



**Section 2**

# Trust in audit

## Trust in audit

In the EY UK 2017 Transparency Report we published key findings from our 2017 EY Cultural Assessment, which included the following high level observations:

- ▶ Our people's personal values align with EY's stated purpose, strategy and values
- ▶ Our strategic priorities are dominant in EY's current culture
- ▶ Quality is a dominant focus area in the UK Audit culture

We also noted a desire by our people for more focus on our purpose, and the risk to sustainable audit quality that a long-hours culture may present. The positive link between employee engagement and cultural health was also made clear.

We applied these observations to inform, and in some instances recalibrate, our business activities over the last financial year. In this section we set out how we have been building on the identified cultural strengths and responding to areas for development. The steps we took were deliberately diverse, to enable a holistic approach. As set out on the following pages of this section, they focused on:

- ▶ Tone at the top (pages 18-21)  
Strengthening our people's connection with our purpose of Building a Better Working World
- ▶ Our commitment to audit quality (pages 21-38)  
Applying a root cause analysis (RCA) to get a better understanding of where we have fallen short and responding to feedback from the external audit inspections conducted by the Financial Reporting Council (FRC) and our internal quality reviews, in order to 'reset and start again'
- ▶ Technology and the future of assurance (pages 39-43)  
Investing in technology, which will allow audits to be delivered in an increasingly efficient and effective way and develop an enhanced assurance offering of the future
- ▶ Listening to the demands of our stakeholders (pages 44-45)

## Tone at the top

In a remarkably short period, we have watched our world being transformed by robotics and artificial intelligence (AI). We have also witnessed major economic and political shifts that have significantly affected the global business community and society.

Our research suggests that recently the profession has lost sight of the difference it makes and the value it provides to society. So as part of our work to help reshape the auditing profession, we are working with the professional bodies to address this loss in professional self-esteem.

With this in mind, over the past year our leadership has focused heavily on strengthening our people's connection with the EY purpose of Building a Better Working World. The EY UK Chairman and other leaders - aware of how they set the tone for our business - engaged in a campaign emphasising the importance of the EY purpose in delivering on the EY Vision 2020+ strategy, and the critical role our people play in defining who EY is as an organisation. We are pleased that in our latest audit quality survey **97%** of our audit people replied positively when asked whether they understood their role as an auditor in providing independent assurance, supporting strong capital markets and protecting the public interest.

We have also continued our work in assessing the tone our leadership sets for our business. All interactions with and communications from our leadership have the potential to communicate to our people the behaviours that are valued most by our organisation. While some of these, such as our town halls and what is said during meetings, are difficult to measure, others, such as emails and other written communications from leadership, offer useful data points on how our leaders' words align with our values. For this reason, these communications are monitored and assessed each year by the EY EMEA Risk Management team. A range of different topics are covered to include quality in service delivery, with a particular focus on audit quality, financial crime, data security, data privacy, independence, health and safety and other risk management topics. In addition, at one of the FY18 Partner Conferences, the Assurance Managing Partner and the Risk Management Managing Partner co-presented a session called 'Trust', which is part of the FY19 firm-wide strategy.

To increase the effectiveness of delivery, EY UK uses a variety of different delivery methods such as emails, webcasts, daily news alerts, posters and plasma screens, online games and others.

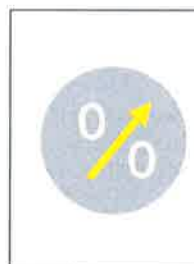
### Case Study: Building a Better Working World game

The Better Working World game is played face-to-face and allows our people to think about our purpose and how it connects with their day-to-day role.

The game is based on a discussion but uses quiz elements and a board to keep things competitive and fun. It is collaborative and inclusive of all service lines, ranks and roles. The board, made with sustainable materials, selected game cards and even the box itself reveal video, case studies and mini-games with augmented reality content.



Our latest FY18 People Survey scores indicate a **7%** increase in those who felt EY's purpose was motivating to them



Reversing a score that decreased by **6%** in the prior year.

Complementary to these efforts, we also launched a new platform to collate examples of how individuals, teams and we as a firm have delivered on our purpose. Numerous inspiring video case studies from across the EY UK business are now being widely shared.

We continued to work with cognitive psychologists to assess what gives people fulfilment in their careers. As a consequence we are now confident that we can do more to emphasise how every day-to-day activity aligns with our overall professional purpose and the value it brings to our clients. For this reason the formalisation and rollout of the psychologists' work is a priority for the coming year as we look to embed the core aspects of employee fulfilment within the audit practice.

## Tone at the top - culture

In our rapidly changing world, responsibility for good corporate governance extends well beyond the implementation and maintenance of policies and controls. Good behaviours and decision-making by an organisation's people are also the products of the culture an organisation lives. Increasingly, boards are viewed as having ultimate responsibility for the oversight of the culture within their organisations. As a result, good corporate governance includes an unqualified expectation that organisations actively monitor their culture, maintain a continuous feedback loop from staff to leadership and take steps to address any observations that may suggest a misalignment exists between culture, behaviours and the organisation's stated purpose and values.

