

# Transparency Report 2016

EY UK - Volume 2



Building a better  
working world





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More information about EY can be found at [ey.com](https://www.ey.com).



## About us

### Legal structure, ownership and governance

In the United Kingdom, Ernst & Young LLP is a limited liability partnership incorporated in England & Wales and 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 organisation 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 2016, EY UK had 690 partners and operated from 20 offices across the UK as well as in Jersey and Guernsey.

#### The UK Board

The Board of EY UK (the 'Board') is appointed by the Europe Executive and the UK Country Managing Partner (CMP) who has full authority to deal with the firm's general and operational management. Board members serve for a period appropriate to 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 EY UK is Steve Varley. The role of the CMP includes:

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

The CMP leads the Board, which is responsible for the commercial, financial and reputational standing of the firm as a whole, implementing the admission of new members, liaising with members, approving the financial statements and other matters delegated to it from time to time by the Europe Executive. The Board met on seven occasions during the period ending 1 July 2016 and, in addition, routinely conducts business through electronic fora.

#### As of 1 July 2016 the Board comprised:

Omar Ali                      Managing Partner, UK Financial Services

Hywel Ball	UK Head of Audit and Managing Partner of Assurance
Ian Baggs	UK FSO Assurance Leader
Lisa Cameron	General Counsel and Country & UK & Ireland Regional Risk Management Leader
Alisdair Mann	Managing Partner, Chief Operating Officer EMEIA FSO
Eamonn McGrath	UK Head of Regulatory & Public Policy
Debbie O'Hanlon	National Markets Leader of UK & Ireland
Robert Overend	UK Country Professional Practice Director and UK Audit Compliance Principal
Lynn Rattigan	UK & Ireland Chief Operating Officer
Steve Varley	Country Managing Partner and UK & Ireland Regional Managing Partner

The day-to-day management of the UK & Ireland (UK&I) Assurance practice is led by Hywel Ball, who reports directly to the Country Managing Partner and the EMEIA Assurance Leader. Hywel is also UK Head of Audit.

The day-to-day management of the Financial Services Assurance practice in the UK is led by the UK FSO Assurance Leader, Ian Baggs, who reports to the Managing Partner, UK Financial Services and the Europe Financial Services Assurance Leader, Isabelle Santenac, who in turn reports to the EMEIA Assurance Leader.

BDO LLP is the external auditor of EY UK.

#### The UK Audit Quality Board

The UK Audit Quality Board is chaired by Hywel Ball. Its members include the major EY UK audit business leaders, and our risk management and training leaders. One of our Independent Non-Executives (INEs) attended a meeting during the period.

#### The EMEIA Area

EYG member firms are grouped into four geographic Areas: Americas; Asia-Pacific; Europe, Middle East, India and Africa (EMEIA); and Japan. The Areas comprise a number of Regions, which consist of member firms or sections of those firms.

EY UK is part of the EMEIA Area, which includes EYG member firms in 99 countries in Europe, the Middle East, India and Africa. Within the EMEIA Area, there are 12 Regions. EY UK is part of the UK&I Region, with the exception of its financial services practice, which is part of

the Financial Services Office (FSO), which is treated as a separate Region.

Ernst & Young (EMEIA) Limited (EMEIA Limited), an English company limited by guarantee, is the principal coordinating entity for the EYG member firms in the EMEIA Area. EMEIA Limited facilitates the coordination of these firms and cooperation between them, but it does not control them. EMEIA Limited is a member firm of EYG, has no financial operations and does not provide any professional services.

Each Region elects a Regional Partner Forum (RPF), whose representatives advise and act as a sounding board to regional leadership. The partner elected as Presiding Partner of the RPF also serves as the Region's representative on the Global Governance Council.

In Europe, a holding entity, Ernst & Young Europe LLP (EY Europe), was formed in conjunction with EMEIA Limited. EY Europe is an English limited liability partnership, owned by partners of the EYG member firms operating in Europe. It is an audit firm registered with the Institute of Chartered Accountants in England and Wales (ICAEW), 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 operating in Europe. EY Europe is a member firm of both EYG and EMEIA Limited. EY Europe acquired control of EY UK in November 2008.

EY Europe's principal governing bodies are:

### **Europe Operating Executive**

The Europe Operating Executive (EOE) operates as the board of EY Europe. It has authority and accountability for strategy execution and management of EY Europe's operations. The EOE comprises: the Europe Managing Partner; the leaders for Accounts, Talent and Risk Management; the service line leaders for Assurance, Advisory, Transaction Advisory Services and Tax; and all European Regional Managing Partners.

### **Europe Governance Sub-Committee**

The Europe Governance Sub-Committee includes one representative from each Region in Europe. It serves in an advisory role to the EOE on policies, strategies and other matters, and its approval is required for a number of significant matters, e.g., the appointment of the Europe Managing Partner, approval of the financial reports of EY Europe and material transactions.

## **Network arrangements**

EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, 231,000 people in member firms in more than 150 countries share a commitment to building a better working world, united by shared values and

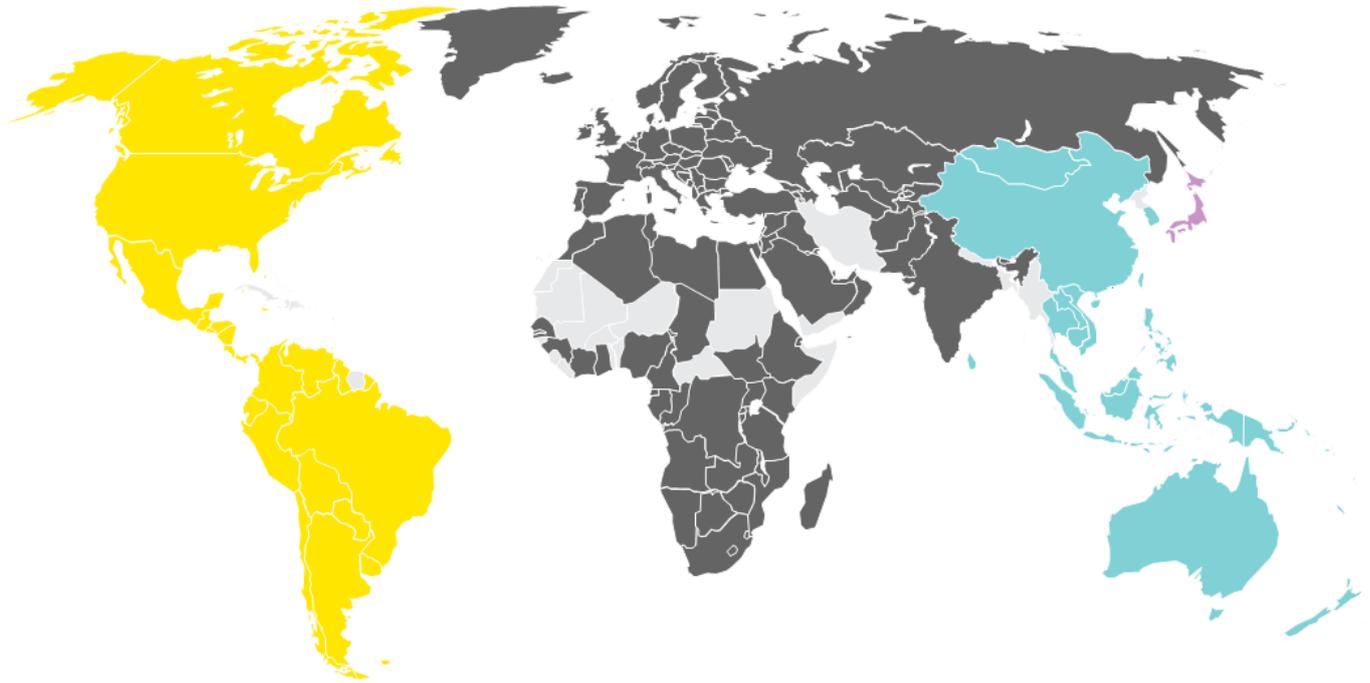
an unwavering commitment to quality, integrity and professional scepticism. In today's global market, EY's integrated approach is particularly important in the delivery of high-quality multinational audits, which can span multiple jurisdictions.

