

# EY UK Audit Quality Report

November 2019

“

This is a critical time for the profession and we will continue to work closely with the firm to ensure it responds appropriately to the challenges it is facing, notably on audit quality, reputation, culture, ethics and the risk and control framework. We remain confident in the firm's strong commitment to the public interest and high-quality audits.

**David Thorburn**

(Chair of EY's Independent  
Non-Executive Oversight Committee)

# Contents

|                                  |           |
|----------------------------------|-----------|
| <b>Foreword –<br/>Hywel Ball</b> | <b>02</b> |
|----------------------------------|-----------|

---

|   |           |
|---|-----------|
| <b>Our UK Sustainable Audit<br/>Quality programme</b> | <b>04</b> |
|---|-----------|

---

## **Six Pillars of Sustainable Audit Quality**

|                                |    |
|--------------------------------|----|
| Tone at the top                | 06 |
| Exceptional talent             | 08 |
| Accountability                 | 10 |
| Audit technology and digital   | 12 |
| Simplification and innovation  | 14 |
| Enablement and quality support | 16 |

---

|  |           |
|--|-----------|
| <b>UK audit quality<br/>governance</b> | <b>18</b> |
|--|-----------|

# Foreword



This is our first UK Audit Quality Report. In it, we set out the actions we have already taken to improve audit quality and, importantly, those we will focus on for the future. Our intent is to help audit committees and other key stakeholders understand the steps we are taking at EY now and in the immediate future to deliver audit quality.

UK business and the audit profession are facing an unprecedented time – improving audit quality has never been more vital. Recent high-profile corporate failures have weakened public trust and confidence in both the auditing profession and business at large. Multiple ongoing regulatory reviews are likely to reshape the corporate reporting environment and are raising fundamental questions about the purpose, product and role of an external audit, as well as the purpose of a company and the accountability of company directors and auditors. The audit regulator also continues to raise the bar in its expectations of audit work, as it seeks to respond to these challenges through its own audit inspection process.

## **Audit Quality**

We understand our role in society is to serve the public interest. Delivering consistently high-quality audits is how we play our part in restoring and sustaining confidence and trust in the capital markets. We have already made significant investments to improve audit quality over the last five years through our Sustainable Audit Quality programme. We began this programme in 2014 when we set up the UK Audit Quality Board and our Audit Quality Support Team, and launched annual Audit Quality Summits for our partners and senior staff. Since then, our approach to partner and staff remuneration has been focused on ensuring audit quality is reinforced as a critical factor in determining pay awards. We have also made significant investments in technology and driving cultural change to support audit quality. Our investment in audit quality is now £25mn a year higher than in 2014. However, we recognise that there remains more to do. We will continue to invest to meet the expectations of all our stakeholders and society as a whole.

## **Public Interest**

Our primary public interest role is to deliver sustainable, high-quality audits. We are also responsible for ensuring a healthy audit market and providing the confidence and assurance to shareholders and other stakeholders on UK corporate activity. We therefore consider carefully whether we participate in any tender or when we decide to resign from the audit of a company. The demonstrated focus of a company on strong corporate governance and internal control is a major factor in this assessment. The current market dynamics, various capacity constraints and other regulatory and reputational risks mean we have to balance our priority of delivering high audit quality with our broader public interest carefully.

## **Audit Attractiveness**

It is vital the attractiveness of the audit profession is maintained for our best talent. We continue to be one of the largest employers of graduates and school leavers across all of the UK. This year we will also recruit around 600 experienced accountants. The challenge of maintaining the right number of skilled and motivated auditors to deliver high-quality audits remains significant. We need to ensure our people appreciate the societal purpose of being an auditor, and that we deliver the work-life balance they seek, together with strong career development opportunities and appropriate financial rewards.

## **Market Dynamics**

The costs resulting from the regulatory requirement for mandatory rotation, i.e., tendering and switching, have been largely absorbed by the profession. These new costs, coupled with a period of intense investment in technology and compliance, have placed significant commercial pressure on the audit business. This pressure, together with regulatory concern over whether loss-making audits increase the risk to audit quality and raise a challenge over anti-competitive behaviour, means that we are seeing a period of audit price increases. This dynamic should have a positive impact on choice in the market, as new entrants become attracted by improved returns. We are therefore in the process of evaluating our audit engagements in the UK to ensure that the economic returns support the level of work, investments and financial resilience needed to deliver consistent high-quality audits.

## **The Future of Audit**

We continue to engage with the various reviews in the UK market and beyond to help shape a future scope of audit to better meet the expectations of our stakeholders and society. We will also share our point of view to help shape corporate reporting and accountability to meet the increasing stakeholder demands on corporates, be that for broader stakeholder reporting or stronger internal control accountability. Agreeing the level of assurance required on areas such as going concern, viability, fraud, cyber and non-financial metrics is vital to ensure we narrow the current expectation gap. We also recognise that our audit work needs to be sufficiently transparent to meet stakeholder needs.

## **Conclusion**

There is no doubt we are in challenging times and there is uncertainty ahead. Our main focus will continue to be on delivering high-quality audits and we have every confidence that the steps we have taken, and those we plan to make, to deliver audit quality are the right ones. We will continue to support our audit teams through the investment in technology, processes and, most of all, in our people. Our purpose must be to deliver audits of the highest quality and provide confidence to the capital markets and other stakeholders.

