assurance and EY UK Head of Audit; and Section 2 – Trust in Audit</p>
<p>F.2 Shareholder dialogue principle Shareholders should have dialogue with audit firms to enhance mutual communication and understanding.</p>	<p>Volume 1 – Report from the Chairman of the IOC; Message from the UK &amp; Ireland Assurance Managing Partner and EY UK Head of Audit; and Section 2 – Trust in Audit</p>
<p>F.3 Informed voting principle Shareholders should have dialogue with listed companies on the process of recommending the appointment and re-appointment of auditors and should make considered use of votes in relation to such recommendations.</p>	<p>In our dialogue with investors we encourage engagement with listed companies.</p>

# Appendix IV

## EU Audit Regulation

Under Article 13 of The EU Audit Regulation 2016 (537/2014) we are required to disclose certain information. The table below shows where these disclosures can be found in this Transparency Report.

Provisions of the Regulation	Where to find information on how EY UK complies with the Regulation
(a) a description of the legal structure and ownership of the audit firm	Volume 1, Section 4 and Volume 2, About us
(b) where the statutory auditor or the audit firm is a member of a network: (i) a description of the network and the legal and structural arrangements in the network	Volume 2, About us
(ii) the name of each statutory auditor operating as a sole practitioner or audit firm that is a member of the network	Volume 2, Appendix 3
(iii) the countries in which each statutory auditor operating as a sole practitioner or audit firm that is a member of the network is qualified as a statutory auditor or has his, her or its registered office, central administration or principal place of business	Volume 2, Appendix 3
(iv) the total turnover achieved by the statutory auditors operating as sole practitioners and audit firms that are members of the network, resulting from the statutory audit of annual and consolidated financial statements	Volume 2, Appendix 3
(c) a description of the governance structure of the audit firm	Volume 1, Section 4 and Volume 2, About us
(d) a description of the internal quality control system of the statutory auditor or of the audit firm and a statement by the administrative or management body on the effectiveness of its functioning	Volume 2, Commitment to Quality, Volume 1, Section 3 and Volume 1, section 2

Provisions of the Regulation	Where to find information on how EY UK complies with the Regulation
(e) an indication of when the last quality assurance review referred to in Article 26 was carried out	Volume 1, Section 2
(f) a list of public-interest entities in respect for which the statutory auditor or the audit firm carried out statutory audits during the preceding financial year	Volume 2, Appendix 1
(g) a statement concerning the statutory auditor's or the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted	Volume 2, Independence practices and Volume 1, Section 3
(h) a statement on the policy followed by the statutory auditor or the audit firm concerning the continuing education of statutory auditors referred to in Article 13 of Directive 2006/43/EC	Volume 2, Continuing education of audit professionals
(i) information concerning the basis for the partners' remuneration in audit firms	Volume 2, Revenue and remuneration
(j) a description of the statutory auditor's or the audit firm's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7)	Volume 2, Commitment to quality
<p>(k) where not disclosed in its financial statements within the meaning of Article 4(2) of Directive 2013/34/EU, information about the total turnover of the statutory auditor or the audit firm, divided into the following categories:</p> <p>(i) revenues from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity</p> <p>(ii) revenues from the statutory audit of annual and consolidated financial statements of other entities</p> <p>(iii) revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and</p> <p>(iv) Revenues from non-audit services to other entities.</p>	<p>Volume 2, Revenue and remuneration</p>

# Appendix V

## Financial Reporting Council – The Local Auditors (Transparency) Instrument 2015

Regulation 3(2), Schedule

Provisions of the Regulation	Where to find information on how EY complies with the Regulation
1. A description of the legal structure, governance and ownership of the transparency reporting local auditor.	Volume 1, Section 4 and Volume 2, About us
2. Where the transparency reporting local auditor belongs to a network, a description of the network and the legal, governance and structural arrangements of the network.	Volume 2, About us
3. A description of the internal quality control system of the transparency reporting local auditor and a statement by the administrative or management body on the effectiveness of its functioning in relation to local audit work.	Volume 2, Commitment to Quality, Volume 1, Section 3 and Volume 1, Section 2
4. A description of the transparency reporting local auditor's independence procedures and practices including a confirmation that an internal review of independence practices has been conducted.	Volume 1, Section 3 and Volume 2, Independence practices
5. Confirmation that all engagement leads are competent to undertake local audit work and staff working on such assignments are suitably trained;	Volume 1 – Section 2, Trust in Audit Volume 2, Continuing education of professionals
6. A statement of when the last monitoring of the performance by the transparency reporting local auditor of local audit functions, within the meaning of paragraph 23 of Schedule 10 to the Companies Act 2006, as applied in relation to local audits by Section 17 and paragraphs 1, 2 and 28(7) of Schedule 5 to the Act, took place.	Volume 1, Section 2, Trust in Audit
7. A list of major local audits in respect of which an audit report has been made by the transparency reporting local auditor in the financial year of the auditor; and any such list may be made available elsewhere on the website specified in regulation 4 provided that a clear link is established between the transparency report and such a list.	Volume 1 Volume 2, Appendix 2

Provisions of the Regulation	Where to find information on how EY complies with the Regulation
8. A statement on the policies and practices of the transparency reporting local auditor designed to ensure that persons eligible for appointment as a local auditor continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level.	Volume 1 – Section 2, Trust in Audit Volume 2, Continuing education of professionals CPD requirements apply to all audits including local audits.
9. Turnover for the financial year of the transparency reporting local auditor to which the report relates, including the showing of the importance of the transparency reporting local auditor’s local audit work.	Volume 2, Revenue and remuneration
10. Information about the basis for the remuneration of partners.	Volume 2, Revenue and remuneration

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## **About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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