EY's central entity, EYG, coordinates the member firms and promotes cooperation between them. EYG does not provide services, but its objectives include the promotion of exceptional, high-quality client service by member firms worldwide.

Each member firm is a legally distinct entity. Their obligations and responsibilities are governed by the regulations of EYG and various other agreements.

The structure and principal bodies of the global organisation during the period ended 1 July 2016 are described below. They reflect the principle that EY, as a global organisation, has one shared strategy.

Americas		EMEIA		Asia-Pacific		Japan	
Regions	10	Regions	12	Regions	5	Region	1
Countries	30	Countries	99	Countries	22	Country	1



EY streamlined its operating model by creating the Executive and the Regions. The Executive includes the Global Executive (GE), its committees and teams, and the leadership of the four Areas. This streamlined structure allows EY to further enhance its global scale and the delivery of consistent and 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, this operating model allows for greater stakeholder focus in the 28 Regions, permitting member firms to build stronger relationships with clients and others in each country and be more responsive to local needs.

### Global Governance Council

The Global Governance Council (GGC) is the main oversight body of EYG. It comprises one or more representatives from each Region, other member firm partners as at-large representatives and six INEs. The regional representatives, who otherwise do not hold senior management roles, are elected by their RPFs for a three-year term, with provisions for one successive reappointment. The GGC advises EYG on policies, strategies and the public interest aspects of its

decision-making. The approval of the GGC is required for a number of significant matters that could affect EY.

### Independent Non-Executives

INEs are appointed from outside EY and bring the global organisation, and the GGC, the significant benefit of their varied perspectives and views. The INEs also form a majority of the Public Interest Sub-Committee of the GGC, which addresses public interest matters including stakeholder dialogue. The INEs are nominated by a dedicated committee.

### Appointment

The INEs are nominated by the INE Nominating Committee comprising the Chairman/CEO of EYG, the presiding partner of the Global Governance 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 Governance Council (GGC).

## Support

INEs receive information about the affairs of EY member firms and the wider EY network as needed to meet their duties. To facilitate their effectiveness, they receive administrative support and independent professional advice as appropriate.

## Term

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

## Independence

EYG has considered the auditor independence standards as they apply to INEs in their role as members of the GGC, and EYG is satisfied these standards have been met.

## EY's INEs

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

Shyamala Gopinath (India) - 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.

Klaus Mangold (Germany) - 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 Honor (France) and Professor of the European Business School.

Mark Olsen (USA) - Mark Olson's former positions include Federal Reserve Board Governor; Chairman of the US PCAOB (Public Company Accounting Oversight Board); Staff Director of the US Senate Securities Subcommittee of the Banking, Housing, and Urban Affairs Committee; Chairman of the American Bankers Association; bank president and CEO of Security State Bank. He was a partner at Ernst & Young LLP from 1988 to 1999.

Sir CK Chow (Hong Kong) - is Chairman of Hong Kong Exchanges and Clearing Ltd. He is an Independent Non-executive Director of the AIA Group and a Director of the World Federation of Exchanges. Previously he was the Chief Executive of MTR Corporation (HK), Brambles Industries Ltd (Australia and UK) and GKN PLC (UK). In public service, he is a non-official member of the Executive Council of the Hong Kong Special Administrative Region, Chairman of the Advisory on Corruption, member of the Economic Development Commission and the Commission of Strategic Development. He is a Chartered Engineer.

David Thorburn (UK) - former CEO of Clydesdale Bank and currently on the Board of the Prudential Regulation Authority (PRA). In his PRA role David works alongside the Governor of the Bank of England and the Bank's Deputy Governors for each of financial stability, prudential regulation, markets and banking, as well as the Chief Executive of the Financial Conduct Authority.

## Global Executive

The GE brings together EY's leadership functions, services and geographies. It is chaired by the Chairman and CEO of EYG and includes its Global Managing Partners of Client Service and Business Enablement; the Area Managing Partners; the global functional leadership for Talent and Finance; the leaders of the global service lines – Assurance, Advisory, Tax and Transaction Advisory Services; the Global Leader for Public Policy; and one EYG member firm partner on rotation.

The GE also includes the Chair of the Global Accounts Committee and the Chair of the Emerging Markets Committee, as well as a representative from the emerging markets practices.

The GE and the GGC approve nominations for the Chairman and CEO of EYG, and ratify appointments of the Global Managing Partners. The GE also approves appointments of Global Vice Chairs. The GGC ratifies the appointments of any Global Vice Chair who serves as a member of the GE. Furthermore, the GE appoints Area Managing Partners and approves appointments of Regional Managing Partners. The appointments of the Area Managing Partners are subject to ratification by the GGC.

The GE's responsibilities 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 development funds and investment priorities
- ▶ EYG's annual financial reports and budgets
- ▶ GGC recommendations
- ▶ Any other proposal that supports the global objectives

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

### **GE committees**

Established by the GE and bringing together representatives from the four Areas, the GE committees are responsible for making recommendations to the GE. There are committees for Global Markets and Investments, Global Accounts, Emerging Markets, Talent, Risk Management, Assurance, Advisory, Tax, and Transaction Advisory Services, and there is the Global Audit Committee.

### **Global Practice Group**

This group brings together the members of the GE, GE committees and Regional leaders. The Global Practice Group seeks to promote a common understanding 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 prescribed 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 to conducting their professional practices in accordance with 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 may be subject to separation from the EY organisation.