## **Hywel Ball**

Head of UK Audit

# Our UK Sustainable Audit Quality programme

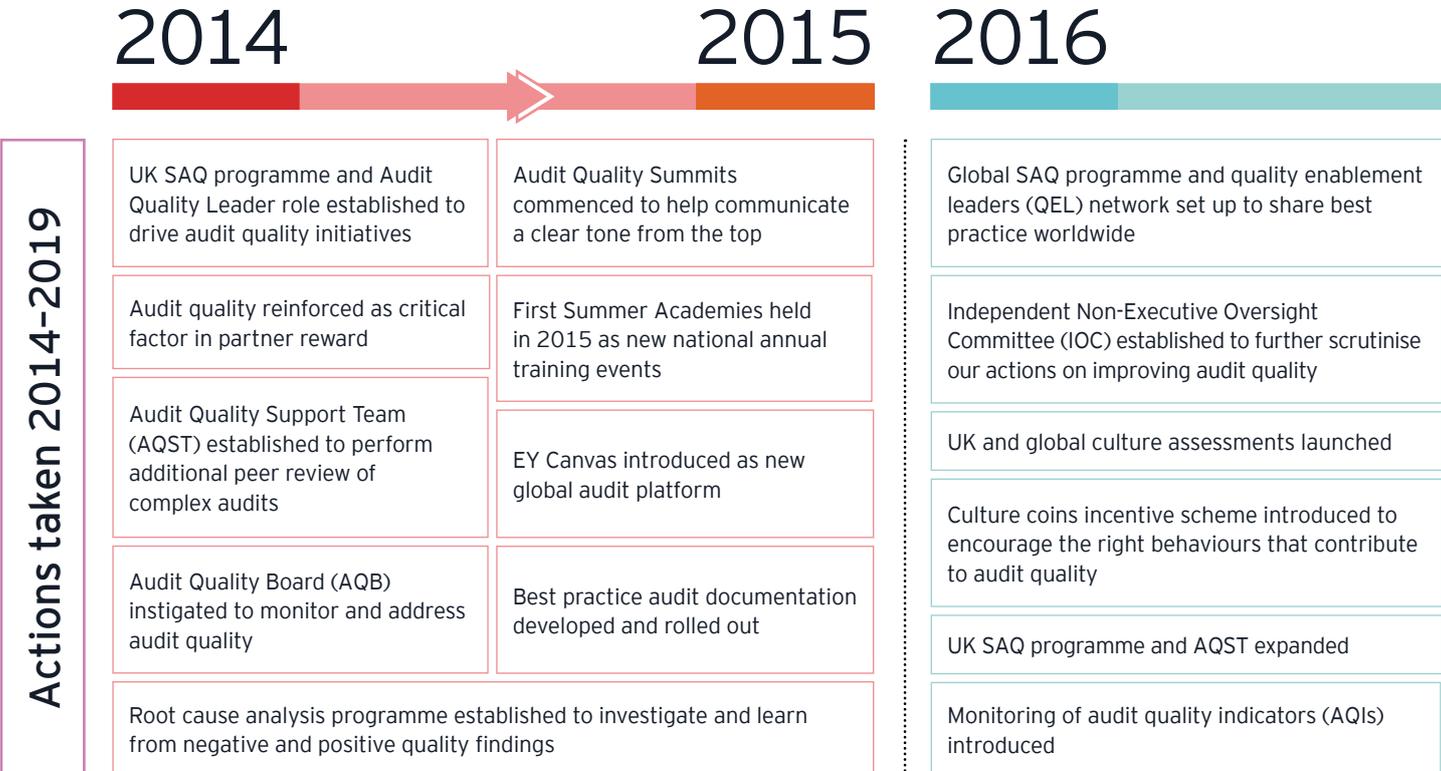
EY has made a significant investment in audit quality and developed a comprehensive, global sustainable audit quality (SAQ) programme. The UK SAQ programme, now in its sixth year, is part of this initiative and originated from our disappointment in the results of the Financial Reporting Council (FRC) review published in May 2014, when only 38% of our inspected audits were graded as good or limited improvements required.

In 2014 we carried out a root cause analysis and invested significant time and effort to understand where we had gone wrong and what we needed to do to deliver consistently high-quality audits. This identified a number of areas where we needed to improve, including: clear leadership focus on audit

quality as our number one priority; a clearer link between audit quality and reward; increased resourcing; increased scepticism; better clarity of documentation; and improved support on our most challenging audits.

The UK SAQ programme, which aligns with EY's global SAQ programme, was set up to address these findings and improve audit quality. The timeline below summarises the key investments we have made so far and importantly the further new initiatives we are making: to respond to our regulators' findings; to achieve the new FRC target of 100% of inspected audits being graded good or limited improvements required; and most importantly, to ensure we effectively serve the public interest by providing confidence and trust in the capital markets.

The investments we have made have meant that our annual investment in audit quality is now £25mn higher than it was in 2014. We are pleased with the overall improvements in the FRC gradings since 2014 and our position in comparison to the recent average scores of the other Big 4 since we began this investment. However, we're very clear we have more to do to achieve the FRCs 100% target. All of the initiatives in the timeline below fall under one of the six pillars of our SAQ programme, which are summarised on the opposite page. These pillars form the structure for the following pages where we set out in more detail the actions we have taken and will be taking to further improve audit quality.



# The six pillars of our SAQ programme



**Tone at the top**

The internal and external messages sent by EY leadership, including audit partners, that establish and encourage a commitment to quality, setting a clear tone at the top

**Exceptional talent**

Specific initiatives that support EY auditors in devoting time to perform quality work, including recruitment, retention, learning and workload management

**Accountability**

The systems and processes in place to help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition

**Audit technology and digital**

How the EY Digital Audit is evolving in this transformative age to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality

**Simplification and innovation**

How we are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit

**Enablement and quality support**

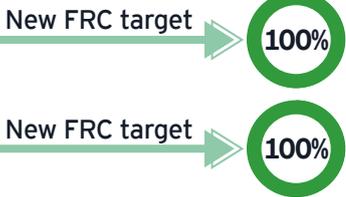
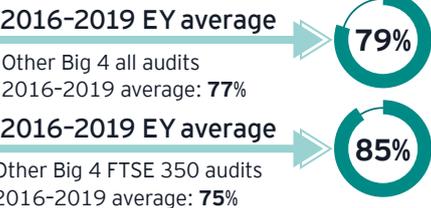
How EY teams are being helped to manage their responsibility to provide high audit quality