We promote a culture of openness that encourages people to engage in constructive discussions and share problems, knowledge and experience. We do this in a number of ways, including but not limited to:

### Firm wide

- ▶ Quarterly Leadership Evaluation and Development (LEAD) feedback cycles introduced in the current year
- ▶ EY Voice - a dedicated forum of elected representatives across EY that listens to the collective voice of the business and how people are feeling
- ▶ Surveys
- ▶ Whistleblowing hotline
- ▶ Values based awards for individuals, as well as teams

### Audit specific

- ▶ Implementing Purpose Led Outcome-oriented Thinking (PLOT) across our audit practice - an approach launched in 2016 and which forms the basis of our EY Expert Model
- ▶ Teams supported by the Engagement Quality Control Reviewer (EQCR) and the Audit Quality Support Team (AQST)
- ▶ Publishing stories of the Audit Culture Coins recipients (discussed below)
- ▶ Quality summits and training academies, along with webinars, during which we share experiences of quality reviews and best practice examples
- ▶ Team Planning Events (TPEs) for audit teams during which managers and senior managers solicit the views of junior team members.

Although much is said about the development of technology in auditing, and the importance of auditing standards which effectively drive the auditors' methodology, the human factor is perhaps the most critical component of any audit firm.

Technical skills and competencies of auditors, including professional scepticism, are all underpinned by the values and behaviours of those individuals - leaders and team members alike. For this reason we place a lot of emphasis on the importance of culture, in our firm more generally and most particularly in our audit practice.

We undertook a cultural assessment of EY UK in 2017. In performing this work, we applied the model that we use to assess the cultures of our clients' businesses. Our methodology included a review of both structured and unstructured qualitative and quantitative data, and applied a programme of advanced data analytics and statistical modelling. Key findings were published in the EY UK 2017 Transparency Report.

Our understanding of our culture has also been enhanced by the observations made as part of the 2018 FRC Audit Culture Thematic Review performed across eight large audit firms. The review covered important areas such as tone from the top, culture design and implementation, as well as other areas that help audit firms to promote, assess and monitor their audit culture.

The FRC noted that firms are investing considerable time and effort in their firm-wide culture, providing examples on how firms relate their purpose, values and encouraged behaviours to day-to-day activities. The FRC indicated a number of areas where the audit firms could better promote and embed an appropriate culture; we have developed actions in response to the recommendations and will agree them with the FRC.

We are pleased with this report. Most of the best practices identified by the FRC across the firms reviewed are present at EY. In particular, we are pleased that the FRC chose our Audit Culture Coins programme as a case study in its report.

## Tone at the top - culture

### Case Study: Audit Quality Culture Coins Reward Programme

Our Audit Culture Coins is a recognition scheme that focuses on non-monetary reward for those who embody the organisation's values and commitment to audit quality.

The scheme started in 2016, when more than 30 audit partners were named coin sponsors across all EY offices. They were asked to nominate colleagues to receive the coin - a gift that recognises personal contribution to audit quality and living our audit quality values. The coin recipient is then given a second coin to 'gift' to another colleague in the subsequent quarter. We publish the stories of all coin receivers in a quarterly newsletter to all auditors. In this way we provide others with examples of 'what great looks like' and we affirm the benefits of 'living the EY values'. Although the award and stories are personal, the social recognition that the scheme provides helps to promote a sense of camaraderie and a collective celebration success.

Our organisation encourages nominations for people at all levels. **114** people were recognised for their exceptional audit quality stories in FY18.

Having used FY18 to introduce and promote programmes designed to increase cultural health, and following the success of our 2017 EY cultural assessment in the UK, we are planning to undertake another cultural assessment by the end of 2019. The bi-annual nature of the assessment will provide a lens as to the impact of the various programmes we promoted in FY18, as well as providing insights into how our culture has evolved more generally. We expect that the results of the 2019 assessment will be available to be reported in our 2019 EY UK Transparency Report.

## Quality

The whole firm, not just the audit practice, appreciates the importance of our role as auditors. Our audit ethos is embedded throughout our organisation. We are committed to serving the public interest and the need to maintain our independence and objectivity.



Our annual audit quality survey results show that **98%** of our audit people believe that they delivered, supported or contributed towards the delivery of quality audits during FY18 and **90%** believe EY places sufficient emphasis on audit quality. We are proud of these results.

EY UK has designed and implemented a comprehensive set of global audit quality control policies and practices. These meet the requirements of the International Standards on Quality Control (ISQC) issued by the International Auditing and Assurance Standards Board (IAASB). EY UK adopted these global policies and procedures and supplemented them as necessary to comply with local laws and professional guidelines, and to address specific business needs.