# Commitment to quality

## Infrastructure supporting quality

### Quality in our service lines

Vision 2020, which sets out EY's purpose, ambition and strategy, calls for EY member firms to provide exceptional client service worldwide. This is supported by an unwavering commitment to quality and service that is professionally and globally consistent, and means service that is based on objectivity, professional scepticism and adherence to EY and professional standards.

EY service lines are accountable for delivering quality engagements, including managing quality reviews and real-time quality assurance of engagements, which measures compliance with professional standards and all EY policies.

Vision 2020 has reinforced the ownership of quality within the service lines, including audit. It has also resulted in increased clarity around the role of risk management in policies and practices that support and improve audit quality.

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

### Professional Practice

The Global Vice Chair of Professional Practice, referred to as the Professional Practice Director (PPD), is overseen by the Global Vice Chair of Assurance and works directly with the Area PPDs to establish global audit quality control policies and procedures. Each of the Area PPDs is overseen by the Global PPD and the related 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. This is 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 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 execute audits consistently and effectively. 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 consultation with audit engagement teams.

Additional resources often augment 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 involving areas of civil and political unrest; or sovereign debt and related accounting, auditing, reporting and disclosure implications
- ▶ General engagement issues and how to work effectively with audit committees

### Risk management

Responsibility for the delivery of high quality service and ownership of the risks associated with quality is placed in the service lines. The Global Risk Management Leader oversees the management of these risks by the service lines, as he or she does in respect of other risks across the organisation as part of the broader Enterprise Risk Management framework, and continues to work with the service lines on significant risks.

Member firm partners are appointed to lead risk management initiatives in the service lines and member firms, supported by other staff and professionals. The Global Risk Management Leader is responsible for establishing globally consistent risk management execution priorities and enterprise-wide risk management. These priorities cascade to member firms, and their execution is monitored through an Enterprise Risk Management programme.

## Global confidentiality policy

Protecting confidential information is engrained in the everyday activities of EYG member firms. Respect for intellectual capital, and all other sensitive and restricted information, is established within the Global Code of Conduct, which provides a clear set of behaviours expected of all EY people. In order to further enhance this approach to protecting information, and to reflect the ever-increasing use and distribution of restricted data, EYG launched a new Global Confidentiality Policy in 2015. This policy provides added clarity to EY people and forms the fundamental element of a wider approach that includes other key policies on conflicts of interest, personal data privacy and records retention. Other elements of the approach include:

- ▶ Social media guidance
- ▶ Information-handling requirements
- ▶ Knowledge-sharing protocols

## Components of audit quality control programme

In the following sections, we describe the principal components of the EY UK 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

### Sustainable Audit Quality

Audit quality is our primary goal, and this is reflected in the launch of our Sustainable Audit Quality (SAQ) programme. SAQ is our globally consistent approach to implementing the highest level of audit quality across the organisation. Launched in 2015, it is the highest priority for our Assurance practice.

We use the word 'sustainable' in SAQ to demonstrate that this is not a one-off, short-term initiative, but an ongoing process of improvement. EY has had a common audit methodology for some time, and now we have a common language and processes regarding audit quality.

There are six components to SAQ: tone at the top; people; simplification; transformation and innovation; enablement, quality support and monitoring; and accountability. SAQ is implemented by each member firm and is coordinated and overseen globally.

We are constantly reinforcing the importance of the six components. It is something we talk about to every regional Assurance leader and every partner. Audit quality and the key elements of SAQ are something every senior manager, manager and team member must understand and be committed to implementing locally. SAQ is essential to all our goals and ambitions.

### Tone at the top

Senior EY leadership is responsible for setting the right tone at the top and demonstrating EY's commitment to building a better working world through behaviour and actions. While the tone at the top is vital, our people also understand 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 contained in the EY Global Code of Conduct and other policies and is embedded in our culture of consultation, training programmes and internal communications. Senior management regularly reinforces the importance of performing quality work, complying with professional standards and adhering to our policies, leading by example and through various communications.

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 emphasise this when necessary.

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

## Code of conduct

We promote a culture of integrity among our professionals. The EY Global Code of Conduct provides a clear set of standards that guide our actions and our business conduct. It is organised into five categories containing principles that are to be followed by everyone at EY UK to guide behaviour 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

The Global Code is supplemented by codes applicable to particular parts of the business, such as the guidance on Professional Conduct in Relation to Taxation, adopted by the various UK professional bodies and regulators, such as the ICAEW.

Through our procedures to monitor compliance with the EY Global Code of Conduct, which includes obtaining an annual confirmation of compliance from all our people, 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 UK Code of Conduct Committee

With membership drawn from the service lines, the Code of Conduct Committee (CCC) also responsible for evaluating certain breaches of the EY Global Code of Conduct and recommending appropriate consequences and sanctions for misconduct. These can range from training and counselling to separation from the member firm.

The EY Ethics Hotline provides our people, clients and others outside of the organisation with a means to report activity confidentially that may involve unethical or improper behaviour and that may be in violation of professional standards or otherwise inconsistent with the EY 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 Risk Management, Talent, Legal or other functions are involved to address the report. All matters are handled by experienced individuals, with oversight from the global Risk Management function. For those matters that are reported outside of the EY Ethics Hotline, the same procedures are followed.

## 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

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

The Audit Firm Governance Code issued jointly by the Financial Reporting Council (FRC) and the ICAEW in 2010 (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 B 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. In discharging this responsibility the UK Board periodically conducts a review of the effectiveness of the firm's system of internal control. The Regional 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 framework set out in the FRC's Guidance on Risk Management, Internal Controls and Related Financial and Business Reporting 2014. 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.

However, following the issue of a revised, 2016 Code by the FRC, which is applicable to us from July 2017 (i.e., FY2018), we have been actively reviewing the governance processes over our system of internal control to ensure compliance with the 2016 Code and to ensure that it continues to be both effective and robust. As part of that review, our UK Risk Oversight Committee has assumed the role and responsibilities of our UK Risk Forum, which had comprised all risk owners.

The UK Risk Oversight Committee's members are:

Lisa Cameron - General Counsel and Country & UK & Ireland Regional Risk Management Leader

John Cole - UK Risk Partner

Christabel Cowling - Chief Operating Officer, Assurance, UK & Ireland

Eamonn McGrath - UK Head of Regulatory & Public Policy

We will seek to continue to improve our processes and expect to have substantially enacted the 2016 Code's provisions by the end of FY2017. We will report against the 2016 Code in our 2017 Transparency Report.

### Enterprise risks

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

mechanisms for monitoring the most significant controls. The content of this register is determined through regular discussion between members of the senior management team, documented and formalised by risk professionals from within the firm's Risk service line and challenged and approved by the Risk Oversight Committee. The output of this process is reviewed by the UK Board. New risks are added as appropriate throughout the period. A balanced approach allows the degree of controllability to be taken into account when considering the effectiveness of mitigation, recognising that some activities carry inherent risk which may be outside the firm's control.