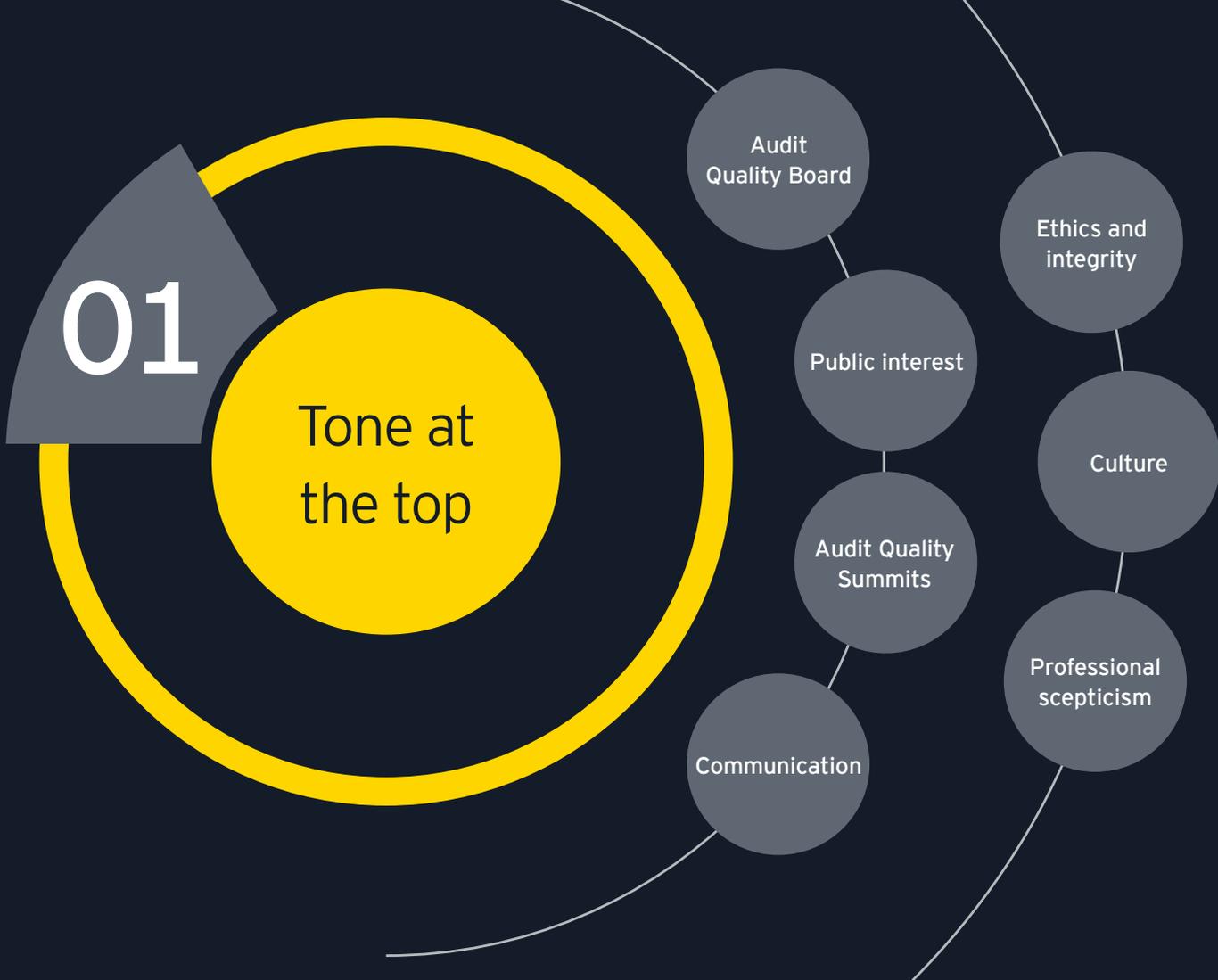
## 2019 2020

- Key finding reviews (KFRs) established to provide further peer review for selected audits focused on common inspection finding areas
- EY Expert model concept developed and rolled out, focusing on understanding purpose and applying critical thinking
- Audit milestones initiative started to facilitate more timely senior involvement in the audit process, a key determining factor in high-quality audits
- EY Helix data analyser tools developed to improve our ability to audit large volumes of data and focus on key unusual trends or anomalies rather than random samples, to improve audit quality

**Actions for 2019/20**

- Further expansion of AQST and KFR coaching programmes
- Resourcing levels regularly reviewed by the AQB and recruitment increased
- Root cause analysis programme scope increased
- EY Digital Global Audit Methodology developed to take greater advantage of data analytics. Pilots running in 2020 with further roll-out thereafter
- Project Insight piloted to address inspection findings on auditing companies' processes and controls. Further roll-out expected in 2020 and beyond
- EY audit technology developments continue alongside EY Smart Automation to simplify and make routine audit tasks more efficient, allowing teams to focus more on outputs and key judgements
- Centres of excellence being developed to consolidate expertise in certain key tasks
- Enhanced risk review processes introduced at individual partner level to review and challenge the risk profile of every company we audit
- Audit risk sub committee established to further support and challenge selected audit teams





# Tone at the top

## What are the risks?

Conflicting and inconsistent messaging makes it harder for our people to have clear priorities in the actions they take on a daily basis. Delivering audit quality, winning new work and driving profitability are all important to our business, but we need to have absolute clarity on what comes first – and that is audit quality. Our leaders must exhibit the behaviours we want to see throughout our organisation, otherwise we cannot expect our teams to embody these too.

## What is our response?

A commitment to audit quality starts at the top of the organisation. EY leaders set a clear tone from the top by promoting, maintaining and demonstrating a culture based on a commitment to quality, integrity, and collaboration. It is also critical that we create an environment where our teams are supported to deliver high-quality audits. We have established the AQB to take a lead in setting this tone and we hold regular events and issue communications to reinforce a priority on audit quality.

The importance of setting the right expectations for all our audit teams is why 'tone at the top' is the first pillar of SAQ. The page opposite expands on the key actions we have already taken and are continuing to take to set the right tone from the top to deliver high-quality audits.