Although we believe we have delivered improvements in audit quality, we know that we have not achieved the consistency we wanted, given the drop in our most recent regulatory results following three years of consecutive increases in quality ratings. In the most recent inspection by the FRC, although 82% of our FTSE 350 audits were graded as requiring no more than limited improvement (just eight percent points below the FRC 90% target), overall only 67% of all EY UK's audits inspected were graded as requiring no more than limited improvements, compared to 88% in the prior year. On the following pages we set out a detailed commentary on these results and our response. We also discuss our investment and approach to audit quality, how we are enhancing our UK Sustainable Audit Quality (SAQ) programme and consider audit quality from the viewpoint of key stakeholders: investors, audit committees, companies, regulators and our people.

We take results from audit quality reviews seriously and ensure we maintain a fair balance between rewarding high audit quality and sanctioning underperformance in this area.

Every audit partner and associate partner, who sign audit opinions, are subject to a performance review conducted by an Audit Quality Panel. The performance review considers a number of factors, including grades from the external and internal quality inspections. The panel ensures that both good and unsatisfactory audit quality inspections are fairly reflected in the performance review of the individuals.

Furthermore, our performance review system includes quality grades for staff. For levels above manager the inspection review results have a direct impact on the audit quality grading. Quality grades are linked to individuals' compensation. In addition, we have various non-monetary recognition schemes in place to reward and promote a culture of high audit quality, such as the Audit Culture Coins described earlier.

On the following pages we set out:

- ▶ Our SAQ programme and the activities of the Audit Quality Board (AQB)
- ▶ The results of external inspections of EY UK's audits conducted by the FRC's Audit Quality Review Team (AQRT), the ICAEW's (Institute of Chartered Accountants in England and Wales) Quality Assurance Department (QAD) and the US Public Company Accounting and Oversight Board (PCAOB)
- ▶ The results of our internal Audit Quality Review (AQR) process
- ▶ RCA of our internal and external audit inspection findings
- ▶ Information on skills and specialists
- ▶ The results of our Audit Quality Survey

## Quality - SAQ

### The UK Sustainable Audit Quality programme (SAQ) and the Audit Quality Board (AQB)

EY has made a significant global investment in audit quality and developed a comprehensive SAQ programme. The UK programme, now in its fifth year, is part of this initiative and partly originated from our disappointment in relation to the results of our FRC review published in May 2014.

In 2014 we carried out RCA on the results and invested significant time and effort to understand where we had gone wrong and what we needed to do to deliver audit quality at the level our stakeholders wanted on a consistent basis.

In response, we established the AQB as a permanent aspect of our governance structure, reporting directly to the Board of EY UK (the Board). The role of the AQB is to oversee all matters relating to audit quality and set the agenda for the SAQ programme.

In the early phases of the programme we held off-site strategy away days for the AQB. We involved psychologists to ascertain what good looked like, analysed feedback from our people and leavers and used surveys and focus groups to determine the areas where we needed to take action.

This resulted in us developing a programme based around 10 workstreams each led by a partner. We benefited from \$400m investment in technology in the global EY organisation, in particular in a new audit tool, EY Canvas, and in EY Helix, a suite of data analytics tools.

We also established a programme office and a regular reporting regime to the AQB to ensure actions were identified and followed through. The first FRC results for audits completed after we had set up the programme were those reported in May 2016, when we were delighted that 85% of our audits were graded as requiring no more than limited improvements.

During 2016 we commenced our work with cognitive psychologists. The feedback from our RCA in that year was that we needed to enhance coaching to improve audit quality further. We already had a coaching network and various initiatives in this area so we wanted to try a different approach. We knew that our people were, and are, highly motivated and want to deliver excellence and produce high quality audits. Many existing initiatives focused on what we didn't do well and were trying to address the problems and behaviours causing them. We decided to look at coaching differently. We spent many hours in workshops identifying our best teams: teams that had developed people and were recognised as teams people wanted to work in. The psychologists interviewed each individual team member in these teams for a couple of hours. From this rich material they developed a model of what people do when they deliver at their best – the EY Expert Model. Since then, we have been using this model, which has been a major focus area for us into FY18, alongside our work on project management (discussed later in this section).

Every year we organise a SAQ strategy day. At the most recent meeting, we reflected on the disappointment we felt in relation to our 2018 FRC results and on the intense scrutiny our profession is under. With this backdrop we decided that going into FY19 we needed to 'Reset and start again'. This means a further step change and additional investment in our SAQ programme.

Key to the success of our SAQ programme has been the continuous commitment of leadership to the investment in and delivery of the programme.

### Case Study: Audit Quality Summits

Each year EY UK hosts Audit Quality Summits that bring together over 400 partners, associate partners, directors and senior managers. The summits provide a launch platform for new initiatives aimed at improving audit quality. We also hear from regulators and other stakeholders. Our most recent summit had the theme 'Reset and start again' in response to the decline in our most recent FRC inspection results and reflecting the challenges facing the audit profession.

