

# Transparency report 2013

EY UK



Building a better  
working world

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## Country managing partner's letter



Welcome to EY UK's 2013 Transparency Report. The past year has been a significant one for EY globally and in the UK. In January we launched Vision 2020, which sets out EY's purpose, ambition, strategy and positioning across the 150 plus countries in which we work.

When we created Vision 2020, we spent time looking at the world around us - speaking with people inside and outside of EY: leading thinkers, clients and our people. In the process, we realised that our purpose is clear - to build a better working world.

This is present in our services that build trust and confidence in the capital markets; in our belief that every audit, every tax return, every advisory opportunity, every interaction should make the working world better than it was before; and in our relationships with our people, our clients and other stakeholders - through what we say and do and the conversations we convene about the challenges facing economies and the capital markets.

The timing of Vision 2020 could not have been better for us in the UK - helping us to finish the year with good momentum, posting strong UK revenue growth for the third year running.

I am really encouraged by the increased level of optimism in our business, as the UK economy starts to turn the corner with some tentative signs of balanced growth and the global economy appearing to be on the mend.

There is certainly no shortage of opportunities for our country's exporters, or a lack of appetite from foreign investors to put their dollars, euros and yen into the UK - still the number one investment destination in Europe - with our EY ITEM Club report predicting that the long awaited revival in UK exports and business investment will kick in next year.

EY's UK offices up and down the country provide a global gateway for our clients who are looking to expand overseas and attract foreign investment. And we have seen very positive revenue growth in the international segment of our UK business.

Against this backdrop I can tell you that my partners and I are positive about the market, as are many of our clients - who have responded enthusiastically to our new vision.

At the heart of building a better working world is our public interest role as an auditor of a large range of companies. Auditors play a vital role in the efficient functioning of our capital markets through promoting transparency and supporting investor confidence. Our clients, regulators and other stakeholders count on us to deliver quality and excellence, and executing audits in a high-quality manner remains central to our role in serving the public interest and growing EY successfully.

We also recognise that there is increasing UK public concern about the transparency of tax disclosures in financial statements. That is why we have taken the step of disclosing our own tax contribution in this letter, to reflect our public interest role and commitment to transparency. Our total contribution to Government finances through taxes borne and collected by our partners, the business and employees is estimated to be £669m in respect of the past year (FY12 £614m) ended 28 June 2013. Within that, the taxes collected comprise employees taxes, National insurance and VAT and are estimated at £409m (FY12 £385m) and demonstrate our wider economic role and contribution.

Competition between audit firms in the UK is healthy and robust and the service we provide to our clients is effective and diligent. In this report, you can read more about our internal quality-control system; how we instill professional values; how we perform an audit; our review and consultation process and our process for audit quality reviews. You can also read more about EY's Independent Non-Executive Representatives on pages 10-11.

As part of Vision 2020 we are investing in tools to improve our audits, creating the highest-performing teams, and focusing on building trust and confidence in the audits we perform in the UK and around the world.

My colleagues and I in the UK are excited about playing our part to make Vision 2020 a reality. We look forward to working with you and sharing our progress. Regular conversations with our stakeholders is a priority for us and what we hear helps inform our views and actions.

Thank you to all of you who have taken the time to share your views with us in 2013. I encourage investors, audit committee members, companies, regulators and all our stakeholders to continue to engage with us, and would welcome your comments on the matters covered in this report.

A handwritten signature in black ink, appearing to read 'S. Varley', with a stylized flourish at the end.

Steve Varley  
Country Managing Partner  
EY UK

## Message from the Country Head of Audit



EY provides an important public interest role, as an auditor of a large range of companies. This role is central to our purpose, values, management and work ethic. We aim, through each and every audit, to deliver the greatest confidence to the companies we audit, their shareholders and the market, enabling those companies to build a better business.

Demonstrating the vital role of auditors is crucial to our public interest function and has only been heightened in the past 12 months, as unprecedented regulatory change washes over our market.

EY continues to embrace the European Union's 8th Company Law Directive and the Statutory Auditors (Transparency) Instrument 2008, which requires UK statutory auditors of public interest companies to publish annual transparency reports. In the following pages you can read about our internal quality control system; how we instill professional values, how we perform an audit, our oversight and our process for audit quality reviews.

The UK audit market has variously seen input from the Financial Reporting Council (FRC), Competition Commission and the European Commission in the last 12 months. In particular, the FRC move towards 'comply or explain' tenders for audits every 10 years has seen numerous UK listed companies pre-empt regulatory change by putting their audits out to tender. In this fiercely competitive environment, we are very proud to have won the audits of BG Group, Dyson, Iberia and Land Securities, to name a few.

As well as an increase in audit tenders we can also expect to see enhancements in audit quality and transparency, as audit committees' oversight of the external auditor is strengthened. We also recognise the need to further engage with and respond to the demands of investors in the coming months.

Change is often accompanied by increased financial burdens and while more tendering is a positive step and welcome, we anticipate that there are likely to be substantial transition challenges for companies as a result. We will work with companies to ensure any such transitions are as efficient as possible.

Our primary focus remains the promotion and strengthening of audit quality, our first and last consideration, and the professional scepticism which underpins it. We continue to invest heavily in developing our audit methodology, tools and other resources needed to support quality delivery. This includes cutting-edge analysis tools revolutionising how we analyse data, assess risk, and investigate higher risk transactions. This will only serve to strengthen our ability to execute our public interest role.

We are pleased the FRC's 2012/2013 inspection of EY UK recognised our emphasis on audit quality, as well as the significant resources EY commits globally and in the UK to the implementation of our audit policies and procedures, particularly in relation to independence compliance, risk assessment, training and technical communications. As for all firms, the FRC's report identified areas for improvement which we take extremely seriously. You can read more about the FRC report and our responses on page 23. We will continue to work with the FRC and others to ensure audit quality and transparency are enhanced.

The retention of our top talent is fundamental to audit quality. We are proud of our reputation for having one of the UK's leading workplace people cultures, and of our role as one of the UK's largest student recruiters - developing the business leaders of tomorrow. EY is also committed to having a more diverse workplace and leadership pipeline and an inclusive and flexible culture.

Undoubtedly the next twelve months will continue to see the market shift, potentially beyond recognition, as the impact of increased audit tendering spreads wider and audit committees carefully consider how best to ensure audit quality from their audit firm.

However our principle remains that no single client, future or existing, is more important than the professional reputation of EY and that of our people. I expect all our audit professionals to be profoundly sceptical and our primary drive remains audit quality, which is in the interests of the shareholders of the companies we audit and in the public interest.

This report provides details about how we are meeting our responsibilities to provide enhanced public confidence in financial reporting. We very much welcome your feedback on anything contained in it. I look forward to hearing as many of your views as possible.

A handwritten signature in black ink, appearing to read 'Hywel Ball', with a stylized flourish at the end.

Hywel Ball

Country Head of Audit  
EY UK



## About us

### Legal structure, ownership and governance

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

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

At 1 July 2013, EY UK had 574 partners and operated from 21 offices across the UK as well as in Jersey and Guernsey.

EY is organized in four geographic Areas: Americas, Asia-Pacific, EMEIA (Europe, Middle East, India and Africa) and Japan. The Areas comprise a number of Regions, which consist of member firms or sections of those firms.

Our EMEIA Area comprises EYG member firms in 98 countries in Europe, Middle East, India and Africa.

Ernst & Young (EMEIA) Limited (“EMEIA Limited”), an English company limited by guarantee, is the principal governance entity for the EYG member firms in the EMEIA Area. EMEIA Limited facilitates the coordination of these member firms and cooperation between them, but it does not control them. EMEIA Limited is a member firm of EYG.

In Europe, a holding entity, Ernst & Young Europe LLP (“EY Europe”) was formed in conjunction with the EYG member firms within the EMEIA Area. EY Europe is an English limited liability partnership, owned by partners of EYG member firms in Europe. It is an audit firm registered with the ICAEW (the Institute of Chartered Accountants in England and Wales) but it does not carry out audits or provide any professional services. To the extent permitted by local legal and regulatory requirements, EY Europe has acquired or will acquire control of the EYG member firms in the European countries in the EMEIA Area. EY Europe is a member firm of both EYG and EMEIA Limited.

EY Europe acquired control of EY UK as of November 2008.

EY Europe’s principal bodies are:

#### Europe Executive

The Europe Executive effectively operates as the board of EY Europe. It has authority and accountability for strategy execution and management of EY Europe’s operations under four dimensions: people, quality, growth and operational excellence. It comprises the Europe Managing Partner; the Europe Chief Operating Officer, the leaders for Markets, People, Quality & Risk Management, the service-line leaders for Assurance, Advisory, Transaction Advisory Services and Tax and all Regional Managing Partners in Europe.

The Europe Executive meets at least monthly.

At 1 July 2013 the Europe Executive comprised

Abdulaziz Al-Sowailim, Andy Baldwin\*, Rudi Braes, Olivier Breillot, Andy Embury\*, Philip Hourquebie, Donato Iacovone, Karl Johansson, Stephan Kuhn, Jean-Pierre Letartre, Pascal Macioce, Eric Mamelund, Rajiv Memani, Jay Nibbe, Mark Otty\*, Seshni Samuel, Ajen Sita, Joachim Spill, Julie Teigland, Steve Varley\*, Georg Graf Waldersee.

\* denotes EY UK members

#### Europe Advisory Council

EY Europe has an elected Europe Advisory Council, which comprises a number of partners of the EYG member firms in Europe. It serves in an advisory role to the Europe Executive on policies, strategies and other matters and its approval is required for a number of significant matters, e.g. appointment of the Europe Managing Partner, approval of the financial reports of EY Europe, and material transactions.

The Europe Advisory Council met four times during the year.

At 1 July 2013 EY UK had the following four elected representatives on the Europe Advisory Council.

John Cole, Douglas Nisbet, Penny Stocks, Steve Wills.

BDO LLP is the external auditor of EY UK

The UK Board

The Board of Ernst & Young UK ("the Board") is appointed by the Europe Executive and the UK Country Managing Partner ("the CMP") who has full authority to deal with the Firm's general and operational management. Board members serve for such term as is appropriate for their experience and their other roles and responsibilities. The CMP is appointed by the Europe Managing Partner who has the right to remove the CMP, with the consent of the Europe Executive, having consulted with the Board and appropriate partners.

The CMP of Ernst & Young UK is Steve Varley. The role of the CMP includes:

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

The CMP leads the Board. The Board is responsible for the commercial, financial and reputational standing of the Firm as a whole, implementing the admission of new members, maintaining liaison with members, approving the financial statements and other matters delegated to it from time to time by the Europe Executive. The Board met on seven occasions during the year and, in addition, routinely conducts business through electronic fora. The day-to-day management of the UK business is undertaken by two Sub-Area Managing Partners who are members of the Board and of the

Europe Executive, and who each lead a Sub-Area leadership team.