### Internal controls assurance

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

### 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 UK Board confirms that it has performed a review of the effectiveness of the system of internal control, including consideration of the process undertaken to:

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

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

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

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

# Client acceptance and continuance

## EY policy

The Client Acceptance and Continuance Policy sets out principles for member firms to determine whether to accept a new client or a new engagement, or to continue with 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 or 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, the EY Conflicts of Interest Global Policy defines global standards for addressing categories of potential conflicts of interest and a process for identifying them. It also includes provisions for managing potential conflicts of interest as quickly and efficiently as possible through the use of appropriate safeguards. Such safeguards range from obtaining a client's consent for EY member firms to act for two or more clients, to declining an engagement in order to avoid an identified conflict.

The EY Conflicts of Interest Global Policy and associated guidance documents were updated in early 2015. The updates take into account the increasing complexity of our engagements and client relationships, and the need for speed and accuracy in responding to our clients. They also align with the latest International Ethics Standards Board for Accountants (IESBA) standards.

## Putting policy into practice

We use the EY 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 several 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.

As a result of this review, certain audit engagements are identified as requiring, and are then subjected to, additional oversight procedures during the audit (close monitoring), 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 could 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

As part of Vision 2020, EY has invested significantly in improving our audit methodologies and tools, with the goal of performing the highest-quality audits in the profession. This investment is consistent with EY's goal to have the leading audit practice in the profession by 2020 and reflects our commitment to building trust and confidence in the capital markets and in economies the world over.

### Audit methodology

The EY 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. The methodology also emphasises applying appropriate professional scepticism in the execution of audit procedures. EY GAM is based on International Standards on Auditing (ISAs) and is supplemented in the UK to comply with the local UK auditing standards and regulatory or statutory requirements.

The EY auditor is presented with a version of EY GAM organised by topic and designed to focus our audit strategy on the financial statement risks and the design and execution of the appropriate audit response to those risks. EY GAM consists of two key components: requirements and guidance, and supporting forms and examples. The requirements and guidance reflect both the audit standards and EY policies. The forms and examples include leading practice illustrations and assist in performing and documenting audit procedures.

Using technology, EY GAM can be 'profiled' or tailored to present the relevant requirements and guidance, depending on the nature of the entity being audited. For example, there are profiles for listed entities and for those considered noncomplex entities.

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. In 2016, EY GAM was updated to include the new and revised ISAs dealing with auditor reporting, other information included in an annual report and financial statement disclosures. We also enhanced EY GAM by adding guidance to address common questions from audit teams and issues arising from inspections.

In addition, we monitor current and emerging developments continually and issue timely audit planning and other reminders. These reminders emphasise areas noted during inspections as well as other key topics of interest to our regulators, including the International Forum of Independent Audit Regulators (IFIAR). These topics 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. Beginning in 2015, EY launched EY Canvas, the next generation global audit platform, on a phased basis across EYG member firms globally. The global deployment continues but EY UK completed its rollout in FY2016. EY Canvas is web-based, built using state-of-the-art technology to provide heightened data security and allows us to evolve our software to respond to changes in the accounting profession and regulatory environment.

Through the use of profile questions, audit engagements in EY Canvas are automatically configured with information relevant to the company's listing requirements and industry, helping to keep our audit plans customised and up-to-date by providing direct linkage to our audit guidance, professional standards and documentation templates. It is built with a fresh, clear design and user interface that allows users to visualise risks and their relationship to our planned response and work performed in key areas. EY Canvas also enables a linkage for our group audit teams to communicate inter-office risks and instructions so that the primary audit team can direct execution and monitor performance of the group audit. Our predecessor audit support tool, GAMx, will cease to be used in EY UK by December 2016.

Audit engagement teams use other software applications, forms and templates during various phases of an audit to assist in executing procedures, making and documenting audit conclusions, and performing analysis.

EY Helix contains our suite of data analytic tools for use in audits. These help our engagement teams analyse a company's data, enhancing our risk assessment processes and enabling the audit of higher-risk transactions.

EY Helix is already assisting our people to ask better questions about audit findings and evaluate the outcomes. Analytics are transforming the audit by analysing larger populations of audit-relevant data, identifying unseen patterns and trends in that data, and helping to direct our audit efforts. The use of analytics also allows us to obtain better perspectives, richer insights and a deeper understanding of transactions and areas of risk.

### **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 fulfil their engagement responsibilities and are in compliance with applicable auditor rotation regulations.

The assignment of professionals 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, specialised industry knowledge and experience, timing of work, continuity and opportunities for on-the-job training. For more complex engagements, consideration is given to whether specialised or additional expertise is needed to supplement or enhance the audit engagement team.

In many situations, internal specialists 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 those involving information systems, asset valuation and actuarial analysis.

## **Review and consultation**

### **Reviews of audit work**

Our policies describe the requirements for timely and direct senior professional participation as well as the level of review required for the work performed. Supervisory members of the audit engagement team perform a detailed review of the audit documentation for accuracy and completeness. Senior audit executives and/or engagement partners 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 audit 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
- ▶ Ability and experience of the audit team members preparing the audit documentation
- ▶ Level of the reviewer's direct participation in the audit work
- ▶ 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.

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

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 specialised knowledge, primarily Professional Practice and Independence personnel. In the interests 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 recently served, the client to which the consultation relates.

Our policies also require that we document all consultations, including written agreement 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 spans the entire engagement cycle, including planning, risk assessment, audit strategy and execution. 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 approves all engagement quality review assignments for listed companies and those considered higher risk.

### **Audit engagement team resolution process for differences of professional opinion**

EY has a collaborative culture that encourages and expects people to speak up, without fear of reprisal, if a difference of professional opinion arises or if 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 their own views heard and canvas the views of others.

Differences of professional opinion that arise during an audit are generally 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.

Furthermore, 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 resolving differences of professional opinion. 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. EY UK complies with the audit partner rotation requirements of the code of the International Ethics Standards Board for Accountants (IESBA) and the FRC's Ethical Standard, 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, helps strengthen independence and objectivity and is an important safeguard of audit quality.

We have tools to track partner rotation that enable effective monitoring of compliance with 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 of our process to monitor 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.

Implemented annually, the programme is coordinated and monitored by representatives of the PPD network, with oversight by the Assurance leadership.

The engagements reviewed each year are selected on a risk-based approach emphasising audit engagements 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 unlisted 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.

Results of the latest AQR reviews can be found in [Volume 1](#) of this Transparency Report.

AQR reviewers and team leaders are selected for their skills and professional competence in accounting and auditing, as well as their industry specialisation; 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 matters noted from the Global AQR programme, regulatory inspections and peer reviews are addressed by our Assurance leadership and our PPD with input from Risk Management groups. The actions are monitored by our PPD and Assurance leadership. These programmes provide important practice monitoring feedback for our continuing quality improvement efforts.