## Audit Quality Board

Right at the start of our UK SAQ programme, in 2014 the Board of EY UK LLP established the AQB, a separate board to oversee its audit practice, reporting directly to the LLP Board and, from 2015, to the Independent Non-Executives.

The AQB meets monthly and is responsible for all matters relating to audit quality – driving, monitoring and reinforcing the importance of audit quality for EY UK. The AQB is instrumental in setting the tone at the top on audit quality for EY in the UK. Further information on our governance structures is set out on page 18.

## Public interest

Our purpose is to serve the public interest by providing trust and confidence in the capital markets.

In collaboration with cognitive psychologists, we have put understanding purpose at the heart of our audits through our EY Expert Model initiative.



99% of EY auditors respond positively when asked whether they understand their role in protecting the public interest

A key part of this initiative helps our teams to understand the wider societal purpose of the work we do and how every task we complete in an audit contributes to this. In developing this initiative, the research clearly showed that fully understanding not just what tasks needed to be completed, but also why, was critical in delivering a high-quality output and improving audit quality.

## Audit Quality Summits

2014 also saw the first Audit Quality Summit, which has taken place annually ever since. The summit brings together our partners and senior staff with a specific focus on audit quality developments. The summit includes sessions led by senior partners and external speakers, including investors, audit committee chairs, journalists, politicians, market participants and regulators. This gives a broad perspective on the importance of audit quality and this key event is fundamental in setting out our expectations and ambitions for high-quality audits.

## Communication



95% of our people believe audit quality is a clear priority communicated by EY leaders

Cascading the right tone from the top, incorporating our values, purpose, culture and ethics, is vital to reinforce the importance of audit quality.

We use a wide range of regular webcasts, calls, newsletters, networks, group meetings and events, such as our Summer Academy, to deliver a consistent, regular message to all our people on the importance of performing high-quality audits.

## Ethics and integrity

Our approach to business ethics and integrity is set out in the EY Global Code of Conduct. This covers how our people: work with one another and the companies we audit; act with professional integrity; maintain objectivity and independence; and protect confidential information. Annually all our auditors confirm their compliance with the Global Code of Conduct.

As part of this, we have clear requirements that any hospitality, gifts or favours have to be commensurate with the normal courtesies of business and social life and be considered trivial or inconsequential in value; otherwise they should not be offered or accepted. Similarly, we have clear guidelines on any non-audit work we can perform for our audit clients and we have strengthened our review procedures for the approval of any such services.

## Culture

Culture plays a large part in defining an organisation. Our culture strongly supports collaboration and emphasises the importance of consultation. We are committed to an environment where our people feel engaged, supported and free to speak up. Within this, individuals also understand that they are accountable for their work and that quality and professional responsibility start with them.

To help drive improved audit quality and instil expected behaviours, EY has identified and is promoting four key behaviours that reflect the EY culture: serving the public interest; trust and integrity; a curious and questioning mindset; and high-performing teams.

We were pleased to note that many of the best practice examples highlighted in the 2018 FRC Audit Culture Thematic Review related to EY.

## Professional scepticism

The extent to which we demonstrate professional scepticism in our audits continues to be challenged by regulators. The importance of appropriately challenging the assumptions and judgements made by the companies we audit and clearly documenting this in our workpapers is regularly reinforced in training. In addition, our EY Expert Model initiative encourages critical thinking in our teams. The roles of engagement quality control partners and our Audit Quality Support Team are also designed to add further challenge to our audit teams. This is a key area of focus and creating the environment where our teams are supported to effectively challenge the companies we audit is fundamentally important.



# Exceptional talent

## What are the risks?

We must ensure our people have both sufficient time and expertise to make critical judgements on our audits. The competition for talented people with the right mindset to deliver high-quality audits has never been higher. As a result, the profession continues to face challenges with recruiting and retaining the right number of people with the right skills. This has been exacerbated by the increased demands and pressures that the profession is facing in the current environment.

## What is our response?

We are committed to attracting, developing, inspiring and retaining outstanding audit professionals and promoting an inclusive culture for them to be able to deliver to the best of their abilities. We have been recruiting and continue to recruit across our business and aim to deliver an exceptional experience for our people from recruitment and then throughout their career. The following page sets out in further detail some of the specific actions we are taking to secure the exceptional talent we need to deliver high-quality audits.

## Recruitment

Ensuring that we have the right resources with the right skills is a key challenge we currently face. Recruiting appropriately so we can consistently deliver high-quality audits is critical. Between June and October 2019 alone we have recruited over 288 experienced auditors and a further 330 are due to join us in the coming months.

We are committed to recruiting talented people who share our values and commitment to serving the public interest. We take into account not only technical skills, but also other attributes like integrity, ethics and the ability to collaborate in high-performing teams. Our reputation as a great place to work enhances our ability to attract great people.

---

**EY ranked 13th in the Sunday Times Best Big Companies to work for in 2019.**

## Development

We place a lot of emphasis on supporting our people to develop and ensure that they have the right skills and expertise to execute high-quality audits. In our training, we provide key technical content, but we also focus on teaching our professionals how to think critically and apply professional scepticism. Every year we hold a two-day residential training event known as 'Summer Academy' as a core part of our staff training. The content and focus of the Summer Academy is adjusted to address new technologies and strategic priorities that promote audit quality. This is supplemented throughout the year with a wide variety of mandatory web-based learning modules and also local office training to respond to any specific needs.

---

**In FY19 alone, we have spent more than 171,000 hours on internal training and development for our people.**

To further support our people, we also launched a new global approach to career development and performance called LEAD. This enables regular feedback, insights into current performance and future-focused career conversations.

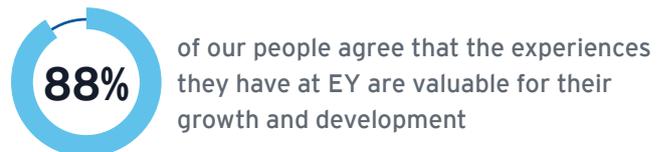
## Retention

The demands on our auditors have continued to increase and this has inevitably increased the challenge of retaining talented people. Providing the right personal development and career progression is critical, as is recognising and rewarding the right behaviours to keep our people engaged and make sure we have the continuity of skills and experience to deliver high-quality audits.