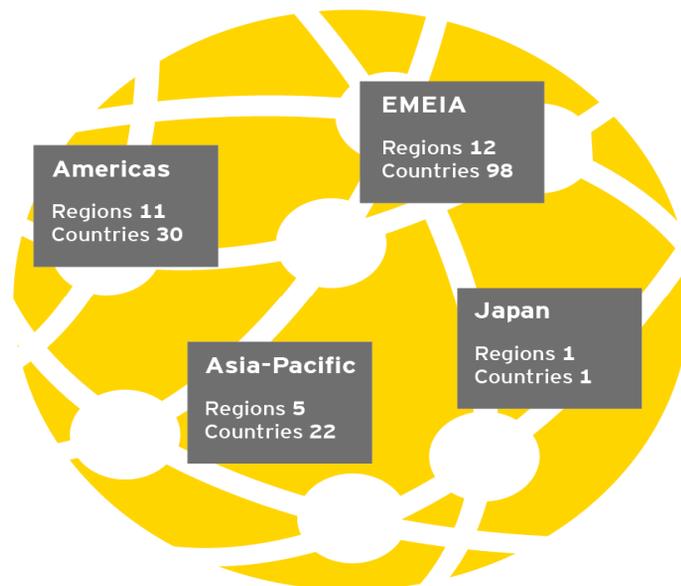
At 1 July 2013 the Board comprised:

Steve Varley	CMP and UK & Ireland (UK&I) Sub-Area Managing Partner
Hywel Ball	Country & UK& Sub-Area Head of Audit Leader
Andy Baldwin	EMEIA Financial Services Organisation (FSO) Sub-Area Managing Partner
Andrew McIntyre	Audit Partner (FSO)
Robin Tye	UK&I Chief Operating Officer
Alisdair Mann	FSO Chief Operating Officer
Lisa Cameron	Country & UK&I Sub-Area Quality and Risk Management Leader
Robert Overend	UK Country Professional Practice Director and UK Audit Compliance Principal
Robin Heath	EMEIA Coordinating Partner, Regulatory Relations

The day-to-day management of the UK&I Assurance practice is led by the Sub-Area Assurance Leader, Hywel Ball, who reported directly to the Europe Assurance Leader and to the CMP.

The day-to-day management of the Financial Services Assurance practice in the UK is led by the UK FSO Assurance Leader, Victor Veger, who reports to the Europe Financial Services Assurance Leader, Isabelle Sentenac, who in turn reports to the Europe Assurance Leader.

## Network arrangements



Beginning in July 2013, EY has streamlined its operating model into the Executive and the Regions. The Executive will include the Global Executive (GE), its committees and teams, and the four geographic Areas, and will sit across the 29 Regions (formerly called Sub-Areas). Additional roles will be added to the GE: the Global Managing Partner of Client Service and the Global Managing Partner of Business Enablement will be responsible for executing EY's global strategy in the market and strengthening EY's global functions respectively. These two roles will jointly assume the responsibilities of the current Chief Operating Officer when his term expires in December 2014. The Chair of the Global Accounts Committee, representing EY's largest clients, and the Chair of the Emerging Markets Committee, representing EY's emerging market practices, will also join the GE.

This streamlined structure will allow EY to further enhance its global scale and the delivery of consistent exceptional client service worldwide, with the Executive responsible for one global approach to strategy, quality, risk management, business planning, investments and priorities. At the same time, the new operating model will allow for greater stakeholder focus in the Regions, ensuring that EY UK can build stronger relationships with clients and other stakeholders locally and be

more responsive to local needs.

EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, 175,000 people in more than 150 countries share a commitment to building a better working world and are united by shared values and an unwavering commitment to quality, integrity and professional scepticism. In today's global market, EY's integrated approach is particularly important in the delivery of high-quality multinational audits, which can span multiple jurisdictions.

EY's central entity, EYG, coordinates the member firms and promotes cooperation among them. EYG does not provide services, and its objectives include the promotion by member firms of high-quality service, worldwide. Each member firm is a legally distinct entity. The member firms' obligations and responsibilities are governed by the regulations of EYG and various other agreements.

The structure and principal global bodies of the global organisation during the year ending 30 June 2013 are described below. They reflect the principles that governance and management roles be separated and that EY, as a global organisation, has one shared strategy.

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#### Global Advisory Council

The Global Advisory Council is EY's main advisory body. It comprises a number of member firm partner-level professionals (referred to as partners) drawn from across the four Areas and includes independent non-executive representatives (INEs). The partners, who otherwise do not hold senior management roles, are elected by their peers for a three-year term, with provisions for one successive re-appointment. The INEs are nominated by a dedicated committee. The Global Advisory Council advises EYG on policies, strategies and the public interest aspects of their decision-making. The approval of the Global Advisory Council is required for a number of significant matters that could affect EY.

#### Independent non-executive representatives

Independent non-executive representatives (INEs) are appointed from outside of EY and bring the global organisation, and the Global Advisory Council, the significant benefit of their outside perspectives and views. More information on EY's INEs can be found in the next section.

#### Global Executive

The Global Executive brings together EY's leadership functions, services and geographies. It is chaired by the Chairman and Chief Executive Officer of EYG, and includes its Chief Operating Officer; the Area Managing Partners; the global functional leaders – the Global Managing Partners of People, Markets, Quality & Risk Management and

Operations and Finance; and the global service line Vice Chairs – Assurance, Advisory, Tax and Transaction Advisory Services, as well as the Global Vice Chair for Public Policy. The Global Executive also includes a representative from the emerging markets practices.

The Global Executive and the Global Advisory Council approve nominations for the Chairman, Chief Executive Officer and the Chief Operating Officer of EYG and ratify appointments of Global Managing Partners. The Global Executive also approves appointments of Global Vice Chairs. The Global Advisory Council ratifies the appointments of any Global Vice Chair who serves as a member of the Global Executive. Furthermore, the Global Executive approves appointments of Area Managing Partners. Such appointments are subject to ratification by the Global Advisory Council.

The Global Executive's terms of reference include the promotion of global objectives and the development, approval and, where relevant, implementation of:

- Global strategies and plans
- Common standards, methodologies and policies to be promoted within member firms
- People initiatives, including criteria and processes for admission, evaluation, development, reward and retirement of partners
- Quality improvement and protection programmes
- Proposals regarding regulatory matters and public policy
- Policies and guidance relating to member firms' service of international clients, business development, markets and branding
- EY's business plans, development funds and investment priorities
- EYG's annual financial reports and budgets
- Global Advisory Council recommendations
- Any other proposal that supports the global objectives

It also has the power to mediate and adjudicate disputes between member firms.

#### Global Executive Committees

Chaired by members of the Global Executive and bringing together representatives from the four Areas, the Global Executive Committees are responsible for making recommendations to the Global Executive. There are committees for People,

Quality & Risk Management, Markets, Operations and Finance, Assurance, Advisory, Tax, and Transaction Advisory Services.

#### Global Practice Group

This group brings together the members of the Global Executive, Global Executive Committees and Regional leaders. The Global Practice Group seeks to ensure common understanding across member firms of EY's strategic objectives and consistency of execution across the organisation.

#### EYG member firms

Under the regulations of EYG, member firms commit themselves to pursue EY's objectives, such as the provision of high-quality service, worldwide. To that end, the member firms undertake to implement the global strategies and plans and to maintain the minimum scope of service capability. They are required to comply with common standards, methodologies and policies, including those regarding audit methodology, quality and risk management, independence, knowledge sharing, human resources and technology.

Above all, EYG member firms commit themselves to conducting their professional practices in accordance with the applicable professional and ethical standards, and all applicable requirements of law. This commitment to integrity and doing the right thing is underpinned by EY's Global Code of Conduct and EY's Values.

Besides adopting the regulations of EYG, member firms enter into several other agreements covering aspects of their membership in the EY organisation such as the right and obligation to use the EY name and the sharing of knowledge.

Member firms are subject to reviews that evaluate their adherence to EYG requirements and policies governing issues such as independence, quality and risk management, audit methodology and human resources. As necessary, special focus reviews are performed to address situations or concerns as they arise. Member firms unable to meet the quality commitments and other EYG membership requirements are subject to separation from the EY organisation.

## Independent non-executive representatives

EY has invited world-class leaders in related fields to serve as independent non-executive representatives (INEs). They provide an independent voice to the highest levels of management, offer insight into the interests of EY's key stakeholders and further objectivity within its governance structures. EY follows the UK Audit Firm Governance Code model for INEs by selecting individuals who command respect and collectively enhance stakeholder confidence by virtue of their independence, stature, experience and expertise.

### Appointment

The INEs are nominated by the INE Nominating Committee comprising the Chairman/CEO of EYG, the presiding partner of the Global Advisory Council and other persons as the Chairman/CEO and the presiding partner in their discretion deem appropriate. The nominations require approval by the Global Executive and ratification by the Global Advisory Council.

### Support

INEs are entitled to receive information about global affairs. To ensure the effectiveness of each INE, they receive administrative support, and the cost of any independent professional advice that may be required is met.

### Term

The term of an INE is three years with provision for one successive re-appointment at the request of the INE Nominating Committee and the Global Executive.

### Disagreements

Any disagreement with an INE would be resolved by mediation by the Chairman/CEO of EYG through a defined process of notification and consultation. In the event of an unresolved disagreement, the INE has the right to resign from the position.

### Independence

EY has considered the auditor independence standards as they apply to INEs in their role as members of the Global Advisory Council, and are satisfied these standards have been met.

### EY's INEs

#### *Lim Hwee Hua*

Lim Hwee Hua is a former Minister of State of Singapore for Finance and Transport. As well as being the first woman to be appointed Minister in the history of Singapore, she is also the former *Straits Times* "World woman of the year". Before entering politics Lim Hwee Hua worked for Jardine Fleming and subsequently became a Managing Director of Temasek Holdings.

#### *Shyamala Gopinath*

Shyamala Gopinath is the former deputy governor of the Reserve Bank of India (RBI), a post she held from September 2004 to June 2011. She joined the RBI in 1972 and worked in different capacities, including as Executive Director from June 2003 until her elevation to deputy governor. She also served for two years on deputation to the International Monetary Fund.

#### *Sir Richard Lambert*

Sir Richard Lambert is the Chancellor of the University of Warwick, a member of the Supervisory Board for the Foreign and Commonwealth Office (UK), former Director-General of the Confederation of British Industry and former editor of the *Financial Times*. Sir Richard was knighted for services to business in the 2011 New Year Honours.

#### *Klaus Mangold*

Klaus Mangold serves as a director at many companies, including Alstom S.A., Continental AG, TUI AG, Metro AG and Rothschild GmbH. His former directorships include DaimlerChrysler Services AG and he has been the Chairman of the East-West Committee of German Industry. He is Commander of the Legion of Honour (France) and Professor of the European Business School.