## External quality assurance review

EY UK's audit practice and our registered statutory auditors are subject to annual inspection by the Audit Quality Review Team of the FRC and the Quality Assurance Department of the ICAEW and periodic inspection by the Public Company Accounting Oversight Board (PCAOB) - more details can be found in [Volume 1](#). As part of its inspections, the FRC evaluates quality control systems and reviews selected engagements.

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

Details of the latest external audit inspections and their results can be found in [Volume 1](#) of this Transparency Report.

Information on the FRC's regulatory activities can be found on its website [www.frc.org.uk](http://www.frc.org.uk).

## Compliance with legal requirements

The EY 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 EY's values underpin our commitment to doing the right thing. This important commitment is supported by a number of policies and procedures, including:

### **Anti-bribery**

The Anti-bribery Global Policy provides our people with direction around certain unethical and illegal activities. It emphasises 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. In recognition of the growing global impact of bribery and corruption, we have increased efforts to embed anti-bribery measures across EY, and training is mandated for all our people.

### **Insider trading**

The Insider Trading Global 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.

**Trade sanctions**

Given the level of EY's global integration, it is important that we are aware of the ever-changing situation in respect of international trade sanctions. EY monitors sanctions issued in multiple geographies and provides guidance to our people on affected activities.

**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 for maintaining and processing personal data. 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 emphasises 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 Independence policies require 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 Standard.

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 pre-approval, where applicable; and partner/staff remuneration and compensation.

Failure to comply with applicable professional independence requirements will be considered during promotion and compensation decisions and may lead to other disciplinary measures, including an individual's separation from EY UK.

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

### EY Global Independence Policy

The EY Global Independence Policy contains the independence requirements for member firms, professionals and other personnel. It is a robust policy predicated on the IESBA Code of Ethics, supplemented with more stringent requirements where prescribed by a given regulator. The policy also contains guidance to help people apply the independence rules. The EY Global Independence Policy and UK Policy are readily accessible and can easily be found by searching on EY's intranet.

### Global Independence System

The Global Independence System (GIS) is an intranet-based tool that helps our professionals identify the listed entities from which independence is required and the independence restrictions that apply. Generally, these are audit clients and their affiliates, but they can be other types of attest or assurance clients too. 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 determine the type of

services that can be provided or other interests or relationships that can be entered into.

### Global Monitoring System

The Global Monitoring System (GMS) is another important global tool that assists in identifying proscribed securities and other impermissible financial interests. Professionals 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 or if a security they hold becomes proscribed, 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 and the Global Code of Conduct, as described below.

### Independence compliance

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

#### 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 Global Independence Policy and requirements and to report identified exceptions, if any.

All EY 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 member firm visits to assess compliance with independence matters. These reviews include aspects of compliance related to non-audit services, business relationships with the companies we audit and financial relationships of member firms.

EY UK confirms that the Global Internal Audit last occurred during 2014. The next review is expected in November or December 2016.

### **New personal independence compliance testing**

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 2015/16 testing cycle, EY UK tested more than 400 partners and other personnel.

### **Non-audit services**

We monitor compliance with professional standards governing the provision of non-audit services to audit clients through a variety of mechanisms. These include the use of tools, 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 personnel are required to participate in annual independence learning to help maintain our independence from the companies we audit.

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.

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. EY UK supplements this programme with local content to cover local independence requirements under the FRC's Ethical Standard that are additional to the EYG Independence Policy.

In addition to the annual learning programme, independence awareness 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**

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. We restrict services from being provided that could present undue independence or other risks. Our Service Offering Reference Tool (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**

The Business Relationship Evaluation Tool (BRET) process helps to ensure that our business relationships' comply with independence requirements. Our people are required to use BRET in many circumstances to evaluate and obtain advance approval of a potential business relationship with an audit client.

### **Audit committees and oversight of independence**

We recognise the important role audit committees and similar corporate governance bodies undertake in the oversight of auditor independence. Empowered and independent audit committees perform 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 non-audit services, where applicable.



## Continuing education of audit professionals

### 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 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.

EY Global is redesigning our core audit training and creating 'The Audit Academy' – a curriculum for learning. This high-impact learning combines interactive classroom-based simulations, 'on-demand' e-learning modules and relevant reinforcement and application support.

Where EY audits and reviews financial statements prepared under International Financial Reporting Standards (IFRS), relevant team members undertake learning to become IFRS accredited.

EY UK requires 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% (eight 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 the on-the-job experiences. 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. We also assign our people to particular engagements in a systematic way, helping them to gain exposure to a range of experiences as part of their own development.

### Knowledge and internal communications

In addition to professional development and performance management, we understand the importance of providing client engagement teams with up-to-date information to help them fulfil their professional responsibilities. EY makes significant investments in knowledge and communication networks to enable the rapid dissemination of information to help people collaborate and share best practices. Examples include:

- ▶ Our Global Accounting and Auditing Information Tool (GAAIT), which includes local and international accounting and auditing standards as well as interpretive guidance
- ▶ Publications with information on international generally accepted accounting practice (GAAP), IFRS developments and illustrative financial statements
- ▶ *Global Accounting and Auditing News*, a weekly update covering assurance and independence policies, developments from standard setters and regulators, as well as internal commentary thereon
- ▶ *Point of view and Overview* publications, which provide important perspectives on current public policy and regulatory developments
- ▶ Practice alerts and webcasts covering a range of global and country-specific matters designed for continuous improvement in the member firms' Assurance practices

### 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 reviews. As part of the annual review process, each professional, in conjunction with his or her counsellor (an assigned, more experienced professional), identifies opportunities for further development. Professionals and their counsellors are guided by a set of expectations that articulate the knowledge, skills and behaviours that should be maintained and developed for their respective ranks. These expectations are derived from, and align with, EY's global strategy and values.

# 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 ended 1 July 2016

Service <sup>1</sup>	Revenue (m)	Percent
Assurance	619	29%
Advisory	606	28%
Tax	581	27%
Transaction Advisory	344	16%
<b>Total</b>	<b>2,150</b>	<b>100%</b>

Service	Revenue (m) 2016	
	Audit clients	Non-audit clients
Assurance	432	187
Advisory	34	572
Tax	145	436
Transaction Advisory	59	285
<b>Total</b>	<b>670</b>	<b>1,480</b>

Service	Revenue (m) 2016	
	Audit clients	Non-audit clients
Statutory audit	395	0
Other assurance	37	187
<b>Total assurance</b>	<b>432</b>	<b>187</b>

	2016 £mn	2015 £mn
Revenue	432	407
Profitability <sup>2</sup>	43	69

<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 improvement. Tax includes business 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 modelling services.

<sup>2</sup> We have disclosed profit for statutory audit services and all assurance services provided to audit clients. It is not possible for us to identify profit at the level of reportable segment

The reduction in audit profitability reflects our significant investment during the year in headcount, property and technology as we execute on our growth plans and Sustainable Audit Quality programme. It also reflects the material increase in first-year audit costs as we transition new major audit clients to EY.