As part of the Audit Quality Summits, we hosted a series of plenary debates that included hearing directly from audit committee chairs, investors and the FRC. Our EY UK Independent Non-Executives (INEs) also attended these events.

## Quality - SAQ

### Activities of the AQB

The AQB meets monthly and also holds an annual strategy session.

The chair of the AQB prepares a report on the AQB's work, which is presented to the INEs at INE Oversight Committee (IOC) meetings. Rosemary Martin and Sir Peter Westmacott attended AQB meetings in FY18. The INEs are invited to attend the meetings in order to observe the work of the AQB.

The AQB receives regular updates on the SAQ programme, client pursuit approvals and audit transformation activities. The AQB also reviews a dashboard with Audit Quality Indicators (AQI) such as: results of internal and external quality reviews, partner and associate partner quality ratings, headcount, attrition rates, staff illness, audit unstaffed hours, audit hours on public interest entity (PIE) clients, and charged hours exceptions. Different leaders from the business present to the AQB on the dashboard or specific elements being measured, and the AQB raises matters to be followed up from its review.

During FY18 the AQB considered and agreed actions on a wide range of other topics including culture, performance and reward and the audit of taxation. The AQB periodically invites members of selected audit teams to present to them.

At EY we keep auditors accountable for delivering high-quality audits. Every year the AQB reviews the results of the external and internal audit quality inspection reviews. The AQB is informed about and also contributes to defining the rewards and sanctions process to address the outcomes of the reviews.

For FY19 the AQB has approved an enhancement to the SAQ programme and has established the priorities for the audit practice. These will help us to respond to the areas where we have not done as well as we should as well as helping us achieve the FRC's target of 90% of FTSE 350 audits requiring no more than limited improvements.

The top four priorities are to:

- 1 Promote desired behaviours with our EY Expert Model
- 2 Enhance our Audit Quality Support Team
- 3 Establish an Audit Risk Sub-Committee
- 4 Reinforce focus on project management



## Quality - SAQ

### 1 Promoting desired behaviours

During the last year we have continued to rollout the EY Expert Model which is based on the behaviours of our highest performing teams, as assessed by external cognitive psychologists. We have seen enthusiastic adoption of the model across the audit practice, and received positive feedback on the audit quality benefits from a number of early adopters who have undergone either internal or external quality inspections. We are currently enhancing the model to make more prominent the link between the societal purpose of our profession, the engagement's objectives, team members' day to day work and their career aspirations. For FY19 we are prioritising the extent and consistency of the model adoption, further embedding desirable behaviours into business-as-usual activity across all of our audit teams.

#### Case Study: Applying the EY Expert Model on a FTSE 250 audit

The model involves discussing audit areas, including business understanding, risks and developments, with the entire team. This ensures that all team members are fully up to date and know how each part of the work links to the overall audit. In this instance there was a great deal of change at the client and this sharing was critical, including with teams working on international components of the audit.

The team highlighted the benefit of significant and timely partner involvement at the earliest stages of the audit. The coaching aspect was also important with a continual focus on team members gaining new experiences and making sure, via regular coaching, that they were always clear about the specifics of their own work and how it fitted in to the whole process.

The team members really welcomed this way of working. Not only did their knowledge and skills develop, but they also felt satisfaction at being part of a team delivering a high quality audit. The coherence of the team and the audit was commented upon positively during the FRC's inspection of that audit.

### 2 Audit Quality Support Team (AQST)

Our AQST of experienced auditors was established to perform in-depth, independent, in-flight reviews of 40 to 50 audits each audit cycle. The AQST provides challenge and guidance to the engagement teams, as part of either a wide or narrow review. The AQST reviewer works with the team and reports findings to the team and EQCR during the reviews. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST also provides input to our learning and development programmes to benefit the rest of the audit practice, including identifying common themes and examples of good practice. The work of the AQST is overseen by the AQB who monitor progress and results at their monthly meetings.

For FY19 we are committed to increasing the AQST to help a larger number of audit teams to improve our audit quality. We will increase the investment in the team, including involving partners with significant experience of being an EQCR and who have acted as an expert witness in investigations into audit failure, broadening the composition of the team of reviewers. We will also increase the level of cooperation with the specialised team developed globally to support such audit reviews.

## Quality - SAQ

### 3 Audit Risk Sub-Committee

In the coming year EY UK will establish an Audit Risk Sub-Committee of the AQB. It is intended that the committee will expand our broader risk-scanning process to ensure that we are appropriately identifying our high risk clients and sectors. The committee will consider the adequacy of our response to higher risk audit engagements, including requesting that certain teams present to the committee on their work.

### 4 Project management

In FY17 we piloted the EY Global Milestones programme, primarily on large and complex clients. The programme is intended to promote desired behaviours by encouraging early planning and timely partner involvement.