#### *Mark Olson*

Mark Olson's former positions include Federal Reserve Board Governor, Chairman of the US PCAOB, Staff Director of the US Senate Securities Sub-committee of the Banking, Housing, and Urban Affairs Committee, Chairman of the American Bankers Association, bank president and CEO. He was a partner at EY from 1988 to 1999.

## Letter from Sir Richard Lambert on behalf of Independent non-executive representatives



As a global organization, it makes sense for EY to appoint its independent non-executives (INEs) on a global basis, with its five representatives today coming from the UK, Germany, India, Singapore and the US. Although our perspective is truly international, our role is shaped by the objectives of the UK Audit Firm Governance Code: we aim to reinforce confidence in the public interest aspects of EY's decision-making, support its dealings with its different stakeholders, and help to deliver the appropriate management of reputational risks.

We sit as equals on the Global Advisory Council (GAC) and enter fully into its debates. But we don't see ourselves as playing the part of a conventional non-executive director of a publicly listed company. Rather, our job is to champion the public interest and to offer EY's leaders the perspectives of independent outsiders.

Over the past year, we have improved our understanding of the way EY works around the world, and we are learning to work well together across our different geographies. For example, we make a point of meeting privately before meetings of the GAC to share ideas and priorities.

We are fully briefed on regulatory developments around the world – and EY's response to them – and on the financial and reputational risks that EY faces from time to time. And this year, the INEs organized the election of the Presiding Partner of the GAC.

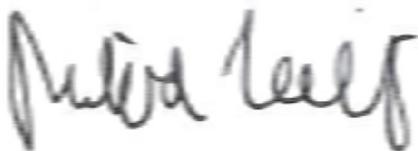
As a group, we INEs are confident that EY's leadership takes our views seriously and gives us the access and information we need to do our job properly.

The fact that I have a good understanding of the risks and opportunities facing EY around the world, and a working relationship with its global leaders, is of real value to me as the UK-based INE. I have a better understanding than would otherwise be the case of the firm's culture, its business priorities, and its approach to public interest issues.

In addition to the global role, I see myself as having specific responsibilities under the Audit Firm Governance Code. In order to fulfill them, I am in regular dialogue with the firm's UK leadership. Twice a year I get a full briefing on the UK's operations, with a special focus on its public interest responsibilities, and have the opportunity to challenge the UK management on any issues that may be of concern. I am kept up to date with any UK specific matters within the global risk register.

I expect to be, and am, consulted through the year by EY's leaders on sensitive issues that might have a bearing on the public interest, and I discuss the firm's inspection reports with members of Audit Quality Review Team from the Financial Reporting Council. Along with INE's from the other big firms, I attend biannual meetings organized by the Financial Reporting Council in order to be updated on relevant issues. And I welcome opportunities to engage with investors and other stakeholders.

Working together, we INEs believe that we have an important role to play in championing EY's public interest mission.

A handwritten signature in dark ink, appearing to read 'Richard Lambert'.

Sir Richard Lambert - on behalf of the EY INEs





## EY UK's Internal quality control system

### Effectiveness of the Firm's system of internal control

The Audit Firm Governance Code issued by the FRC and the ICAEW (the Code) requires the Firm to conduct, at least annually, a review of the effectiveness of its system of internal control. The table in Appendix 2 maps the disclosure requirements of the Code to the contents of this report.

The UK Board has overall responsibility for risk management and internal control over the entire UK business, including a periodic review of its effectiveness. The Sub-Area Managing 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 Turnbull framework issued by the FRC. In particular, the Firm 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, as well as mechanisms for monitoring the most significant controls. The content of the Register is determined through regular discussion between senior management and is reviewed by the Board.

The 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.

A balanced approach allows the degree of controllability to be taken into account when considering the effectiveness of mitigation, recognizing that some activities carry inherent risk which may be outside the Firm's control.

Statement on the effectiveness of the Firm's system of Internal control

As part of its annual procedures and in compliance with the Code, the Board confirms that it has performed a review of the effectiveness of the system of internal control, including considering the:

- process undertaken by the Risk Forum 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, and who sit on the Risk Forum. This was followed by a meeting of the Risk Forum members to challenge and approve the updated Risk Register
- reports and findings from regulatory reviews
- 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 which we believe will strengthen controls to mitigate significant risks. On the basis of the reviews carried out the Board is satisfied that the Firm's systems of quality control are operating effectively.



## Commitment to quality

### Infrastructure supporting quality

The Global Managing Partner – Quality & Risk Management (GMP –Q&RM) coordinates organisation-wide quality initiatives across EY's four service lines: Assurance, Advisory, Tax and Transaction Advisory Services.

The GMP – Q&RM is overseen by the Chairman and Chief Executive Officer and the Chief Operating Officer of EYG and is a member of the Global Executive. Member firm partners are appointed to lead Quality & Risk Management initiatives in the service lines and member firms, supported by other staff and professionals. The GMP – Q&RM is also responsible for establishing globally consistent Q&RM execution priorities. These priorities are cascaded to member firms, and their execution is monitored through a formal Enterprise Risk Management programme.

The Global Vice Chair – Assurance coordinates member firms' compliance with and implementation of EY's policies and procedures for assurance services.

The Global Vice Chair – Professional Practice, referred to as the Professional Practice Director (PPD), is overseen by both the GMP – Q&RM and Global Vice Chair – Assurance and works directly with the Area PPDs to establish global audit quality-control policies and procedures. The Area PPDs are overseen by the Global PPD, the Area Q&RM Leader and the Area Assurance Leader. This helps provide greater assurance as to the objectivity of audit quality and consultation processes.

The Global PPD and Area PPDs also lead and oversee the Professional Practice group, a Global and Area network of technical subject-matter specialists in accounting and auditing standards who consult on accounting, auditing and financial reporting matters and perform various practice monitoring and risk management activities.

The Global PPD oversees the development of the EY Global Audit Methodology (EY GAM) and related technologies to be consistent with relevant professional standards and regulatory requirements. The Professional Practice group also oversees the development of the guidance,

training, and monitoring programmes, and processes used by member firm professionals to consistently and effectively execute audits. The PPDs, together with other professionals who work with them in each member firm, are knowledgeable about EY people, clients and processes and are readily accessible for consultations with audit engagement teams.

There is often the need for additional resources to augment the resources in the Professional Practice group, including networks of professionals focused on:

- Internal-control reporting and related aspects of our audit methodology
- Accounting, auditing and risk issues for specific industries and sectors
- Event-specific issues such as the financial crisis; areas of civil and political unrest; and sovereign debt and related accounting, auditing, and financial reporting and disclosure implications
- General engagement issues and how to work effectively with audit committees

Those teams provide written guidance and training on emergency issues and ensure that our Global Audit Methodology (discussed further below) is consistent with UK requirements.

In addition each of those groups is available to support individual engagement teams in the resolution of complex matters.

In EY UK our PPD has responsibility for the following

- The Accounting Technical Group
- Audit Reporting Group
- Capital Markets Group
- Audit Methodology Group

Each of those groups is available to support individual engagement teams in the resolution of complex matters.

Our PPD also has responsibility for performance of Audit Quality Reviews (discussed further below) in the UK and ensuring appropriate responses to issues identified.

The EY UK PPD is a member of the EY UK Board which ensures that quality issues are fully considered by the Board.

In the following sections, we describe the principal components of our audit quality-control programme:

- Instilling professional values
- Internal quality-control system
- Client acceptance and continuance
- Performing audits
- Review and consultation
- Audit partner rotation
- Audit quality reviews
- External quality-assurance reviews
- Compliance with legal requirements

## Instilling professional values

### Tone at the top

Our senior leadership team is responsible for setting the right tone at the top and demonstrating through its behavior and actions, EY's commitment to building a better working world. We also communicate to our people that quality and professional responsibility start with them. Our shared values, which inspire our people and guide them to do the right thing, and our commitment to quality, are embedded in who we are and in everything we do.

Our approach to business ethics and integrity is embedded in our culture of consultation, our training programmes and our internal communications. Senior management regularly reinforce the importance of performing quality work and complying with professional standards and our policies, leading by example and through various communications. Also, our quality review programmes assess the quality of professional service as a key metric in evaluating and rewarding all professionals.

Our culture strongly supports collaboration and places special emphasis on the importance of consultation in dealing with complex or subjective accounting, auditing, reporting, regulatory and independence matters. We believe it is important to determine that engagement teams and clients correctly follow consultation advice and we emphasize this when necessary.

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Our stance consistently has been that no single client is more important than professional reputation - the reputation of EY UK and the reputation of each of our professionals.

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### Code of conduct

We promote a culture of integrity, as well as the performance of high-quality audits, among of our professionals. The Global Code of Conduct provides a clear set of the standards that guide our actions and our business conduct. It is organized into five categories containing principles that are to be followed by everyone within EY UK to guide behavior across all areas of activity:

- Working with one another
- Working with clients and others
- Acting with professional integrity
- Maintaining our objectivity and independence
- Respecting intellectual capital

Through our procedures to monitor compliance with the Global Code of Conduct, and through frequent communications, we strive to create an environment that encourages all personnel to act responsibly, including reporting misconduct without fear of retaliation.

The EY/Ethics Hotline provides our people, clients and others outside of the organisation with a means to confidentially report activity that may involve unethical or improper behavior, and that may be in violation of professional standards or otherwise inconsistent with the Global Code of Conduct. The hotline is operated by an external organisation that provides confidential and, if desired, anonymous, hotline reporting services for companies worldwide.

When a report comes into the EY/Ethics Hotline, either by phone or internet, it receives immediate attention. Depending on the content of the report, appropriate individuals from Q&RM, Human Resources, Legal or other functions are involved to address the report. All matters are handled by experienced individuals, with oversight from the global Q&RM function. For those matters that are reported outside of the EY/Ethics Hotline, the same procedures are followed.

At EY UK we have had a limited number of reports in the current year. However all reports received have been investigated and appropriately followed up.

## Our values *Who we are*

People who demonstrate integrity, respect and teaming.

People with energy, enthusiasm and the courage to lead.

People who build relationships based on doing the right thing.

## Internal quality-control system

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, our role as auditors is to provide assurance on the fair presentation of the financial reports of the company we audit. We bring together qualified teams to provide our services, drawing on our expertise across industry sectors and services. We strive continually 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 – characterized by continuing globalization and the rapid movement of capital – the quality of our audit services has never been more important. EY continues to invest heavily in developing the audit methodology, tools and other resources needed to support quality service delivery. This reflects the strength of our commitment to building a better working world and specifically to building trust and confidence in the capital markets and in economies world over.

While the market and stakeholders continue to demand high-quality audits, they also demand increasingly efficient and effective delivery of audit services. EY continues to seek ways to improve the effectiveness and the efficiency of the audit methodology and processes, while maintaining audit quality. We work to understand where our audit quality may not be up to our own expectations and those of stakeholders, including external audit firm regulators. We seek to learn from external and internal inspection activities and to identify root causes of quality occurrences for continuous improvement in audit quality, and we

believe that an important part of the audit inspections process is to effectively take appropriate quality improvement actions.