### Prior-year performance

Financial information for the period ended 3 July 2015

Service	Revenue (m)	Percent
Assurance	585	29%
Advisory	584	29%
Tax	517	26%
Transaction Advisory	324	16%
<b>Total</b>	<b>2,010</b>	<b>100</b>

Service	Revenue (m) 2015	
	Audit clients	Non-audit clients
Assurance	407	178
Advisory	26	558
Tax	139	378
Transaction Advisory	65	259
<b>Total</b>	<b>637</b>	<b>1,373</b>

Service	Revenue (m) 2015	
	Audit clients	Non-audit clients
Statutory audit	370	0
Other assurance	37	178
<b>Total assurance</b>	<b>407</b>	<b>178</b>

under the Voluntary Code of Practice on Disclosure of Audit Profitability. Operating profit for statutory audit services is calculated based on direct costs including staff costs recorded on audit engagements, together with an allocation of overheads such as property and IT. Overhead costs have been allocated on a pro-rata basis based on headcount or revenues. The profit relating to other assurance services provided to audit clients is based on the average profit for our other assurance business, since it is not possible to specifically identify the relevant profit.

## Partner remuneration

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

Global performance management processes cover partners in EYG member firms around the world. They reinforce the global business agenda by linking performance to wider goals and values. These ongoing, cyclical processes include goal setting, personal development planning and performance review, and are tied to partners' recognition and reward. Documenting partners' goals and performance is the cornerstone of the evaluation process. A partner's goals are required to reflect various global priorities, one of which is quality.

EY prohibits 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 performance measures have been developed to account for:

- ▶ Technical excellence
- ▶ Living the EY values as demonstrated by behaviours 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

The EY partner compensation philosophy calls for meaningfully differentiated rewards based on a partner's level of performance, as measured by the Global Partner Performance Management (GPPM) process. This is a globally consistent evaluation process for all partners in EYG member firms around the world. Partners are assessed annually on their performance in delivering quality, exceptional client service and people engagement, alongside our financial and market metrics.

We operate under a system that requires quality to be a significant consideration in a partner's overall year-end rating.

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 noncompliance with quality standards result in remedial actions, which may include compensation adjustment, additional training, additional supervision or reassignment. A pattern of noncompliance or particularly serious noncompliance may result in actions that include separation from EY UK.



# Working with our communities

## Environmental sustainability

We are committed to building a better working world that embraces sustainable growth, recognising our obligation to our people and the communities in which we operate to minimise our environmental impact.

We continue to build our sustainability programme and ensure we employ robust measuring, monitoring and management standards. A full assessment of EY UK environmental performance and approach to sustainability can be found via our website. An overview of our impacts and progress made during FY2015 is provided below.

### GHG emissions performance overview

As a professional services firm, our services are intellectually based. Greenhouse gas (GHG) emissions originate from our offices and the business travel undertaken by client teams. We annually measure and report our most significant emissions:

**Scope 1:** Fuels for heating (natural gas, burning oil)  
Diesel (for generators)  
Fugitive emissions (from refrigerants)

**Scope 2:** Purchased electricity\*

**Scope 3:** Business travel (road, rail, air etc.)  
Supply chain (paper consumption)  
Waste related emissions (disposal)  
Other energy-related emissions (WTT etc.)

\*Since October 2007 in offices where EY controls the energy supply, and appropriate energy tariffs are available, we have purchased electricity from renewable sources.

Performance in each material area is shown below:

GHG Emissions	Tonnes CO2e	
	FY2015	FY2014
Scope 1	1,731	2,115
Scope 2**	10,631	12,201
Scope 3	68,255	62,685
<b>Total</b>	<b>80,617</b>	<b>77,000</b>

\*\*Calculated using a location-based approach

### Focus on business travel

Travel is essential in providing services to our clients and is heavily influenced by our strategy for growth and service

delivery. FY2015 saw a significant rise in our total scope 3 emissions (9% / 5,570 t CO2e) which can be attributed solely to increased business travel. Emissions from road travel grew by 17% (692 t CO2e) and from rail travel by 25% (385 t CO2e) compared to 2014. Emissions from air travel also increased (by 9% / 4,997 t CO2e).

Business travel	FY2015	FY2014
Total distance (km)	208,975,285	191,632,797
Km per FTE	13,713	14,333
Total emissions (t CO2e)	65,064	58,991
Kg CO2e per km	0.31	0.31
Tonnes CO2e per FTE	4.27	4.41

We again achieved our target of keeping growth of GHG emissions from business travel (kg CO2e) at a lower % rate than our revenue growth. This is a strong indication that we are generating revenue less carbon intensively per kilometer travelled, even as the business grows rapidly.

We continually strive to reduce our impacts from travel, but recognise it may be necessary to invest in extra resources to grow the business in line with EY's ambitious targets.

### Continuously improving energy efficiency

FY2015 saw reductions in energy consumption and related emissions across a number of indicators, despite our fulltime equivalent (FTE) headcount increasing by 14% during the same period. This is a strong signal that EY is becoming increasingly energy efficient as the business continues to expand:

Energy consumption	FY2015	FY2014
Total energy (kWh)	30,631,309	32,406,427
kWh per FTE	2,010	2,424
Total emissions (t CO2e)	14,800	16,882
kWh per m2	310	332
Kg CO2e per kWh	0.48315	0.52094
Kg CO2e per FTE	0.97	1.26
Kg CO2e per m2	150	173

We continually identify opportunities for increased energy efficiency across our real estate. Recent examples of investments made include:

- ▶ Upgrades to fan coil units, lighting and the lift destination control system at our Global HQ site
- ▶ Expansion of our remote energy metering, monitoring and targeting system across the UK estate
- ▶ The opening of 25 Churchill Place in Canary Wharf – featuring elevators that store and reuse energy, ultra-efficient air conditioning that recycles energy from

exhaust air, photovoltaic cells and a 'green' roof to enhance biodiversity and energy efficiency

*N.B. Latest environmental data available at time of publication is FY2015.*

- ▶ Upgrades to energy-efficiency desk monitors and LED lighting as part of other office refurbishment projects

As we continue to rationalise our estate and refurbish offices in line with our 'Workplace of the future' strategy, we expect further reductions from continuing investment.

**Waste not, want not**

Waste	FY2015	FY2014
Total waste (kg)	2,549,009	2,638,033
Kg waste per FTE	167	197
Total emissions (t CO2e)	68	115
Tonnes CO2e per FTE	0.0045	0.0086
Waste recycling ratio (%)	92.2	86.0

We are aiming to cut waste per FTE by 10% (compared to FY2010) and send zero waste to landfill (for offices where EY controls the building services). So we have introduced a wide range of initiatives, including the following:

- ▶ Donating unsold food from London sites to a local vocational training centre for homeless people
- ▶ 'Follow-me' printing to reduce paper and toner consumption and unclaimed document waste
- ▶ Sending food waste from London, Birmingham and Liverpool catering services for anaerobic digestion
- ▶ Turning used cooking oil from our offices' restaurants into biofuel

We are making positive progress towards our targets for waste generation and recycling, mainly due our Facilities Management team implementing a new waste segregation scheme and communications programme.