Our RCA re-emphasised the importance and impact of early planning and timely executive involvement in our audits. Feedback from our audit teams and the outcome of internal reviews have further reinforced our view that consistent implementation of milestones will make a major contribution to enhancing audit quality. The programme helps our people to improve their project management skills, while the milestones functionality embedded in our audit software enables audit teams to set deadlines at a 'task level' and track progress against those deadlines. Other benefits include spreading the workload, clarity over task completion and improved on-the-job coaching through timely review and feedback.

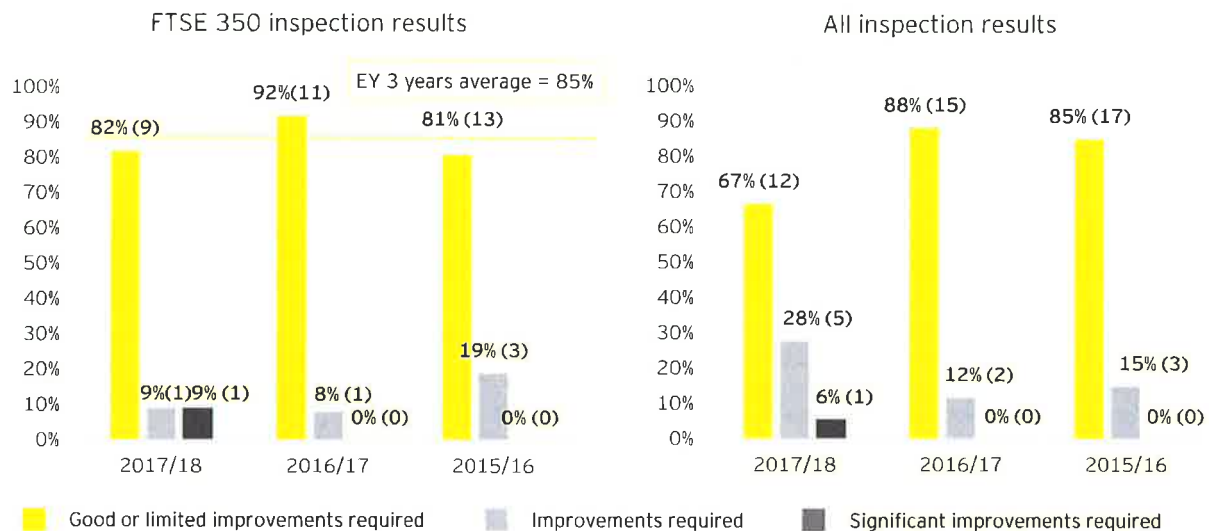
## Quality - inspecting our audits

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

### Financial Reporting Council

The public inspection report rates audits in three categories as follows: 'good or limited improvements required', 'improvements required' or 'significant improvements required'.

The FRC published its report on its latest review of EY UK in June 2018:



Results presented in percentage terms; absolute number of engagements reviewed presented in brackets

Following the FRC's latest review, 67% (prior year 88%) of EY audits inspected were graded as requiring no more than limited improvements. For our FTSE 350 audits, 82% (prior year 92%) of those inspected were graded as requiring no more than limited improvements. Although our 2018 results are lower than we achieved last year, they still provide a strong base from which to achieve the FRC's target that 90% of FTSE 350 audits require no more than limited improvements by 2019, to which we remain committed.

The higher quality of audit engagements inspected by the AQRT in the last three years reflects the sustained investment made by the firm and our people since 2014. However, for the first time in three years, we had an audit graded as requiring significant improvements. We have taken this very seriously and have conducted RCA; work has been undertaken to address the issues identified.

We are disappointed by our results this year. We believe that most of the specific findings driving the decrease (set out on the following pages) are matters which we have addressed with new processes, guidance and training as set out in the FRC report and summarised on the following pages. Nevertheless we recognise that a further step change is required to deliver consistent high quality. We therefore had 'Reset and start again' as the theme for our recent Audit Quality Summits. We are enhancing our SAQ programme to ensure we address any other issues identified and keep pace with the increasing expectations of audit quality.

## Quality - inspecting our audits

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

- ▶ Continued development and enhancement of the firm's Audit Quality programme
- ▶ Roll out of the findings of a project led by external psychologists
- ▶ Continued enhancement of the AQST
- ▶ Focus on improving project management

The AQRT highlights the following areas of good practice:

### Individual audit reviews

- ▶ Group audit teams' oversight of, and involvement with, component auditors, particularly on some first year audits
- ▶ Use of, and co-ordination with, specialists and experts, including coordination and oversight in areas such as goodwill and investments and involvement of industry experts going beyond what the FRC normally sees in these industries
- ▶ Clear explanations of the audit judgements and conclusions in areas of significant risk capturing how management has been challenged and how the audit team has applied professional scepticism
- ▶ Use of data analytics in the audit of revenue, an area where the firm has provided further support and training to help audit teams

### EY UK audit practice procedures

- ▶ Ethics and independence procedures and the response to the revised Ethical Standards requirements
- ▶ A central independence team that reviews all acceptance and continuance assessments
- ▶ The firm's completion of a comprehensive central review to assess all current non-audit services being provided to PIE clients ahead of the transition date
- ▶ The new EY acceptance and continuance system (PACE) which operates across all service lines and includes compliance requirements of the Ethical Standards and International Ethics Standards Board for Accountants (IESBA) Ethical Standards

We carried out RCA and have implemented improvement plans on the areas that the AQRT highlights as requiring action. These are discussed below.