### Effectiveness of quality-control system

EY has designed and implemented a comprehensive set of global audit quality-control policies and practices. These 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 Audit Quality Review (AQR) programme and evaluate annually whether our system of audit quality-control has operated effectively in a manner so as to provide reasonable assurance that EY UK and our people comply with applicable professional and internal standards, and regulatory requirements.

The results of the AQR programme and external inspections are evaluated and communicated within EY UK to provide the basis for continuous improvement in audit quality, consistent with the highest standards in the profession.

The Global Executive is responsible for implementing quality improvement and protection programmes. As such, it reviews the results of our internal AQR programme and external regulatory reviews, as well as any key actions designed to address areas for improvement.

The recent results of such monitoring, together with the recent feedback from independent regulatory inspection visits, provide EY UK with a basis to conclude that our internal control systems are designed appropriately and are operating effectively.

## Client acceptance and continuance

### EY policy

EY's global Client Acceptance and Continuance Policy sets out principles to determine whether to either accept a new client or a new engagement or to continue an existing client or engagement. These principles are fundamental to maintaining quality, managing risk, protecting our people and meeting regulatory requirements. The objectives of the policy are to:

- Establish a rigorous process for evaluating risk and making decisions to accept/continue clients or engagements
- Meet applicable independence requirements
- Identify and deal appropriately with any conflicts of interest
- Identify and decline clients that pose excessive risk
- Require consultation with designated professionals to identify additional risk-management procedures for specific high-risk factors
- Comply with legal, regulatory and professional requirements

In addition, EY's global Conflicts of Interest Policy defines global standards for categories of conflicts of interest and a process for identifying potential conflicts of interest. It also includes provisions for managing conflicts of interest as quickly and efficiently as possible through the use of appropriate safeguards. Such safeguards range from obtaining the relevant client's consent to act for two or more clients to member firms declining an engagement, in order to avoid an identified conflict.

### Putting policy into practice

We use the Global Tool for Acceptance and Continuance (GTAC), an intranet-based system for efficiently coordinating client and engagement acceptance and continuance activities in line with global, service line and member firm policies. GTAC

takes users through the acceptance and continuance requirements and identifies the policies and references to professional standards needed to assess both business opportunities and associated risks.

As part of this process, we carefully consider the risk characteristics of a prospective client and undertaken due diligence procedures. Before we take on a new engagement or client, we determine if we can commit sufficient resources to deliver quality service, especially in highly technical areas, and if the services the client wants are appropriate for us to provide. The approval process is rigorous, and no new audit engagement may be accepted without the approval of our PPD.

In our annual client continuance process, we review our service delivery and ability to continue to provide quality service and confirm that clients share EY UK's commitment to quality and transparency in financial reporting. The partner in charge of each audit, together with our Assurance leadership, annually reviews our relationship with the audit client to determine whether continuance is appropriate.

### Close monitoring

As a result of this review, certain audit engagements are identified as requiring, and are then subjected to, additional oversight procedures during the audit, and some audit clients are discontinued. As with the client acceptance process, our PPD is involved in the client continuance process and must agree with the continuance decisions.

Both client acceptance and client continuance decisions consider the engagement team's assessment of whether the company's management might seek to pressure us to accept inappropriate accounting, auditing and reporting conclusions to undermine quality. Considerations and conclusions on the integrity of management are essential to acceptance and continuance decisions.

## Performing audits

### Audit methodology

EY's Global Audit Methodology (EY GAM) provides a global framework for delivering high-quality audit services through the consistent application of thought processes, judgments and procedures in all audit engagements. Making risk assessments, reconsidering and modifying them as appropriate, and using these assessments to determine the nature, timing and extent of audit procedures are fundamental to EY GAM. EY GAM also emphasizes applying appropriate professional scepticism in the execution of audit procedures. EY GAM is based on International Standards on Auditing (ISAs) and is supplemented in UK to comply with the local UK auditing standards and regulatory or statutory requirements.

EY GAM represents our comprehensive methodology and is organized into interdependent phases designed to focus on the client's business and financial statement risks and on how those risks affect our audit of the financial statements. EY GAM consists of three key components: requirements; supplemental guidance; and supporting forms, templates and examples. The requirements reflect the typical flow of how EY UK executes an audit. The supplements provide the requirements and guidance for specific situations and circumstances that may arise during an audit. The forms, templates and examples include leading practice illustrations and assist in performing and documenting audit procedures.

Enhancements to the audit methodology are made regularly as a result of new standards, emerging auditing issues and matters, implementation experiences, and external and internal inspection results. For example, EY GAM has been updated following the issuance of ISA 610, *Using the Work of Internal Auditors*. We also recently issued a new audit approach tailored for the private middle market that meets the requirements of the ISAs.

In addition, we monitor current and emerging developments continually and issue timely audit planning and other reminders. These reminders emphasize areas noted during inspections as well as key topics of interest to the International Forum of Independent Audit Regulators (IFIAR). These include professional scepticism, group audits, revenue recognition and engagement quality reviews.

EY GAM requires compliance with relevant ethical requirements, including independence from the company we audit.

### Technology

Our audit engagement teams use technology to assist in executing and documenting the work performed in accordance with EY GAM. Our primary audit support tool, GAMx, drives uniform execution of EY GAM and appropriate audit documentation, strengthening our ability to deliver consistent, high-quality audits. It provides linked access to knowledge databases (audit guidance and interpretations), professional standards, documentation templates and other tools necessary to execute and document a risk-based audit effectively. GAMx facilitates engagement team collaboration through the sharing of information and the documentation of procedures and conclusions. GAMx also enables secure peer-to-peer communications, so our people can work together as if they were in the same physical location. Audit engagement teams use other software applications, forms and templates during various phases of an audit to assist in making and documenting audit considerations, sourcing data and analysis.

EY has a number of data analysis tools for use in audits. These assist our engagement teams in analyzing a client's data, enhancing our risk assessment processes and enabling the investigation of higher-risk transactions for further investigation.

### Formation of audit engagement teams

EY UK policies require an annual review of partner assignments by our Assurance leadership and PPD to make sure that the professionals leading listed-company audits possess the appropriate competencies (i.e., the knowledge, skills and abilities) to fulfill their engagement responsibilities, and are in compliance with applicable auditor rotation regulations.

The assignment of people to an audit engagement is also made under the direction of our Assurance leadership. Factors considered when assigning people to audit teams include competence, engagement size and complexity, specialized industry knowledge and experience, timing of work, continuity, and opportunities for on-the-job training. For more complex engagements, consideration is given to whether specialized or additional expertise is needed to supplement or enhance the audit engagement team.

In many situations, internal experts are assigned as part of the audit engagement team to assist in performing audit procedures and obtaining appropriate audit evidence. These professionals are used in situations requiring special skills or knowledge, such as information systems, asset valuation and actuarial analysis.

## Review and consultation

### Reviews of audit work

Our policies describe the requirements for timely and direct executive participation on audits and the level of reviews of the work performed. Supervisory members of the audit engagement team perform a detailed review of the audit documentation for accuracy and completeness. Engagement executives perform a second-level review to determine adequacy of the audit work as a whole and the related accounting and financial statement presentation. A tax representative reviews the significant tax and other relevant working papers. For listed and certain other companies, an engagement quality reviewer (described below) reviews important areas of accounting, financial reporting and audit execution, as well as the financial statements of the company we audit and our report. The nature, timing and extent of the reviews of audit work depend on many factors, including:

- The risk, materiality, subjectivity and complexity of the subject matter
- The ability and experience of the audit team members preparing the audit documentation
- The level of the reviewer's direct participation in the audit work
- The extent of consultation employed

Our policies also describe the roles and responsibilities of each audit engagement team member for managing, directing and supervising the audit, as well as the requirements for documenting their work and conclusions.

### Consultation requirements

Our consultation policies are built upon a culture of collaboration, whereby audit professionals are encouraged to share perspectives on complex accounting, auditing and reporting issues. Consultation requirements and related policies are designed to involve the right resources, so that audit teams reach appropriate conclusions.

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Consultation is built into the decision-making process; it is not just a process to provide advice.

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For complex and sensitive matters, we have a formal process requiring consultation outside of the audit engagement team with other personnel who have more experience or specialized knowledge, primarily Professional Practice and Independence personnel. In the interest of objectivity and professional scepticism, our policies

require members of Professional Practice, Independence and certain others to withdraw from a consultation if they currently serve, or have served, within a specified period of time, the client to which the consultation relates.

Our consultation policies also include a requirement that consultations are documented, including written concurrence from the person or persons consulted, in order to demonstrate their understanding of the matter and its resolution.

### Engagement quality reviews

Engagement quality reviews are performed by audit partners in compliance with professional standards for audits of all listed companies and those considered higher risk. Engagement quality reviewers are experienced professionals with significant subject matter knowledge. They are independent of the engagement team and able to provide objective evaluation of significant accounting, auditing and reporting matters. In no circumstances may the responsibility of the engagement quality reviewer be delegated to another individual. The engagement quality review generally spans the entire engagement cycle, including planning, risk assessment, audit strategy and execution. It is not limited to a review of the financial statements and conclusions at the time of issuance of our audit report. Policies and procedures for the performance and documentation of engagement quality reviews provide specific guidelines on the nature, timing and extent of the procedures to be performed and the required documentation evidencing their completion. Our PPD reviews and approves all engagement quality review assignments for listed companies and those considered higher risk.

### Audit engagement team disagreement-resolution process

EY has a collaborative culture that encourages and expects people to speak up, without fear of reprisal, if a professional disagreement arises or they are uncomfortable about a matter relating to a client engagement. Policies and procedures are designed to empower members of an audit engagement team by requiring them to raise any disagreements relating to significant accounting, auditing or reporting matters.

These policies are made clear to people as they join EY, and we continue to promote a culture that reinforces a person's responsibility and authority to make that person's own views heard and canvas the views of others.

Differences of professional opinion that arise during an audit generally are resolved at the audit

engagement team level. However, if any person involved in the discussion of an issue is not satisfied with the decision, he or she has both the right and the obligation to see that the issue is referred to the next level of authority until agreement is reached or a final decision is made. Until such time, the parties to the discussion do not withdraw, step aside or otherwise extract themselves from the process. If the engagement quality reviewer makes recommendations that the engagement partner does not accept or the matter is not resolved to the reviewer's satisfaction, the audit report is not issued until the matter is

resolved by following consultation processes for resolution of professional differences. Our documentation requirements for disagreements and their resolution are the same as for other consultations. Anyone involved in the process may separately document his or her personal position in an attachment to the documentation of the final decision.