We have developed a wide range of programmes to respond to what is most important to our people, for example:

- ▶ We have a number of mobility programmes which allow people across the globe to undertake secondments to or from the UK for between six months and two years.
- ▶ Our global award programme 'Better begins with you' recognises and celebrates individuals and teams who are building a better working world in inspiring and impactful ways.
- ▶ To support our people in maintaining a balance between professional and personal life, which is a key concern of our staff, we have fully embraced flexible and dynamic working arrangements. We also have a number of controls in place, including reviews by the AQB, to monitor resourcing levels so we can take action to recruit swiftly where necessary.
- ▶ Promotions to Manager and Senior Manager are recognised as key events in a professional career and we celebrate these by awarding our people milestone payments when they get promoted.

Further information on the link between audit quality and reward is covered in the Accountability section of this report.



## Diversity and inclusiveness

We strive to help everyone at EY feel recognised, valued and included. We believe that this has a direct impact on improving audit quality as the diversity of experience in a team can create a different viewpoint on everything from how a team is project managed, through to challenging key assumptions and approaches adopted by the companies we audit.

We recruited 599 graduates and school leavers for the August/September 2019 cohort, of whom



To foster further this sense of pride and belonging, we also sponsor a wide variety of professional networks. They include the EY South Asian Network, EY Women's Network, EY Jewish Network, EY Black Network, EY Muslim Network, Unity-EY's LGBT+ Network, EY Sikh Network and Ability EY.

In addition, all our professionals attend quarterly internal meetings within their local offices that support our emphasis on audit quality through a focus on career development, culture, our corporate purpose and other hot topics.

---

**Stonewall has ranked EY as a Top 100 LGBT-inclusive employer.**



# Accountability

## What are the risks?

Society as a whole and our regulators rightly expect us to be accountable for the work we perform. Without this accountability being recognised and responded to at all levels in the audit process, we will not achieve the improvements we need to make in delivering consistent high quality audits.

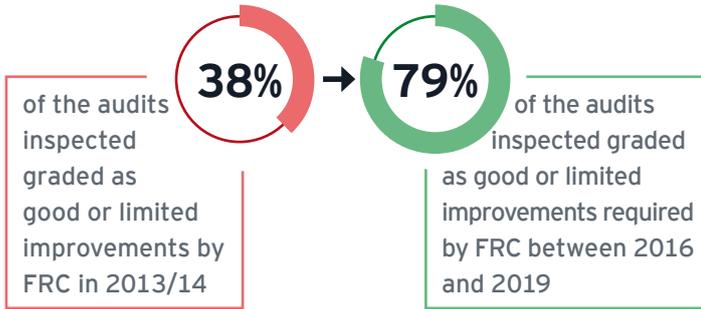
## What is our response?

We believe that as auditors, we are accountable not just to ourselves, but to our teams, our organisation, our stakeholders and the public interest. We have embedded a culture of accountability at all levels of the audit process, whilst also providing the support necessary for our people to take responsibility for their work. We are further reinforcing the importance of accountability through the SAQ programme, our quality ratings and our partners' performance evaluations.

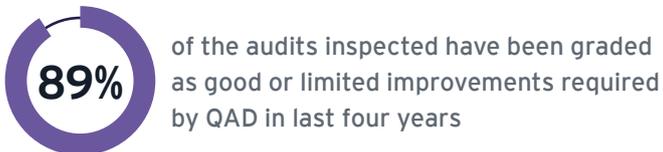
Monitoring our audit performance and the effectiveness of our actions to improve audit quality is a key part of our system of quality control and the activities of the AQB, ensuring that we hold ourselves fully accountable for the quality of work we do.

## External inspection results

We are subject to external inspection by the FRC, the ICAEW's Quality Assurance Department (QAD) and the US Public Company Accounting and Oversight Board (PCAOB).



Between 2016 and 2019 the average FRC results for the other Big 4 audit firms have been 77% good or limited improvements for all audits and 75% good or limited improvements for FTSE 350 audits (EY result 85% for FTSE 350 audits).



On average, approximately 30 audits are selected for external review each year. We are pleased that these inspection results are improving, but we know we must make further progress, through taking the actions set out in this report, and have no audits which fall below the good or limited improvement grade.

At a global level in 2015, the International Forum of Independent Audit Regulators challenged the global audit networks to achieve a 25% reduction in inspection findings within four years on public interest entity audits. The EY network achieved this goal in 2019.

## Internal inspection results

We conduct internal inspections of selected audit engagements every year. The focus of these reviews is to measure compliance with professional standards, regulatory requirements and our policies, and evaluate the quality of the audit file. Internal inspections are performed on each individual who signs audit opinions in the UK, at least once every three years. The overall review process is run by EY globally and each selected engagement achieves a rating which impacts the individual's quality evaluation for that year. Where necessary, reviews are followed up or further engagements selected for review if significant issues are identified.

**More than 500 audits have been through an internal inspection in the last 5 years.**

## Learning from the results

We celebrate our successes, but we are committed to recognising and addressing the areas needing improvement. The external and internal inspection findings are analysed, and

common findings are collated and shared with all our staff as part of our continuous process of learning and development. Where more serious issues are identified, a root cause analysis is undertaken and a remediation strategy developed to address the specific issues for that engagement and to ensure that similar findings don't recur on other audits. The remediation includes training, deployment of tools, coaching and our support network.

Importantly, we also take note of positive quality outcomes and conduct root cause analysis to share learnings from these with the wider practice.

## Feedback from the practice for continuous improvement

In addition to learning from our inspection results, we also gather feedback on where we need to improve by organising staff focus groups on a variety of topics.

We also conduct an annual UK Audit Quality Survey and analyse the results to understand the areas where we need further improvement. Other surveys such as our Global Culture Survey and Global People Survey are rich sources of data, which help us to gather feedback on the areas where we are performing well and the areas where people want to see changes. The statistics included in this report are from the most recent surveys.