**External recognition**

We are proud to have achieved a number of internationally recognised environmental standards:

- ▶ The Facilities Management function in our UK offices is certified to ISO 14001
- ▶ Since 2011 EY UK has been certified to the Carbon Trust Standard, confirming we have measured, managed and reduced carbon emissions across our UK operations
- ▶ In 2015 EY UK achieved certification to the Carbon Trust Waste Standard, recognising our actions to measure, manage and reduce waste output year on year
- ▶ Our response to CDP's 2015 Climate Change Information Request received a score of 100%

**Supporting our clients' sustainability programmes**

We employ a range of options to reduce the environmental impacts of delivering our services to clients, including:

- ▶ Audio conferencing, web-based meetings, extensive video conferencing and tele-presence capabilities
- ▶ When travel is necessary, encouraging our people to use the most sustainable transport options and working with clients to ensure these are fully integrated into specific engagements
- ▶ A strong culture of flexible working - we collaborate with our clients to integrate this leading approach into individual projects, where appropriate
- ▶ Ensuring that communications and correspondence between our organisations are conducted via secure electronic media (i.e., email, scanned documents, source files etc.) wherever feasible and practicable

EY also provides knowledge-based services to clients to help them take advantage of market opportunities as we shift towards a resource-efficient and low-carbon economy:

- ▶ Our Climate Change and Sustainability Services (CCaSS) team supports organisations in implementing new strategies and understanding the risks and opportunities presented by safety, ethical and environmental factors. The team helps companies exposed to material environmental and social risks, environmental and social regulations, standards and stakeholder expectations. We support companies in sectors becoming disrupted by innovation and competition based on new technologies or business models with superior sustainability profiles.
- ▶ EY's Global Power & Utilities Centre works with power and utilities companies which are facing the triple challenge of improving environmental performance, keeping consumers' costs down and maintaining system reliability. We have over 4,400 power and utilities professionals worldwide with the experience to create strategies for future growth
- ▶ EY's Energy Optimisation Practice has developed the 3D Energy Strategy™ to provide proactive and careful energy management in a landscape that is shifting for corporate consumers. As global economies grapple with the challenges of climate change, security of supply and resource scarcity, energy has become more complex. Our team can help drive the next level of energy cost reduction
- ▶ Our Supply Chain Services (SCS) teams review, improve and assess the risk of procurement functions, helping them to integrate environmental, sustainable and low carbon aspects into end-to-end supply chains





## Appendix A

### EY UK public interest entity audit clients

In the financial period that ended on 1 July 2016, EY UK performed audits of the following public interest entities (as defined by the Statutory Auditors (Transparency Instrument) 2008):

- ▶ 3i Group plc
- ▶ AA PLC
- ▶ Aberdeen Asian Smaller Companies Investment Trust PLC
- ▶ ABP Finance Plc
- ▶ Acal plc
- ▶ Aggregate Industries Holdings Ltd
- ▶ Alliance Automotive Finance Plc
- ▶ Alpha Plus Holdings plc
- ▶ Amec Foster Wheeler plc
- ▶ Argo Underwriting Agency Limited
- ▶ AVEVA Group PLC
- ▶ BG Energy Capital plc
- ▶ BGEO Group PLC
- ▶ Biz Finance Plc
- ▶ BlackRock Commodities Income Investment Trust plc
- ▶ BlackRock Frontiers Investment Trust plc
- ▶ BlackRock Greater Europe Investment Trust plc
- ▶ BlackRock Income Strategies Trust plc
- ▶ BlackRock Throgmorton Trust plc
- ▶ BlackRock World Mining Trust plc
- ▶ BP Capital Markets p.l.c.
- ▶ BP p.l.c.
- ▶ British Airways Plc
- ▶ British Empire Trust plc
- ▶ Britvic plc
- ▶ Burford Capital PLC
- ▶ Castle Trust Direct Plc
- ▶ Cathedral Capital Holdings Limited
- ▶ CC Japan Income & Growth Trust Plc
- ▶ Clipper Logistics plc
- ▶ Clydesdale Bank PLC
- ▶ Communisis plc
- ▶ Coventry Building Society
- ▶ Cranswick plc
- ▶ CRH Finance (U.K.) plc
- ▶ Dairy Crest Group plc
- ▶ Dignity Finance PLC
- ▶ Dignity Plc
- ▶ Domino's Pizza Group plc
- ▶ Eco-Bat Finance PLC
- ▶ Ecofin Water & Power Opportunities plc
- ▶ EE Finance plc
- ▶ EMF-UK 2008-1 PLC
- ▶ EnQuest PLC
- ▶ Enterprise Inns plc
- ▶ EP Global Opportunities Trust plc
- ▶ Eurosail 2006-1 PLC
- ▶ Eurosail 2006-2BL 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
- ▶ Eurosail-UK 2007-3BL PLC
- ▶ Eurosail-UK 2007-4BL PLC
- ▶ Eurosail-UK 2007-5NP PLC
- ▶ Eurosail-UK 2007-6NC PLC
- ▶ EVRAZ plc