## Audit partner rotation

EY supports mandatory audit partner rotation to help strengthen auditor independence. We comply with the audit partner rotation requirements of the code of the International Ethics Standards Board for Accountants (IESBA) and the FRC's Ethics Standard (ES), as well as the US Securities and Exchange Commission (SEC) where required. EY UK supports audit partner rotation because it provides a fresh perspective and promotes independence from company management while retaining expertise and knowledge of the business. Audit partner rotation, combined with independence requirements, enhanced systems of internal quality controls, and independent audit oversight help strengthen independence and objectivity and are important safeguards of audit quality.

We have tools to track partner rotation that enable effective monitoring of requirements. We have also implemented a process for partner-rotation planning and decision-making that involves consultation with, and approvals by, our Professional Practice and Independence professionals.

In exceptional cases ethical standards provide that it might be appropriate for a partner to serve for longer than the maximum period otherwise permitted. Any such extension requires consultation with our Independence Professionals and approval by the PPD.

## Audit quality reviews

The global Audit Quality Review (AQR) programme is the cornerstone to EY's efforts to maintain and improve audit quality. EY UK executes the global AQR programme, reports results and develops responsive actions plans. The primary goal of the programme is to determine whether systems of quality controls, including those of EY UK, are appropriately designed and followed in the execution of audit engagements to provide reasonable assurance of compliance with policies and procedures, professional standards and regulatory requirements. The global AQR programme complies with guidelines in the International Standard on Quality Control No. 1, as amended ("ISQC No.1") and is supplemented where necessary to comply with UK professional standards and regulatory requirements. It also aids EY UK's continual efforts to identify areas where we can improve our performance or enhance our policies and procedures.

The global AQR programme is implemented annually and is coordinated and monitored by representatives of the PPD network, with oversight by the global Q&RM network.

The engagements reviewed each year are selected on a risk-based approach emphasizing audit clients that are large, complex or of significant public interest. The global AQR programme includes detailed, risk-focused file reviews covering a large sample of listed and non-listed audit engagements to measure compliance with internal policies and procedures, EY GAM requirements, and relevant local professional standards and regulatory requirements. It also includes reviews of a sample of non-audit engagements. These measure compliance with the relevant professional standards and internal policies and procedures that should be applied in executing non-audit services. In addition, practice-level reviews are performed to assess compliance with quality-control policies and procedures in the functional areas set out in ISQC No. 1. The global AQR programme complements external practice monitoring and inspection activities, such as regulatory inspection programmes and external peer reviews.

It is our goal that all audit engagements meet the highest expectations of quality, and we strive to improve any situations where these expectations are not met.

In 2013 83 UK audit engagements were inspected internally, 96% of which were rated as having no material findings or deficiencies. These results compare to 94 UK audit engagements reviewed in 2012, of which 97% were rated as having no material findings or deficiencies.

For all findings or deficiencies, whether material or minor, EY UK looks at the findings from internal and external inspections to identify root causes, develop action plans and seek to improve audit quality.

For engagement reviews resulting in findings or deficiencies deemed less than material but greater than minor, we addressed the results with individual partners in the same way as those with material findings.

AQR reviewers and team leaders are selected for their skills and professional competence in accounting and auditing, as well as their industry specialization; they often work in the global AQR programme for a number of years and are highly skilled in the execution of the programme. Team leaders and reviewers are assigned to inspections outside of their home location and are independent of the audit teams reviewed.

The results of the global AQR programme and external practice-monitoring and inspection activities are evaluated and communicated to improve quality. Any quality improvement plans describe the follow-up actions to be taken, the people responsible, the timetable and deadlines, and sign-off on completed actions. Measures to resolve audit quality issues noted from the global AQR programme, regulatory inspections and peer reviews are addressed by our Assurance leadership and our PPD with input from Q&RM groups. The actions are monitored by our PPD and Q&RM groups. These programmes provide important practice monitoring feedback for our continuing quality improvement efforts.

## External quality-assurance review

EY UK's audit practice is subject to annual inspection by the Quality Assurance Department (OAD) of the ICAEW and the Audit Quality Review Team of the FRC.

The last OAD inspection took place in 2012, and their private report was issued in spring 2013.

As part of its inspection, the FRC evaluates quality control systems and reviews selected engagements. For each audit inspected the FRC provides an engagement findings letter to the Firm. We share this letter with the relevant client's audit committee. The public report on the FRC's 2012/13 inspection was issued in May 2013. The 2013/14 inspection is currently in progress. Information about the FRC, along with publically available inspection reports, can be found on its website: [www.frc.org.uk](http://www.frc.org.uk)

We respect and benefit from our regulators' inspection processes. We evaluate points raised during the inspections in order to identify areas where we can improve audit quality. Together with our AQR process, external inspections aid us in making our audits and related control processes of the highest quality in the interests of investors and other stakeholders.

### FRC Public Reporting

The FRC noted an improvement in the standard of audit work in the UK, but highlighted the improvement was not uniformly spread across all firms.

The FRC's report on EY highlights an improvement in audit equality. This is reflected in the high proportion of EY audits reported in the FRC's top quality category.

We are not complacent. The challenges that auditors face continue to increase and we and our regulators continue to raise the standards expected for high quality audits.

The FRC's report recognises our emphasis on audit quality; commenting on the significant resources we commit to independence compliance, risk assessment, training, technical communications and our own procedures for monitoring the quality of our audits.

The FRC's report also identifies recommendations for further improvement, notably:

- Review existing procedures to ensure additional resources are sought and made available in exceptionally challenging circumstances

- Develop further guidance and training in relation to the audit of revenue and group audits
- Assess whether there is a need for improved guidance and training in relation to the audit of IT controls
- Ensure consistent application of the partner appraisal process and strengthen the link between the assessment of quality for each partner in all relevant areas and the overall ratings which determine pay awards
- Improve the timeliness of completion of the Firm's internal quality reviews.

Our Assurance Leadership has considered all of the improvement areas identified by the FRC and we are taking actions in response. Our agreed actions include amendments to our policies and procedures; additions to our guidance and training and focused hot reviews (reviewing the audit in progress) for a sample of audits.

We believe the key factors needed to deliver high quality audits in today's global companies are diverse talent, a globally integrated approach, professional scepticism and technical excellence.

We are therefore pleased to note the positive comments made by the FRC in their public reports on Ernst & Young over recent years in relation to the robustness of our processes for technical reviews of financial statements as well as the importance we place on the role of our engagement quality control reviewers. The FRC also recognise the significant resources we commit to the implementation of policies at a global and local level as well as the actions we have taken to ensure professional scepticism is exercised on audits and the steps we have taken to achieve improvements in response to prior year observations.

We share with our regulators a common objective of promoting confidence in the UK capital markets by continuous improvement in audit quality. We continue to invest in our business to achieve that.

### Inspections by overseas audit monitoring authorities

The Firm is also registered with the Public Company Accounting and Oversight Board (PCAOB) in the US, which conducted a joint inspection of the Firm with the FRC in 2011. The public report of the PCAOB's 2011 inspection was published in September 2013. The report identified improvements needed on two 2010 year end audits: one in relation to the audit of revenue and

one in relation to the testing of controls addressing an identified fraud risk. We have already taken actions in response.

Information about the PCAOB, along with publically available inspection reports, can be found on its website: [www.pcaobus.org](http://www.pcaobus.org).

The Firm is also registered with the Canadian Public Accountability Board, the Guernsey Registry, the Jersey Financial Services Commission, the Japanese Financial Services Agency and the Netherlands Authority for Financial Markets.

## Compliance with legal requirements

The Global Code of Conduct provides a clear set of standards that guide our actions and business conduct. EY UK complies with applicable laws and regulations and the EY Values underpin our commitment to doing the right thing. This important commitment is supported by a number of policies and procedures, including:

### Anti-bribery

EY's global Anti-bribery Policy provides our people with direction around certain unethical and illegal activities. It emphasizes the obligation of our people to comply with anti-bribery laws and provides greater definition of what constitutes bribery. It also identifies reporting responsibilities when bribery is discovered.

### Insider trading

EY's global Insider Trading Policy reaffirms the obligation of our people not to trade in securities with insider information, provides detail on what constitutes insider information and identifies with whom our people should consult if they have questions regarding their responsibilities.

### Data privacy

The global Personal Data Privacy Policy sets out the principles to be applied to the use and protection of personal data, including that relating to current, past and prospective personnel, clients, suppliers and business associates. This policy is consistent with applicable laws and regulations concerning data protection and privacy when processing personal data. It provides a foundation for maintaining the privacy of all personal data used by EY UK. Furthermore, we have a policy to address our specific UK data privacy requirements and business needs.

### Document retention

EY UK's record retention policy applies to all engagements and personnel. This policy emphasizes that all documents must be preserved whenever any person becomes aware of any actual or reasonably anticipated claim, litigation, investigation, subpoena or other government proceeding involving us or one of our clients that may relate to our work. It also addresses UK legal requirements applicable to the creation and maintenance of working papers relevant to the work performed.



## Independence practices

EY's independence practices are designed to enable EY UK and our people to comply with the independence standards applicable to specific engagements, including, for example, the independence standards of the International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (IFAC) and the FRC's Ethical Standards.

We consider and evaluate independence from several perspectives, including: our financial relationships and those of our people; employment relationships; business relationships; the permissibility of non-audit services we provide to audit clients; partner rotation; fee arrangements; audit committee preapproval, where applicable; and partner remuneration and compensation.

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Failure to comply with applicable professional independence requirements will factor into a person's promotion and compensation decisions, and may lead to other disciplinary measures.

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We have implemented EY's global applications, tools and processes to support us, our professionals and other employees in complying with independence policies.

### EYG Independence Policy

The EYG Independence Policy contains the independence requirements for member firms, professionals and other employees. It is a robust policy predicated on the IESBA independence code, with more stringent requirements where prescribed by a given regulator. The policy also contains guidance to help people apply the independence rules. The EYG Independence Policy is readily accessible and easily searchable through EY's intranet.

### Global Independence System

The Global Independence System (GIS) is an intranet-based tool that helps determine the listed entities from which independence is required and the independence restrictions that apply to each. Most often these are listed audit clients and their affiliates, but they can be other types of attest or assurance clients. The tool includes family-tree

data relating to affiliates of listed audit clients and is updated by client-serving engagement teams. The entity data includes notations that indicate the independence rules that apply to each entity, helping our people to determine the type of services that can be provided.

### Global Monitoring System

The Global Monitoring System (GMS) is another important global tool that assists in identifying proscribed securities and other impermissible financial interests. People ranked as manager and above are required to enter any securities they hold, or those held by their immediate family, into the GMS. When a person enters a proscribed security, they receive a notice and are required to dispose of the security. Identified exceptions are reported through the Global Independence Incident Reporting System (GIIRS) for regulatory matters.

GMS also facilitates annual and quarterly confirmation of compliance with independence policies, as described below.