## Reward and recognition

We take inspection results very seriously and performance on audit quality is a critical factor in audit partners' overall evaluation.

Partners' quality performance is determined using a number of criteria, including: compliance with risk management policies; completion of mandatory learning; level of involvement in embracing and driving quality initiatives; and internal and external inspection results.

Furthermore, our performance review system includes quality grades for all staff. For levels above manager, the inspection review results have a direct impact on the quality grades, which are linked to an individual's compensation.

We run a non-monetary recognition scheme called 'audit culture coins' to promote and reward a culture of high audit quality.

**Our culture coins scheme was featured as an example of good practice in the FRC's 2018 Audit Culture Thematic Review.**



# Audit technology and digital

## What are the risks?

The extent to which the companies we audit create and use data has increased significantly. This generates a unique opportunity to drive greater assurance and hence improve audit quality through the appropriate analysis of this data. However, it also creates a significant risk that without the right technology and specialist skills we cannot effectively take advantage of this opportunity.

Our root cause analysis has also identified that the lack of timely intervention from senior team members and poor project management also contribute to inspection findings.

## What is our response?

During the past five years, we have been undergoing an unprecedented transformation in our capability to leverage and interrogate the data created by the companies we audit and in improving our own technology supporting the audit process.

This allows us to increase audit quality not only through improved data analysis, but also through using technology to improve project management, timely review and resolution of issues identified in our audits.

The EY Digital Audit is the result of significant investment over this period. We believe it is the profession's first connected, data-driven audit. More than a transformation in technology, it is a transformation in how our auditors do their work. This is explained further on the following page.

## EY Digital Audit

The EY Digital Audit is a suite of technology transforming the way that our teams deliver audits. Enabling high-quality audits through:

- ▶ Better connecting teams and companies
- ▶ Automating standard audit processes and procedures, enabling teams to focus on higher risk subjective areas
- ▶ Analysing data, to improve risk assessments and understand trends or anomalies in whole data populations
- ▶ Providing better insights and challenge to the companies we audit

This suite of technology-enabled tools, explained further below, is part of a global investment to transform our technology.

## EY Helix

EY Helix is our library of data analysers which have been developed to capture and transform data from the general ledger and other data sources. These analysers have a direct impact on improving audit quality by enabling teams to move away from traditional sample selections, to analyse entire populations of data. This improves risk identification and allows teams to focus on unusual trends and anomalies which can then be investigated. This gives us greater assurance that any such unusual transactions are identified and understood.

Feedback from our regulators and our own internal inspections and surveys has confirmed the positive impact on audit quality that the use of these tools provide.

We have invested in recruiting more than 200 full-time digital specialists to help our UK assurance practice deploy and use these tools effectively. However, we know we have more to do to extend further the use of these tools and we are continuing to develop the tools, train our staff and provide the specialist support to achieve this.

---

**EY Helix data analysers process more than 400 billion lines of financial data worldwide annually.**

## EY Canvas

Our global audit platform is the core of our audit technology, driving a globally seamless audit across all our teams, regardless of location. The platform improves transparency in our risk assessment and response, interaction with geographically-spread teams and overall project management, with clear real-time monitoring of status and issues – all of which support increased audit quality.



of all audits in the UK are performed using EY Canvas

## EY Canvas Client Portal

This is a direct, secure gateway for our teams to request, and the companies we audit to share, information relevant to the audit. Information provided through the portal feeds directly into the relevant section in EY Canvas and real time monitoring of requests eliminates potential duplication and inefficiencies, enabling better project management by our teams and the companies we audit.

---

**More than 29,000 users from the companies we audit are registered to use the EY Canvas client portal in the UK & Ireland.**

## EY Canvas Mobile Apps

This suite of three mobile apps - Pulse, Engage and Inventory - allows our teams to access EY Canvas remotely, submitting and reviewing documents on the move, improving efficiency and driving higher quality through more timely intervention.

## EY Canvas Dashboard

The EY Canvas Dashboard is designed for large multinational audits. It provides our teams and clients with a real-time view of the progress of audits across the globe, giving transparency on progress and identifying potential issues that need remediation on a timely basis. In this way we are using technology to improve review processes and support timely intervention, so raising audit quality.

## EY Atlas

EY Atlas is our market-leading global accounting and financial reporting research platform. This links our teams with the most up-to-date accounting, auditing and industry information. Teams can easily access relevant content directly from EY Canvas, so that they have to hand the technical guidance they need to drive high-quality audits.



# Simplification and innovation

## What are the risks?

A natural response to regulatory inspection findings and the pressures we face to deliver the highest quality audits is to do more and more work. However, if this is not targeted in the right areas or effectively performed, it can actually be counter-productive. The quality of our audits is improved where we can also deliver simplification and innovation in the way we perform and document our work.

## What is our response?

In a world of ever-increasing complexity and data availability, we have innovated our audit technologies and approach – not only to stay ahead of these changes, but also to use them to our advantage and improve audit quality. Where possible, we have also used this opportunity to simplify our work, giving our audit teams greater clarity on key risks and increased time to focus on these. This section explains some of the initiatives we are using to support our teams to deliver high-quality audits through innovation and simplification.

## EY Digital GAM

To take advantage of the opportunities offered by innovative technologies in every EY audit, we have transformed EY's Global Audit Methodology (GAM) to put data at the heart of the audit. Known as EY Digital GAM, this new approach is being piloted in 2019 and will be phased in globally from 2020.

Digital GAM is powered by our digital audit technology, using this to embed data analysis and automated techniques in all phases of the audit. It also simplifies certain tasks and improves linkage from one audit procedure to another.

This updated methodology will further enhance audit quality through:

- ▶ The standardising or automating of routine audit tasks, enabling teams to focus on identified anomalies or higher risk judgemental aspects of the audit
- ▶ Providing greater clarity on the risks inherent in an organisation, driving a more focused audit approach

Automation may streamline some time-consuming tasks, but as a profession, auditors must keep questioning, analysing and evaluating data from every perspective. The responsibility on us to challenge appropriately to build trust and serve the public interest remains unchanged.