#### Area

Increase the extent of challenge and assessment of management's key assumptions and inputs in relation to conduct provisions in financial services entities.

#### Our response

At the time the report was issued we had already been engaging with the FRC in the area of bank audits. We developed a detailed questionnaire covering a number of aspects of these audits. Individual audit team responses were reviewed by the audit quality team who challenged whether the approach was appropriate.

For FY19 audits, the AQST and audit teams will continue to work together to confirm the appropriate level of specialist involvement in auditing loan loss provisions and conduct provisions, depending on the circumstances of each audit. We shared the FRC's emerging findings with all audit partners, EQCRs, technical and IT partners and associate partners involved in the bank audits, as well as with the wider Banking and Capital Markets audit practice. As part of the communications our conduct specialists presented on the key areas of focus in relation to conduct provisions.

## Quality - inspecting our audits

### Area

Strengthen the audit of collective loan loss provisions in financial services entities.

### Our response

We completed the actions referred to in our response on the finding on conduct provisions noted above, which also applied to the audit of collective loans provisions. The audit quality team reviewed the bank audit teams' responses to the questions around collective loss provisions in the questionnaire, following up with individual teams for clarification or further explanations and challenging the approach where appropriate. We communicated the key themes and messages relevant to collective loan loss provisions to our bank audit teams. That team received a detailed briefing from our quality leadership on the matters raised by the FRC. In addition, our AQST has audit of collective loan provisions as an area of focus for FY19 again, having received a detailed briefing from our quality leadership. Also, we will provide training to our specialists and audit teams to improve integration of the work of specialists in the audit.

### Area

Improve the audit of company pension scheme assets.

### Our response

We issued new guidance clarifying the requirements and considerations relevant to the audit of pension scheme assets, including examples to aid application of the guidance. The guidance included a revision of the approach to determining sample sizes. This was supported by training that was delivered as part of the mandatory autumn training programme in FY18.

Our AQST reviewers were specifically briefed to review the audit of pension asset balances on audits to ensure the updated guidance was applied. We will continue to focus on this through review and coaching by our AQST and through our audit training in FY19.

## Quality - inspecting our audits

<b>Area</b>	Enhance the reports from the firm's internal actuarial experts on company pension scheme liabilities.
<b>Our response</b>	<p>We issued reminders to audit teams to ensure reporting from internal actuarial experts includes evidence of appropriate challenge of assumptions and changes in assumptions. We developed an enhanced actuarial experts' standard reporting template which, was available for use in audits of December 2017 year-end financial statements.</p> <p>We incorporated in our FY18 audit training detailed reminders on the responsibilities of the auditor when using the work of an expert to avoid overreliance, which was a theme identified in our RCA.</p> <p>We will also continue to focus on this area through the review and coaching provided by our AQST to ensure that the new detailed reporting is used and to ensure all relevant considerations are being recorded.</p>
<b>Area</b>	Amend the firm's policy and guidance on hospitality in relation to allowable thresholds and implement monitoring of what is a permissible non-audit tax service.
<b>Our response</b>	We revised threshold levels for gifts and hospitality and we have amended the guidance in this area. We have amended the firm's engagement acceptance process to enable the central independence team to monitor the permissibility of non-audit tax services for UK-based EU PIE audit clients.

### Regulatory actions

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

As announced in the EY UK 2017 Transparency Report, the FRC's investigation into the audit of Tech Data Limited (formerly known as Computer 2000 Distribution Limited) for the year ended 31 January 2012 was concluded by way of a settlement in October 2017, the terms of which involved both the firm and the former partner receiving a reprimand, and the payment of fines of £1.8m and £59,000 respectively.

The FRC discloses on its website a list of investigations that have been publicly announced. We are positive, but not complacent, about the fact that, as at 29 October 2018, EY UK has not had fines by the FRC on audit work completed in the last five years, nor have any of our partners been sanctioned in respect of that period.

## Quality - inspecting our audits

### FRC inspections of public sector appointments

The Public Sector Audit Appointments Limited (PSAA) commissions inspections of firms conducting local audits by the FRC's AQRT. The AQRT inspected three financial statements opinions and one Value For Money (VFM) arrangement conclusion file from EY's 2016/17 PSAA work, and provided an updated commentary on the applicability of firm-wide procedures to our audits. Having considered the review points raised by the AQRT, the PSAA assessed one of the financial statements audits as 'good', one as 'acceptable with limited improvements required', and one as 'significant improvements required'. The VFM arrangements conclusion work was assessed as 'good'.