### Independence compliance

EY has established a number of processes and programmes aimed at monitoring the compliance with independence requirements of EY's member firms and our people. These include the following:

#### Independence confirmations

Timely and accurate completion of annual and quarterly independence confirmations is a high priority for the responsible leadership teams.

Annually, EY UK is included in an Area-wide process to confirm compliance with the EYG Independence Policy and requirements and to report identified exceptions, if any.

All of EY's professionals, and certain others based on their role or function, are required to confirm compliance with independence policies and procedures at least once a year. All partners are required to confirm compliance quarterly.

## Global Independence Compliance Reviews

EY conducts a number of testing and member firm visits to assess compliance with independence matters. These include reviewing for non-audit services, business relationships with the companies we audit and financial relationships of member firms.

Each year, EY's global Independence team establishes a programme for testing compliance with personal independence confirmation requirements and with reporting of information into GMS.

For the 2012 testing cycle, EY UK tested 144 partners and 95 other personnel.

EY UK confirms that the Global Independence Compliance Review last occurred in May 2012.

## Non-audit services

Compliance with professional standards governing the provision of non-audit services to audit clients is designed to be achieved through a variety of mechanisms. These include the use of tools (e.g., GTAC - see page 17 and Service Offering Reference Tool (SORT) - see below), training, and required procedures completed during the performance of audits and internal inspection processes.

## Global independence learning

EY develops and deploys a variety of independence learning programmes. All professionals and certain other employees are required to participate in annual independence learning to help maintain our independence from the companies we audit.

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The goal is to help our people understand their responsibility and to enable each of them, and EY, to be free from interests that might be regarded as being incompatible with objectivity, integrity and impartiality in serving an audit client.

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The annual independence learning programme covers independence requirements focusing on recent changes to policy, as well as recurring themes and topics of importance. Timely completion of annual independence learning is

required and is monitored closely. Where applicable: EY UK supplements this programme with local content to cover local independence requirements under FRC Ethical Standards that differ from the EYG Independence Policy.

In addition to the annual learning programme, independence is promoted through a number of events and materials, including the new-hire programme, milestone programmes and core service-line curricula.

## Service Offering Reference Tool (SORT)

We assess and monitor our portfolio of services on an ongoing basis, confirming that they are permitted by law and professional standards, and to make sure that we have the right methodologies, procedures and processes in place as new service offerings are developed. When appropriate, we exit or restrict services that could present undue independence or other risks. SORT provides our people with information about our service offerings. SORT includes guidance around which services can be delivered to audit and non-audit clients, as well as independence and other risk management issues.

## Business Relationship Evaluation Tool (BRET)

BRET helps to ensure our business relationships comply with independence requirements. Our people are required to use BRET to evaluate and obtain advance approval of any potential business relationship with an audit client.

## Audit committees and corporate governance

EY recognises the important role audit committees and similar corporate governance bodies play in the oversight of auditor independence. Empowered and independent audit committees play a vital role on behalf of shareholders in protecting independence and preventing conflicts of interest. We are committed to robust and regular communication with audit committees or those charged with governance. Through our quality review programmes, we monitor and test compliance with our standards for audit committee communications, as well as the pre-approval of services, where applicable.



## Creating high-performing teams

EY is building a better working world for its people by recruiting, managing and retaining top talent and developing the highest-performing teams and outstanding leaders.

A strategic objective is to attract and build life-long relationships with a diverse group of talented assurance professionals.

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We are proud of our inclusive people culture, and we are committed to doing even more to advance our people's development.

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### Recruitment and hiring

Recruiting for the audit practice is performed primarily on university campuses and supplemented, when necessary, by hiring people with prior work experience. Candidates are evaluated based on the following competencies:

- Intellectual competence
- Leadership skills
- Team/personal skills
- Motivation
- Communication skills

EY aspires to have a leading people culture everywhere in the world. We believe that creating a culture that attracts, retains and develops outstanding people leads to higher quality service.

### Valuing diversity and inclusiveness

The global workforce is becoming more diverse - a trend to be celebrated and encouraged. For global

organisations such as EY, an important aspect of creating the right working environment is a focus on inclusiveness.

Inclusiveness is essential to making the diverse mix work. It is about equity and opportunity - making sure that differences are celebrated so that talented people from any background can rise to the top, and ensuring that opportunities to develop and advance are available for all from day one.

It is a source of pride for us that EY is regularly cited by external organisations as being a leader in diversity practices and for providing an excellent working environment.

Led by the Government Equalities Office, the 'Think, Act, Report' voluntary framework supports and encourages organisations to improve gender equality in their organisations. EY has signed-up to 'Think, Act, Report', but will be taking it a step further and look beyond just gender reporting to also include reporting on Black and Minority Ethnic (BME) statistics.

Our UK and Ireland Regional business aims to have at least 30% female and 10% BME representation in our new partner intake, measured over a rolling three year period.

We also have a longer-term aim to achieve these levels of representation on both our leadership team and within our wider partner population. This commitment will drive us towards a more diverse and representative talent pipeline, which will ensure our goals are achievable and sustainable.

## Continuing education of statutory auditors

### Professional development

The EY career development framework, EYU, provides our people with opportunities for the right experiences, learning and coaching to help them grow and achieve their potential.

The learning component of EYU is based on an extensive and globally consistent learning curriculum that helps all of our people develop the right technical and personal leadership skills wherever they are located around the world. Core audit training courses are supplemented by learning programmes that are developed in response to changes in accounting and reporting standards, independence and professional standards, and emerging practice issues. We require our audit professionals to obtain at least 20 hours of continuing professional education each year and at least 120 hours over a three-year period. Of these hours, 40% (8 hours each year and 48 hours over a three-year period) must cover technical subjects related to accounting and auditing.

In addition to formal learning, professional development occurs through coaching and

experiences our professionals receive on the job. Coaching helps to transform knowledge and experience into practice. Experienced professionals are expected to coach and develop less experienced personnel to create a continual learning environment.

### Performance management

A comprehensive performance management process requires our people to set goals, have clear work expectations, receive feedback and talk about their performance. The Performance Management and Development Process (PMDP) is designed to help our people grow and succeed in their careers. Under the PMDP, periodic job performance reviews are combined with annual self-appraisal and annual reviews. As part of the annual review process, each professional, in conjunction with his or her counselor (an assigned, more experienced professional), identifies opportunities for further development. Professionals and their counselors are guided by a set of expectations that articulate the knowledge, skills and behaviors that should be maintained and developed for the respective rank. These expectations derive from, and align with, EY's global strategy and values.

## Knowledge and internal communications

We understand the importance providing client engagement teams with up-to-date information to help them perform their professional responsibilities.

EY has made significant investments in knowledge and communication networks to enable rapid dissemination of information, built around intranet and email applications. These systems provide access to hundreds of knowledge databases. Examples include:

- *Global Accounting & Auditing Information Tool (GAAIT)* is EY's standard accounting and auditing research tool. It includes local and international accounting and auditing standards and interpretative guidance.
- *Global Accounting and Auditing News* is a weekly newsletter providing coverage of global Assurance and Independence policies and procedures, news from the International Accounting Standards Board and International Federation of Accounts (IFAC), and internal commentary and guidance regarding international accounting, auditing and independence developments.
- *Your EY Daily News* is a daily e-newsletter that reports on the latest news and information about EY and its services.
- *Perspectives* is a quarterly global e-magazine that provides strategic updates on all four service-lines, as well as observations and viewpoints on issues affecting EY and its clients.

- *EY Point of View and Overviews* are publications that provide perspective on current public policy and regulatory developments of importance to our profession, stakeholders and capital markets.
- Practice alerts and webcasts include a range of global and country-specific practice alerts and specific webcasts within the Assurance practice, including those highlighting inspection findings as an opportunity for practice improvement.

Quality-control policy and practice manuals and other guidance materials are included on our intranet. These promote consistency, accuracy, quality and accessibility in our internal and external communications, and functions as a risk management tool. This information, along with guidance materials from outside organisations, is updated regularly and maintained in an electronically searchable format.

### Internal surveys and continuous improvement

We regularly gather data from various quality-control processes, such as Audit Quality Reviews, consultation processes and other methods to assist in improving policies, practices and training further. We supplement this data with surveys of our people. The Global People Survey gauges what people think about EY's culture and how member firms conduct business, one of the best indicators of their focus on quality. Results from these and other feedback tools help identify where member firms are doing well and where improvements can be made. The results also guide us in establishing action plans and initiatives.

# Revenue and remuneration

## Financial information

The financial information presented below for EY UK represents combined, not consolidated, revenues and includes expenses billed to clients and revenues related to billings to other EYG member firms.

Financial information for the period ending 28 June 2013

<sup>1</sup> Service	Revenue (£m)	Percent
Assurance	507	30%
Advisory	486	28%
Tax	455	26%
Transaction Advisory	273	16%
<b>Total</b>	<b>1,721</b>	<b>100%</b>

Financial information for the period ending 29 June 2012

Service	Revenue (£m)	Percent
Assurance	478	29%
Advisory	416	26%
Tax	431	26%
Transaction Advisory	306	19%
<b>Total</b>	<b>1,631</b>	<b>100%</b>

<sup>1</sup> Assurance includes statutory audit, accounting advisory, forensics and other assurance services. Advisory includes actuarial, business risk (including internal audit), information security and performance tax, indirect tax, human capital and international tax services. Transaction Advisory includes M&A advisory, project finance, transaction real estate, restructuring, transaction support and integration valuations and business modeling services.

Service	Revenue (£m) 2013	
	Audit clients	Non-audit clients
Assurance	360	147
Advisory	20	466
Tax	122	333
Transaction Advisory	53	220
<b>Total</b>	<b>555</b>	<b>1,166</b>

Service	Revenue (£m) 2012	
	Audit clients	Non-audit clients
Assurance	339	139
Advisory	22	394
Tax	123	308
Transaction Advisory	52	254
<b>Total</b>	<b>536</b>	<b>1,095</b>

Service	Revenue (£m) 2013	
	Audit clients	Non-audit clients
Statutory audit	333	0
Other assurance	27	147
<b>Total assurance</b>	<b>360</b>	<b>147</b>

Service	Revenue (£m) 2012	
	Audit clients	Non-audit clients
Statutory audit	318	0
Other assurance	21	139
<b>Total assurance</b>	<b>339</b>	<b>139</b>

## Partner remuneration

Quality is at the center of our business strategy and a key component of our performance management systems. Our partners and other professionals are evaluated and compensated based on criteria that include specific quality and risk management indicators, covering both actions and results.

The Global Partner Performance Management (GPPM) process is a globally consistent evaluation process for all partners in EY's member firms around the world. It reinforces the global business agenda by linking their performance to wider goals and values. GPPM is an ongoing, cyclical process that includes goal setting, personal development planning, performance review and recognition and reward. It is the cornerstone of the evaluation process to document partners' goals and performance. A partner's goals are required to reflect various global priorities, one of which is quality.