## Audit transformation

Our investment in audit transformation ranges from streamlining documentation templates to developing automated robotics (bots) to complete routine tasks. As examples, we are currently improving our documentation of significant risks to more clearly demonstrate the challenge and scepticism we have applied in our audits, responding to FRC inspection findings in this area. We are also developing tools to assist our teams in assessing the risks associated with information sourced from companies' IT systems.

In the last year, in the UK alone, we have invested more than 15,000 hours in transforming a broad range of tasks that our audit teams complete.

We will continue to invest in a wide variety of initiatives to assist our teams in preparing consistent and high-quality outputs from their work.

## EY Smart Automation

EY Smart Automation is a global programme to automate specific audit tasks, for example, sending and receiving confirmation requests and performing accounts disclosure checklists, which are directly linked with EY Canvas.

In addition, in the UK, we have developed bots to assist teams in completing other standard and routine processes, for example, supporting the generation of workpapers in the Helix analysers, preparing engagement letters and testing unrecorded liabilities.

By automating routine and potentially time-consuming tasks, our teams can spend more time assessing the outputs and focusing on key judgements in the audit – which we believe will further improve audit quality. We are increasingly deploying these new technologies. For example, the use of bots by our audit teams increased by 153% in the last year.

## EY Expert Model

As well as innovating with technology to help us improve audit quality, we have also innovated to identify the best behaviours and critical thinking in our audit teams that drive high-quality outcomes. Our goal is to replicate these on every audit. These behaviours were distilled into the EY Expert Model, which has been rolled out across the UK firm over the last three years.

---

**The EY Expert Model initiative was developed in conjunction with cognitive psychologists, who spent more than 600 hours in our business, understanding how teams and individuals who achieved positive quality outcomes operate, so that we could aim to replicate and coach these positive behaviours across all our audits.**

## Project Insight

Project Insight is a new programme being piloted across the globe, including in the UK by 59 audit teams. Previous external inspection findings in the UK and US highlighted the need for us to more clearly demonstrate our understanding of companies' processes and controls. This new initiative focuses on presenting a company's business process and controls in a pictorial flowchart and it also drives early intervention from the most senior members of the audit team, helping teams better identify risks and design procedures to address these. The programme was initially developed by EY US to support meeting its responsibilities on SEC registrants under the Sarbanes Oxley regulations. The positive impact that this has had on audit quality is now being replicated globally.

## Artificial Intelligence and Blockchain

AI enabled tools are already in use across our audits and new tools continue to be developed. Current AI-enabled tools being piloted include a machine learning tool to detect anomalies in journal entry data extracted from a general ledger.

The EY Blockchain analyser is a suite of blockchain audit technologies, for example, analysers that enhance the ability to perform an in-depth review of cryptocurrency transactions.



# Enablement and quality support

## What are the risks?

The complexity of the companies we audit continues to increase, making risk assessment and key audit judgements ever more difficult. At the same time, the expectations of all our stakeholders for us to perform high-quality audits and provide trust and confidence in the capital markets also increases. We have to ensure that we have the right support for our audit teams to help them address complexity, challenge company management appropriately and document our judgements clearly.

## What is our response?

We have always provided, and continue to provide, technical accounting and risk management support to our audit teams as required. However, since 2014 we have significantly increased the level of support provided to individual audit teams, particularly those on our most challenging and complex audits. This includes coaching programmes and coaching kits, as well as other processes designed to improve audit quality. Importantly we also routinely monitor audit quality indicators and have in place processes to learn quickly from both positive and negative quality outcomes. These initiatives are described in more detail on the following page.

## Coaching programmes

In the last five years we have built a variety of coaching programmes to help support our teams, particularly with the most challenging aspects of our audits. These programmes include our Audit Quality Support Team (AQST) and Key Findings Reviews (KFRs). These coaching frameworks are designed to provide timely feedback to the teams while audits are in progress.

The AQST is a group of experienced Senior Managers and Partners who provide challenge and guidance to the audit teams as a separate peer review of the work being performed. They challenge the teams on the appropriateness of key audit judgements and the clarity of documentation. Each year the AQST reviews a selection of our public interest entity audits. The team also provides input into learning and development programmes, building on best practice and lessons learnt for the wider audit practice to benefit from.

The KFRs consider specific areas of risk, given the audit's profile, and are focused on areas with repeat findings from internal and external inspections. These reviews again help in identifying areas of improvement while the audit is ongoing, driving higher audit quality.

Our analysis has shown a clear improvement in the outcome from our internal audit quality review inspections, where teams have received support from KFRs. We are therefore investing further in these programmes to provide more support to more teams in FY20.

---

**We have spent 39,000 hours on coaching programmes in the first five years, and have budgeted to spend 22,000 hours in FY20.**

---

**The KFR coaching programme will be used to support over 100 audit teams in FY20.**

## Coaching kits

Over the last few years, we have also introduced various coaching kits to support our audit teams. We have introduced new ways of coaching people and commissioned a series of short video tutorials under the banner 'Can You Say Yes'. The videos aim to promote a curious mindset, and they encourage our people to ask themselves the right questions, thus increasing the levels of scepticism.



of the people agreed that they delivered, supported or contributed towards the delivery of quality audits during FY19

We have also used ICAEW's 'Without Question' and 'False Assurance' videos in our training modules to encourage critical thinking and the application of scepticism.

## Root cause analysis

To gain a deeper understanding of the factors that drive inspection results, we established the Root Cause Analysis (RCA) team in 2014. RCA is a central part of our quality improvement framework and provides an in-depth assessment of the root causes that underlie positive or negative outcomes. These insights have enabled our teams to focus on key behaviours that drive high-quality results. We have invested more than 7,000 hours in RCA in the last five years.

In FY19, we continued to improve the impact of this initiative. We involved behavioural psychologists to assist us on a selection of our interviews for key investigations, to further help us understand where things can go wrong.