- ▶ Exova Group plc
- ▶ F&C Managed Portfolio Trust plc
- ▶ F&C Private Equity Trust plc
- ▶ Ferrexpo Finance plc
- ▶ Ferrexpo PLC
- ▶ Fidelity China Special Situations PLC
- ▶ Fresnillo plc
- ▶ GCP Student Living plc
- ▶ Greene King Finance Plc
- ▶ Greene King plc
- ▶ Henderson European Focus Trust plc
- ▶ Henderson Global Trust plc
- ▶ Herald Investment Trust plc
- ▶ Hitachi Capital (UK) PLC
- ▶ Hochschild Mining plc
- ▶ Huntsworth plc
- ▶ Ibstock plc
- ▶ IMI plc
- ▶ Impax Environmental Markets plc
- ▶ InterContinental Hotels Group PLC
- ▶ Invesco Perpetual Select Trust plc
- ▶ Investec Bank plc
- ▶ Investec Finance plc
- ▶ Investec Investment Trust PLC
- ▶ Investec plc
- ▶ Investors Capital Trust plc
- ▶ J Sainsbury plc
- ▶ John Menzies plc
- ▶ JPMorgan Brazil Investment Trust plc
- ▶ JPMorgan Claverhouse Investment Trust Plc
- ▶ JPMorgan Elect plc
- ▶ JPMorgan European Investment Trust plc
- ▶ JPMorgan Global Emerging Markets Income Trust plc
- ▶ JPMorgan Income & Growth Investment Trust plc
- ▶ JPMorgan Russian Securities plc
- ▶ Jupiter European Opportunities Trust PLC
- ▶ Kensington Mortgage Securities plc
- ▶ Laird PLC
- ▶ Lanark Master Issuer PLC
- ▶ Land Securities Capital Markets PLC
- ▶ Land Securities Group Plc
- ▶ Landmark Mortgage Securities No. 1 plc
- ▶ Landmark Mortgage Securities No. 2 plc
- ▶ Landmark Mortgage Securities No. 3 plc
- ▶ Lannraig Master Issuer Plc
- ▶ Leek Finance Number Eighteen plc
- ▶ Leek Finance Number Nineteen plc
- ▶ Leek Finance Number Seventeen plc
- ▶ Leofric No. 1 Plc
- ▶ London Stock Exchange Group plc
- ▶ LSL Property Services plc
- ▶ M&G High Income Investment Trust P.L.C.
- ▶ Majedie Investments PLC
- ▶ Marble Arch Residential Securitisation No. 4 PLC
- ▶ Martin Currie Asia Unconstrained Trust plc
- ▶ Martin Currie Global Portfolio Trust plc
- ▶ Mercia No.1 Plc
- ▶ Michael Page International plc
- ▶ Money Partners Securities 1 plc
- ▶ Money Partners Securities 2 plc
- ▶ Money Partners Securities 3 plc
- ▶ Money Partners Securities 4 plc
- ▶ Montanaro European Smaller Companies Trust plc
- ▶ Mortgage Funding 2008-1 plc
- ▶ Murray Income Trust PLC
- ▶ Murray International Trust PLC
- ▶ Nanoco Group plc
- ▶ New India Investment Trust PLC
- ▶ New Star Investment Trust PLC
- ▶ Next Plc
- ▶ NMC Health Plc
- ▶ Nomura Bank International plc

- ▶ Northern Ireland Electricity Limited
- ▶ Nostrum Oil & Gas PLC
- ▶ Ophir Energy plc
- ▶ Opportunity Investment Management Plc
- ▶ Pacific Horizon Investment Trust PLC
- ▶ Pearl Group Holdings (No. 1) Limited
- ▶ Pennon Group Plc
- ▶ Perpetual Income and Growth Investment Trust plc
- ▶ Personal Assets Trust PLC
- ▶ Pirelli International plc
- ▶ Polypipe Group plc
- ▶ PPL UK Distribution Holdings Limited
- ▶ Preferred Residential Securities 05-1 PLC
- ▶ Preferred Residential Securities 05-2 PLC
- ▶ Preferred Residential Securities 06-1 PLC
- ▶ Preferred Residential Securities 7 PLC
- ▶ Preferred Residential Securities 8 PLC
- ▶ Premier Energy & Water Trust PLC
- ▶ Private Equity Investor PLC
- ▶ Rank Group Finance Plc
- ▶ Residential Mortgage Securities 19 plc
- ▶ Residential Mortgage Securities 20 plc
- ▶ Residential Mortgage Securities 21 plc
- ▶ Residential Mortgage Securities 22 plc
- ▶ Residential Mortgage Securities 23 plc
- ▶ Residential Mortgage Securities 26 plc
- ▶ Saga plc
- ▶ Sanditon Investment Trust plc
- ▶ Schroder UK Mid Cap Fund plc
- ▶ Scottish Power UK plc
- ▶ Seneca Global Income & Growth Trust plc
- ▶ Servelec Group plc
- ▶ Shortline Plc
- ▶ Silk Road Finance Number Three plc
- ▶ Skyepharma PLC
- ▶ South West Water Finance Plc
- ▶ Southern Pacific Financing 04-A plc
- ▶ Southern Pacific Financing 04-B plc
- ▶ Southern Pacific Financing 05-A plc
- ▶ Southern Pacific Financing 05-B plc
- ▶ Southern Pacific Financing 06-A plc
- ▶ Southern Pacific Securities 04-1 plc
- ▶ Southern Pacific Securities 04-2 plc
- ▶ Southern Pacific Securities 05-1 plc
- ▶ Southern Pacific Securities 05-2 plc
- ▶ Southern Pacific Securities 05-3 plc
- ▶ Southern Pacific Securities 06-1 plc
- ▶ SP Distribution plc
- ▶ SP Manweb plc
- ▶ Spire Healthcare Group plc
- ▶ Spirent Communications plc
- ▶ Standard Life UK Smaller Companies Trust plc
- ▶ Stirling Water Seafield Finance Plc
- ▶ Strategic Equity Capital plc
- ▶ SVG Capital plc
- ▶ Temese Funding 1 Plc
- ▶ Temese Funding 2 Plc
- ▶ Temple Bar Investment Trust PLC
- ▶ The Biotech Growth Trust PLC
- ▶ The Co-operative Bank plc
- ▶ The Diverse Income Trust plc
- ▶ The Go-Ahead Group plc
- ▶ The Gym Group plc
- ▶ The Independent Investment Trust PLC
- ▶ The Rank Group Plc
- ▶ The Sage Group PLC
- ▶ The Scottish Oriental Smaller Companies Trust plc
- ▶ The Weir Group PLC
- ▶ Theatre (Hospitals) No. 2 plc
- ▶ Theatre (Hospitals) No.1 plc
- ▶ Troy Income & Growth Trust plc
- ▶ Tyseley Finance plc

- ▶ University Of Manchester
- ▶ Volution Group plc
- ▶ Warwick Finance Residential Mortgages Number One PLC
- ▶ Warwick Finance Residential Mortgages Number Two PLC
- ▶ Western Power Distribution (East Midlands) plc
- ▶ Western Power Distribution (South Wales) plc
- ▶ Western Power Distribution (South West) plc
- ▶ Western Power Distribution (West Midlands) plc
- ▶ Western Power Distribution plc
- ▶ Westfield Stratford City Finance PLC
- ▶ Westfield UK & Europe Finance PLC
- ▶ Wireless Group plc (formerly UTV Media plc)
- ▶ ZEAL Network SE



## Appendix B

### Audit Firm Governance Code disclosure requirements

This table maps the disclosure requirements of the Audit Firm Governance Code, issued jointly by the Financial Reporting Council (FRC) and the ICAEW in 2010, to the contents of the FY2016 Transparency Report. We are satisfied that EY UK complied with the existing Code for the period ended 1 July 2016.

Provision	Description	Volume	Page(s)
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.	1 2	18 4 -7
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.	2	4
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.	2	6 -7
D.1.3	<b>The Firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest.</b>	2	<b>13, 19-20</b>
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.	2	12
D.2.3	In maintaining a sound system of internal control and risk management and reviewing its effectiveness, the Firm should use a recognized framework such as the Turnbull Guidance and disclose in its transparency report the framework it has used.	2	12



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