We prohibit evaluating and compensating lead audit engagement partners and other key audit partners on an engagement based on the sale of non-assurance services to their audit clients. This reinforces to our partners their professional obligation to maintain our independence and objectivity.

Specific quality and risk management performance measures have been developed to take account of:

- Technical excellence
- Living the EY Values as demonstrated by behaviors and attitude
- Demonstrating knowledge of, and leadership in, quality and risk management
- Compliance with policies and procedures

- Compliance with laws, regulations and professional duties
- Contributing to protecting and enhancing the EY brand

Our partner compensation philosophy calls for meaningfully differentiated rewards based on a partner's level of performance, as measured by the GPPM process. Partners are assessed annually on their performance in quality service delivery, leading people, operational excellence and market leadership and growth.

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We operate a cap system so that a partner's overall year-end rating is linked to the partner's rating on the quality metric.

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To recognise different market values for different skills and roles, and to attract and retain high-performing individuals, the following factors are also considered when calculating total reward:

- Seniority
- Role and responsibility
- Long-term potential
- Mobility

Instances of non-compliance with quality standards result in remedial actions, which may include compensation adjustment, additional training, additional supervision, or reassignment. A pattern of non-compliance or particularly serious non-compliance may result in actions that include requiring the partner to withdraw from the Firm.



## Working with our stakeholders and communities

### Stakeholder dialogue

As an auditor of listed companies and other public interest entities, EYUK is acutely aware of the important public interest role we play in promoting trust in business, capital markets and economies.

We take our public interest responsibilities seriously, and work hard to maintain an open and frank dialogue with our stakeholders as part of our broader commitment to building a better working world.

Our environment is shaped by a wide range of policy makers, including governments, regulators, standard setters and international organisations. When meeting with our stakeholders, we provide our perspective and seek to better understand their point of view.

We encourage improvements in corporate governance, financial reporting and other matters that affect our capital markets more broadly. EY is engaging increasingly with global organisations like the Financial Stability Board, the International Forum of Independent Audit Regulators, and the Basel Committee on Banking Supervision. EY also participates in global forums, such as the World Economic Forum, that bring together thought leaders on issues important to us and our stakeholders.

#### Selected stakeholder engagement globally in 2013

During the past year, international organisations and policy makers around the world have focused on a number of issues affecting our profession, including the independence of auditors, the quality of audits, and the usefulness of financial reporting. Policy options such as enhanced auditor reporting; more meaningful corporate disclosure; mandatory audit firm rotation or tendering; and increased transparency of audit committee auditor oversight are being debated in a number of jurisdictions. These options are critical to the continuing relevance of audit, the attractiveness and sustainability of the audit profession, and our ongoing ability to fulfill our public interest role.

EY has met regularly with investors, regulators, legislators and other policy makers in 2013 to discuss these issues. These conversations have highlighted the importance of strong corporate governance, with active and engaged audit committees who are transparent with shareholders about their oversight of the external auditor. There is a strong desire for meaningful change to increase the usefulness and informational value of the auditor's report. Accordingly we strongly support the recent changes made by the FRC to the Corporate Governance code and to UK Auditing Standards which should provide enhanced disclosure to stakeholders and will require the auditor to provide information on key audit risks, the application of materiality to the audit and details of audit scope as well as to report by exception on the directors statement that the annual report is fair, balanced and understandable.

Investors are among our key stakeholders. This past year EY has continued to increase its investor engagement around the world to make sure EY understands investor perspectives on auditing, financial reporting, corporate governance and other capital market issues. For example, during 2013, EY held dialogue dinners with investors and other stakeholders from around the globe. These are the latest in a series of dinners convened since 2011 to foster discussion about ways to improve corporate governance. Some of these discussions have covered a range of topical governance matters, while others have focused on governance in particular geographic markets or sectors of the economy. These dinners are independently moderated and held on a Chatham House or off-the-record basis to encourage frank discussion.

EY continues to participate in the Global Auditor Investor Dialogue, an informal network of leading global institutional investors, and major global auditing networks to exchange views on current financial reporting and auditing issues. EY has also become a member of the Asian Corporate Governance Association and continues to be an active member and sponsor of the International Corporate Governance Network. These

organisations enhance EY's ability to hear the perspectives of a wide variety of investors and others and better understand their views.

#### Selected stakeholder engagement in the UK in 2013

In the UK, EY has been actively engaged in contributing to public consultations, other requests for input from policy makers and Parliamentary inquiries, on issues including (but not limited to): audit; financial reporting; corporate governance; financial services; taxation; and, diversity and corporate responsibility. EY UK welcomes opportunities to contribute to the development of effective and efficient regulation and public policy and to help facilitate communication between policy makers and companies in relevant industry sectors.

In particular, during FY13, EY UK welcomed the opportunity to provide written and/or oral evidence to a number of Parliamentary Select Committees in connection with inquiries on significant public policy issues for example:

- Written and oral evidence to the Parliamentary Commission on Banking Standards' Panel on Tax, Audit and Accounting. In relation to the importance of the dialogue between auditors and supervisors in ensuring effective supervision, Tony Clifford, EY Partner, Financial Services, told the Panel: "The auditor cannot wait until they have a fully formed understanding of what is going on. It might well be just a phone call to say, "we just noticed that one of the screws on one of the hinges is loose." There has to be that kind of trust and informality to make a significant difference; if we rely just on statute, just on duty of care and just on the legal requirements, that is probably not going to provide the environment in which to make a real difference."
- Written and oral evidence to the Public Accounts Committee (PAC) in connection with their review of the UK tax system. Commenting on the PAC's report: Tax avoidance, the role of large accountancy firms, John Dixon, UK managing partner for tax at EY said: "The UK tax system is not broken, but we absolutely do need to rebuild the confidence of the public that the tax system is operating as Parliament intended. Greater transparency is fundamental to creating that confidence, as is the simplification of the UK tax code, which everyone agrees has become extremely complex.

Greater voluntary disclosure by companies is something we have long supported... This

includes the provision of more information regarding an organisation's tax profile in order to give better quality insights for all stakeholders.

UK corporation tax is only one of the taxes paid by companies. Consideration of the contribution of multinationals to the UK needs to include non-tax factors, such as additional employment and economic growth through substantial investment, as well as the other taxes and levies that are paid.

However, inherent in delivering a suitable competitive tax regime is the need to ensure that the tax system applies equitably and robustly. We welcome the PAC endorsement of a multilateral rather than unilateral approach to international tax policy reform."

- Written and oral evidence to the House of Lords Economic Affairs Committee's inquiry into Taxing Corporations in a Global Economy: Is a New Approach Needed? In his oral evidence, Chris Sanger, EY's Global Head of Tax Policy, told the Committee: "It is worth reiterating the point that we need to engage in transparency. With the situation we have now, there is a public interest in understanding how tax actually operates in multinationals, which we need to address." Mr Sanger also referred to the EY Tax Transparency: Seizing the Initiative report which "gives a very clear message to the companies that we talk to that now is the time to go and engage and explain"
- Written evidence to the Parliamentary Commission on Banking Standards' Panel on Retail Competition, relating to customer behaviour in the UK banking market. This evidence was based predominantly on the findings from our Global Consumer Banking Survey in 2012, and, specifically, the results from the UK banking market. Additionally, we also used findings from research conducted in 2011, in conjunction with The Economist Intelligence Unit (EIU), and our Complaints Handling Survey conducted in 2012, to inform the evidence.

In addition, during FY13, EY UK has also:

- Shared good practice on corporate governance, regulatory and financial reporting matters through the publication of regulatory updates and points of view and via EY forums such as:
  - The Independent Director Programme;
  - The Finance Leaders Programme; and the
  - The Audit Committee Chair Programme (and related forum).

Further details of our work in respect of corporate governance - encouraging dialogue and participation - and our points of view on corporate governance-related issues can be found on our website at

<http://www.ey.com/UK/en/Issues/Governance-and-reporting/Corporate-governance>.

For FY14, EY UK will commence a more regular dialogue with investors on the audit and business risk issues that matter to them.

- Helped clients manage change by tracking key regulatory and public policy developments, engaging with key stakeholders and analysing possible impacts and timing. When requested by regulators and policy makers, EY has also been pleased to provide input from relevant experts and EY has also provided resource to assist the important work of the FRC's Financial Reporting Lab, particularly in relation to its project on audit committee reporting.
- Engaged with stakeholders on developments relating to diversity and inclusiveness and corporate responsibility; in particular entrepreneurship and social mobility. For example, during FY13 we signed up to the Government's Think Act Report framework, which encourages a new voluntary approach to gender equality reporting, and the Cabinet Office's social mobility Business Compact. EY is a Gold Patron of the Prince's Trust and an active member of organisations such as:
  - The Agile Futures Forum, providing leadership and support to help increase agile working practices across UK Plc; and
  - The 30% Club: as part of our commitment to change we have agreed to lead a new cross corporate mentoring programme designed to achieve higher representation of women on boards. We are also active members of the 30% club working group on work allocation; and
  - ENEI (the "Employers Network for Equality and Inclusion"), which works with members to achieve and promote best practice equality and inclusion in the workplace.
- EY is represented on The All Party Parliamentary Group for Entrepreneurship Advisory Board, the Social Mobility Business Compact, Business in the Community (including Opportunity Now and Race for Opportunity) and the Corporate Responsibility Group. EY also engages with organisations such as Stonewall and Working Families and

works with organisations such as Social Enterprise UK and the Social Market Foundation to collaborate and multiply our social impact across our priority areas.

Examples of stakeholder engagement include:

- convening a debate about Fair Access to the Professions, which was attended by representatives from Government and the third sector;
- being involved in launching the City Talent Initiative, alongside the Social Mobility Foundation and other sponsors; and
- attending a roundtable, with the Deputy Prime Minister, on the role of the Social Mobility Business Compact and the launch of Opening Doors, new Government backed social mobility awards.
- Identified and tracked consultations and draft legislation and submitted over 50 formal responses to public consultations. These responses covered a broad range of issues affecting the wider public interest including:
  - Revisions to the Corporate Governance Code;
  - Implementation of the Sharman Inquiry's recommendation on going concern;
  - Revisions to the UK Stewardship Code;
  - The development of narrative reporting;
  - Improving the auditor's report;
  - Taxation;
  - Revised Remuneration Reporting Regulations; and
  - The Competition Commission's statutory audit services market investigation.
- Been represented by partners and senior professional staff on other UK bodies and organisations such as:
  - Business Disability Forum
  - British Venture Capital Association
  - Confederation of British Industry
  - FRC Committees
  - Investor Relations Society
  - Insolvency Practitioners Association
  - Institute of Chartered Accountants in England & Wales
  - Institute of Chartered Accountants in Scotland
  - The City UK
  - The Two Percent Club

For more about our views

A selection of recent thought leadership is available on the EY Insights application for mobile and tablet devices.