For FY20, we are aiming to double the hours we spend on RCA as part of our continued drive to improve audit quality.

## Milestones programme

The EY Global Milestones programme was piloted in FY17 on large and complex clients. The programme encourages early planning and timely partner involvement, which is clearly linked with delivering high-quality audits. The programme has since been extended to cover a wider selection of companies we audit.

This programme is enabled by our audit software. It helps teams to improve their project management and allows efficient monitoring of completion. Teams are also held to account by central monitoring of completion against agreed deadlines.

## Audit quality indicators

To provide further insight into the health of our audit practice, we have developed a range of audit quality indicators. The AQB analyses these indicators and, where necessary, takes action to further support audit teams or assess the root cause of any issues identified by these indicators. Audit quality indicators include, for example, external and internal inspection results, resourcing levels, high charged hours by individuals and audit quality survey results.

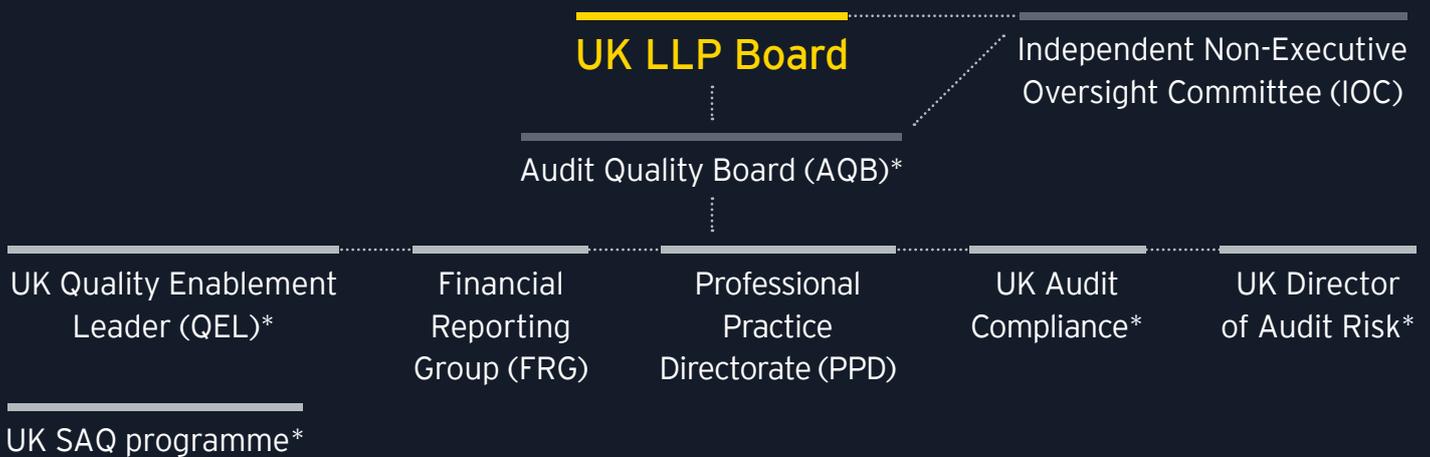
We continue to develop indicators to enable us to obtain deeper insights into our audits and quickly identify any emerging issues.

## Audit risk sub committee

Our new audit risk sub-committee meets regularly to consider the output of our broader horizon-scanning activities (e.g., press comment and evidence of short-selling activity) and our internal risk assessment process and also holds discussions with selected engagement teams to assess what further actions are required on individual audits or across our entire audit practice in order to drive enhanced audit quality.

# UK audit quality governance

Everyone in the EY network has a responsibility for quality. There are several global roles and functions that have direct accountability to create, implement, improve and monitor specific audit quality control-related activities and processes. In the UK, we have embedded and built upon these global roles to develop a clear structure for the oversight and monitoring of audit quality.



\* New audit quality governance structures and roles introduced since 2014

The UK LLP Board is made up of 10 members, of whom seven are practicing auditors. The Independent Non-Executives, who form the IOC, have full visibility of the entirety of EY UK's business and pay particular attention to the risks to audit quality and how these risks are managed by the firm. This includes direct reporting to the IOC from the AQB. Since the start of our UK SAQ programme we have introduced the following additional boards and roles, all with the explicit purpose of increasing audit quality.

## Audit Quality Board

In 2014, the UK Board of EY established the Audit Quality Board. The AQB is part of the permanent governance structure of EY. It oversees all matters relating to audit quality. It has executive powers over the UK SAQ programme. It reports to the UK LLP Board and to the Independent Non-Executives.

## UK Quality Enablement Leader and UK SAQ programme

The UK QEL is a member of the Audit Quality Board, leads the audit quality programme in the UK and is the UK representative in the global QEL network.

The objective of the UK SAQ programme is to ensure that we deliver audit quality at the enhanced level we and our stakeholders demand. The UK programme is aligned with the global programme for Sustainable Audit Quality. The details of this programme are contained on the previous pages.

## UK Director of Audit Risk

The UK Director of Audit Risk is a new role introduced in the last 12 months with responsibility for our processes to identify threats to the quality of our audits at an early stage and ensuring that appropriate responses to those risks are put in place. The Director of Audit Risk also has overall responsibility for our external and internal quality inspection process and ensuring that lessons learned from inspections are addressed, both on the specific audit inspected and more widely in our audit practice.

## UK Audit Compliance

UK Audit Compliance is a new function being established to ensure that we have the appropriate controls and monitoring procedures in place to meet the requirements of the new International Standard of Quality Monitoring which is currently in draft. Many of the control and monitoring procedures needed will either use or build upon various initiatives set out in this report, for example, monitoring audit quality indicators, resourcing and internal quality reviews.







## About EY

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

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). For more information about our organization, please visit [ey.com](https://ey.com).

## Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2019 Ernst & Young LLP. Published in the UK.

All Rights Reserved.

ED None

EY-000105479.indd (UK) 11/19. Artwork by Creative Services Group London.



In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

[ey.com/uk](https://ey.com/uk)