Our own internal review had already identified that significant improvements were required in the audit subsequently reviewed and graded as such by the AQRT. We carried out RCA on this audit and agreed actions with the audit team, and these actions were monitored through the next audit. The findings were used to inform wider training, which has been delivered.

### FRC thematic reviews

The FRC supplements its routine monitoring programme with a series of thematic reviews of certain aspects of corporate reports and audits where there is particular shareholder interest and scope for improvement and learning from good practice.

The FRC issued a thematic review report on Audit Materiality in December 2017 and one on Audit Culture in May 2018. We analysed these reports and have considered both good practice and areas for improvement. We were pleased to recognise some of our own areas of good practice in these thematic reviews. We have incorporated developments into our FY19 action plan for the SAQ programme for areas where the thematic reviews helped us identify areas for improvement.

We are aware that the following thematic reviews will be reported on or completed in the coming year:

- ▶ Transparency Reporting: A comparative analysis of transparency reports of firms with PIE audits
- ▶ Audit Quality Indicators (AQIs): An assessment of the development and use of AQIs by UK audit firms, which will draw heavily on international best practice.

The FRC will also complete its review of 'The Auditors Work on the Front Half of the Annual Report'. This review, which was included in the 2017/18 thematic inspection programme, is being undertaken over an extended period, to enable the impact of recent relevant changes to auditing standards to be fully assessed.

We will review the reports once released and consider any actions we should take. We find these thematic reports helpful in identifying areas of good practice as well as opportunities to improve.

### Financial services sector

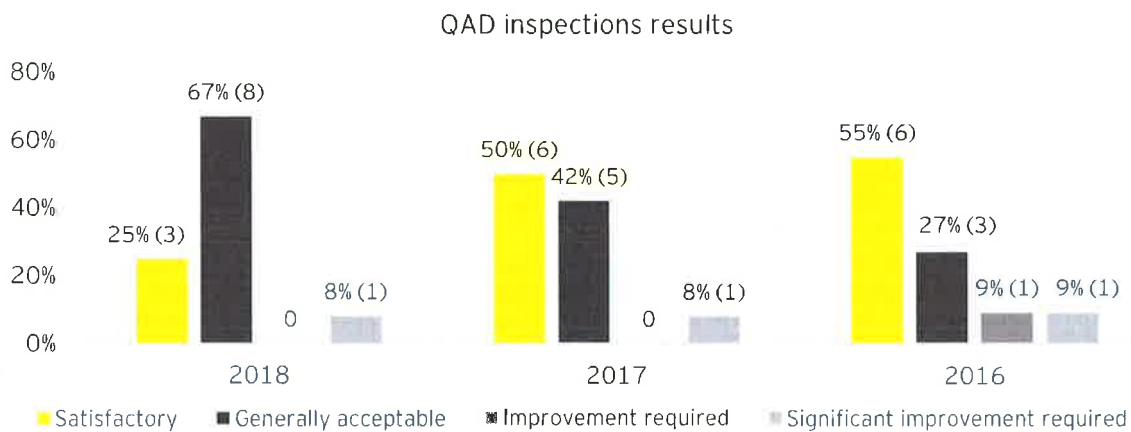
The FRC and the financial services regulators, the Financial Conduct Authority and Prudential Regulation Authority (PRA), are showing particular interest in audit quality in the financial services sector. We maintain an active dialogue and relationship with all three regulators. This is particularly important given their interest in major new accounting standards such as IFRS 9, as well as the specific requirement for written reporting to the PRA on some of our banking audits.

## Quality - inspecting our audits

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

The QAD conducts monitoring visits to all firms registered for audit with the ICAEW. Their monitoring visits contribute to the ICAEW's objective of maintaining the highest standards among member firms. EY is in the population of firms that the QAD visits on an annual basis, but for which the FRC has lead regulatory responsibility. The last QAD inspection took place in 2017 and its report was issued in the spring of 2018. The QAD noted: 'Audit work was of a good standard in most areas and largely comparable to the quality of audit work we reviewed at our last visit.'

The results of the QAD inspections are set out below:



Results presented in percentage terms; absolute number of engagements reviewed presented in brackets

Eleven of the 12 files subject to standard-scope review were either satisfactory or generally acceptable. However, one engagement was rated 'significant improvement required'. The finding that drove this conclusion identified that the audit team had not adequately challenged the basis for continuing to recognise an intangible fixed asset, which should have been fully amortised in a prior year.

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

RCA has been completed on the one engagement rated 'as significant improvements required.' In addition the RCA team is looking at a further sample of files considered 'generally acceptable' to identify what further lessons can be learned.