## Commitment to our communities

Our commitment to building a better working world begins with our people and extends to the work we do with clients and other stakeholders in the marketplace. The net effect is the benefit this generates for communities around the world. The most significant impact we have on society is by our support of global and local economic stability and growth, which addresses some of the major issues that the world is facing.

EY supports organisations and activities that contribute to building a better working world at the global, regional and local level. EY is proud to be part of the UN Global Compact and has pledged to uphold its ten universally accepted principles in the areas of human rights, labor, the environment and anti-corruption. EY reports its progress every year.

### The UN Global Compact's ten principles

#### *Human rights*

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. Make sure that they are not complicit in human rights abuses.

#### *Labor*

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. The elimination of all forms of forced and compulsory labor;
5. The effective abolition of child labor; and
6. The elimination of discrimination in respect of employment and occupation.

#### *Environment*

7. Businesses should support a precautionary approach to environmental challenges;
8. Undertake initiatives to promote greater environmental responsibility; and
9. Encourage the development and diffusion of environmentally friendly technologies.

#### *Anti-Corruption*

10. Businesses should work against all forms of corruption, including extortion and bribery.

### Supporting communities through charitable giving

We contribute to not-for-profit organisations that are aligned with our corporate responsibility strategy, as well as those that address the most pressing needs of the communities in which we live and work.

### Demonstrating environmental stewardship

We believe that any commitment to a greener world starts with us. As such, we're challenging ourselves to work in an environmentally responsible manner and to find new ways to reduce our carbon footprint and waste.

EY UK sets annual environmental targets and the progress on the FY12 targets was as below:

- Reduce total electricity and gas (kWh) consumption by 3% per head – achieved
- Procure at least 95% of electricity from renewable sources (where consumed in EY controlled buildings and appropriate 'green' tariffs are available to purchase from energy suppliers) – achieved
- By FY16 reduce waste generated per head by 10% (against base year FY11) – achieved in FY12 when waste was reduced by 16.4% per head compared to the previous year
- By FY16 send zero waste to landfill (for offices where EY controls the building services) – on course to achieve
- Achieve year-on-year reductions in travel-related emissions intensity per head – not achieved: our scope 3 emissions intensity increased by 0.3% compared to the prior year; however EY is investing in providing alternatives to travel such as enhanced video conferencing facilities, telepresence suites and a major drive to embed a culture of flexible working, which we believe will lead us to achieve this target in the future

The FY13 targets were set as follows:

- Reduce total gas and electricity (kWh) consumption by 5% compared to FY11
- Procure at least 95% of electricity from renewable sources (where consumed in EY controlled buildings and appropriate 'green' tariffs are available to purchase from energy suppliers)

- By FY16 send zero waste to landfill (for offices where EY controls the building services) - on course to achieve
- Ensure our GHG emissions from business travel grow at a lower percentage rate than our revenue growth rate percentage
- Hold a programme of engagement events to raise staff awareness, encourage behavioural change and contribute to achieving our environmental targets

We will report against these targets in our next Transparency Report.



## Appendix 1: EY UK public interest entity audit clients

In the financial year ended on 30 June 2013, EY UK performed statutory audits of the following public interest entities:

3i Group plc	Britvic plc
Aberdeen Asian Smaller Companies Investment Trust PLC	Cairn Energy PLC
Aberforth Smaller Companies Trust Plc	Castle Hill Credit Opportunities Holdings Limited
Acal plc	Clydesdale Bank PLC
Aegis Group plc	Communis plc
AGA Rangemaster Group plc	Computacenter plc
AMEC plc	Core VCT IV Plc
Argo Underwriting Agency Limited	Core VCT V Plc
AVEVA Group PLC	Cranswick plc
Awilco Drilling PLC	CRH FINANCE (U.K.) plc
Bank of Georgia Holdings PLC	Dairy Crest Group plc
Biz Finance Plc	Dialog Semiconductor Plc
Blackrock Commodities Income Investment Trust plc	Domino's Pizza Group plc
BlackRock Frontiers Investment Trust plc	e2v technologies plc
Blackrock Greater Europe Investment Trust plc	Eco-Bat Technologies Ltd.
Blackrock New Energy Investment Trust plc	Ecofin Water & Power Opportunities plc
BlackRock North American Income Trust plc	EMF-UK 2008-1 PLC
BlackRock World Mining Trust plc	EnQuest PLC
BP Capital Markets p.l.c.	Enterprise Inns plc
BP p.l.c.	EP Global Opportunities Trust plc
British Airways Plc	Eurosail 2006-1 plc
British Assets Trust plc	Eurosail 2006-2BL plc
British Empire Securities & General Trust plc	Eurosail 2006-3NC plc
	Eurosail 2006-4NP plc
	Eurosail Prime-UK 2007-A plc
	Eurosail-UK 2007-1NC plc

Eurosail-UK 2007-2NP plc	John Menzies plc
Eurosail-UK 2007-3BL plc	JPMorgan Brazil Investment Trust plc
Eurosail-UK 2007-4BL plc	JPMorgan Claverhouse Investment Trust Plc
Eurosail-UK 2007-5NP plc	JPMorgan Elect plc
Eurosail-UK 2007-6NC plc	JPMorgan European Investment Trust plc
Everything Everywhere Finance Plc	JPMorgan Global Emerging Markets Income Trust plc
EVRAZ plc	JPMorgan Income & Growth Investment Trust plc
Excalibur Funding No.1 PLC	JPMorgan Russian Securities plc
Exova Group Limited	Jupiter Dividend & Growth Trust PLC
F&C Managed Portfolio Trust plc	Jupiter European Opportunities Trust PLC
F&C Private Equity Trust plc	Jupiter Second Split Trust PLC
F&C UK Real Estate Investments Limited	Kensington Mortgage Securities plc
Ferrexpo PLC	Keystone Investment Trust plc
Foresight Solar VCT plc	Kofax plc
Fresnillo plc	Ladbrokes Group Finance plc
Friends Life Group plc	Ladbrokes plc
Fuller, Smith & Turner P.L.C.	Laird PLC
Greene King plc	Landmark Mortgage Securities No. 1 plc
Henderson Value Trust plc	Landmark Mortgage Securities No. 2 plc
Herald Investment Trust plc	LCP Proudreed Plc
Highway Management (City) Finance Plc	LSL Property Services plc
Hitachi Capital (UK) PLC	Majedie Investments PLC
HMV Group plc	Marble Arch Residential Securitisation No. 4 PLC
Hochschild Mining Plc	Martin Currie Pacific Trust Plc
Huntsworth plc	Marwyn Value Investors Limited
IMI plc	Mecom Group plc
Impax Asian Environmental Markets plc	Michael Page International plc
Impax Environmental Markets plc	Midas Income & Growth Trust PLC
InterContinental Hotels Group PLC	Miton Income Opportunities Trust plc
Invensys plc	Money Partners Securities 1 plc
Invesco Perpetual Select Trust plc	Money Partners Securities 2 plc
Investec Bank plc	Money Partners Securities 3 Plc
Investec plc	Money Partners Securities 4 Plc
Investors Capital Trust plc	Montanaro European Smaller Companies Trust plc
Jazztel PLC	

Mortgage Funding 2008-1 plc	Sherwood Castle Funding Series 2006-1 Plc
MS INTERNATIONAL plc	Sherwood Castle Holdings Limited
Murray Income Trust PLC	Skyepharmaceuticals PLC
Murray International Trust PLC	Smith & Nephew plc
NCC Group plc	Southern Pacific Financing 04-A plc
New India Investment Trust PLC	Southern Pacific Financing 04-B plc
New Star Investment Trust PLC	Southern Pacific Financing 05-A plc
Next Plc	Southern Pacific Financing 05-B plc
NMC Health plc	Southern Pacific Financing 06-A plc
Nomura Bank International plc	Southern Pacific Securities 04-1 plc
Ophir Energy plc	Southern Pacific Securities 04-2 plc
Opportunity Investment Management Plc	Southern Pacific Securities 05-1 plc
Optos plc	Southern Pacific Securities 05-2 plc
Pacific Horizon Investment Trust PLC	Southern Pacific Securities 05-3 plc
Pearl Group Holdings (No. 1) Limited	Southern Pacific Securities 06-1 plc
Personal Assets Trust PLC	Spirent Communications plc
Peterborough (Progress Health) Holdings Limited	Standard Life UK Smaller Companies Trust plc
Phoenix Life Limited	Strategic Equity Capital plc
Preferred Residential Securities 05-1 plc	SVG Capital plc
Preferred Residential Securities 05-2 plc	SVM UK Emerging Fund plc
Preferred Residential Securities 06-1 plc	Temple Bar Investment Trust PLC
Preferred Residential Securities 7 plc	The Diverse Income Trust plc
Preferred Residential Securities 8 plc	The Go-Ahead Group plc
Premier Energy & Water Trust PLC	The Independent Investment Trust PLC
Primary Health Properties PLC	The Innovation Group plc
Private Equity Investor PLC	The Rank Group Plc
Renold plc	The Throgmorton Trust PLC
Residential Mortgage Securities 19 Plc	The Weir Group PLC
Residential Mortgage Securities 20 Plc	Theatre (Hospitals) No. 1 Plc
Residential Mortgage Securities 21 Plc	Theatre (Hospitals) No. 2 plc
Residential Mortgage Securities 22 Plc	Titan Global Finance plc
Residential Mortgage Securities 23 Plc	TR Property Investment Trust plc
Schroder UK Mid Cap Fund plc	Troy Income & Growth Trust plc
Sherwood Castle Funding Series 2004-2 Plc	Tyseley Finance plc
Sherwood Castle Funding Series 2005-1 Plc	UTV Media plc

Virgin Media Finance PLC

Virgin Media Secured Finance PLC

VTB Capital plc

Whitbread PLC

Wisbech Pineapple plc

Worldwide Healthcare Trust PLC

Xstrata plc

## Appendix 2: Audit Firm Governance Code disclosure requirements

Provision	Description	Page			
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.	5-6			
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.	5-6			
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.	10-11			
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.	17, 21			
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.	12			
			D.2.3	In maintaining a sound system of internal control and risk management and reviewing its effectiveness, the Firm should use a recognised framework such as the Turnbull Guidance and disclose in its transparency report the framework it has used.	12



## Appendix 3: Audit Quality Framework mapping

Drivers of audit quality as identified by the Framework	Components of our internal quality control system	Page
The culture within an audit firm	Instilling professional values	15
	Internal and external accountability	22-24
The skills and personal qualities of audit partners and staff	Performing audits	18
	Continuing education of statutory auditors	29
The effectiveness of the audit process	Performing audits	18
	Review and consultation	19
	Audit quality reviews	22
The reliability and usefulness of audit reporting		34
Factors outside the control of auditors affecting audit quality		34



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## About EY

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