### Public Company Accounting Oversight Board (PCAOB)

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

Should the report be made public, we will address the relevant findings in next year's transparency report.



## Quality – inspecting our audits

### Our internal Audit Quality Review (AQR) process

Each year we undertake a review of a sample of our audit engagements through our internal AQR process. The review is conducted in the summer months and inspects audits performed in the previous year. So audits reviewed in the summer of 2018 are primarily from audits of December 2017 accounts, although we also seek to design our sample to cover a range of audits, not just those with December year ends.

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

The review process is intended to cover every Responsible Individual (RI) – partners and associate partners authorised to sign audit reports – at least every three years, and every FTSE 350 audit every six years. Other audits are selected for review to cover a cross-section of the audit practice. However, the selection is weighted towards those engagements with higher risk factors. In the current year we reviewed 108 engagements.

During 2016 we discussed with the FRC the results of its thematic review of audit quality monitoring. In the light of those discussions, we continued to seek to improve the quality of the AQR process in FY18 through:

- ▶ Providing further guidance and training to reviewers on how points identified in the reviews should be followed up, what constitutes appropriate mitigation of a finding and how that should be verified, to ensure that final conclusions appropriately reflect and are supported by findings
- ▶ Further pilots of focused reviews on 31 engagements during the FY18 AQR cycle (16 in 2017 and four in 2016)
- ▶ Reviewing a sample of UK components when group audits are reviewed

We continue to assess the effectiveness of our process and will look to make further improvements as appropriate. The FRC is currently performing a review of the AQR process and we will look to implement any further recommendations that are made.

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

1 = **no or minor findings**

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

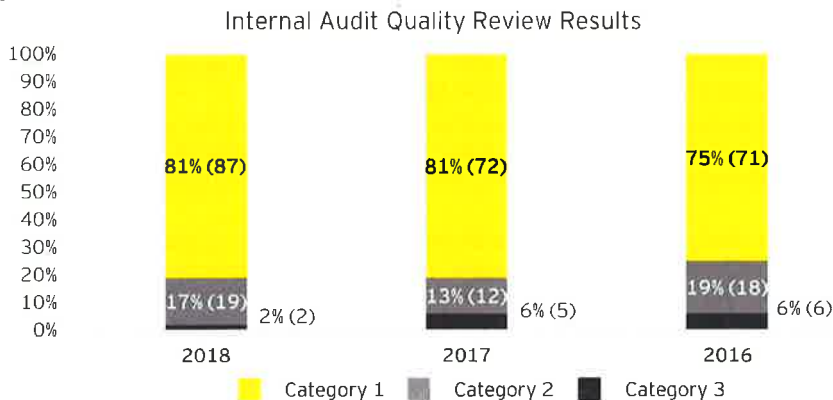
3 = **material findings**

For audits with material findings arising from our internal reviews, EY UK develops and implements a remedial action plan. A quality improvement plan is also developed for EY UK, which draws on RCA that we complete. We communicate lessons learned from the reviews to our audit practice and include them in future training. The results are also built into the work of our SAQ programme, discussed previously. AQR results play an important part in our assessment of partner and staff quality, which is in turn a key input to colleagues' promotions and rewards, as described on page 21.

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

## Quality - inspecting our audits

Over the last three years, we reviewed 47 % of our RIs in FY18, 37% of our RIs in FY17 and 42% in FY16 with the following results:

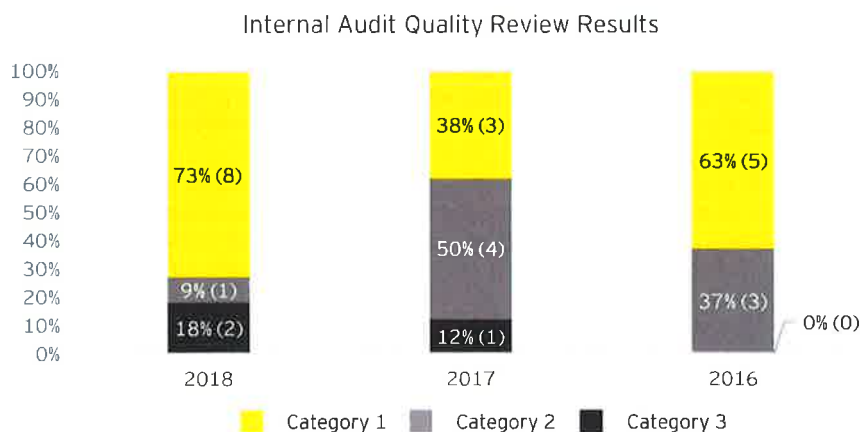


Results presented in percentage terms; absolute number of engagements reviewed presented in brackets

The percentage of engagements rated with no or minor findings has remained consistent year on year, but we continue to target a further increase in future years. We are pleased with the reduction in category 3-rated engagements identified in the FY18 AQR season. However we are undertaking RCA of the two engagements rated as category 3 and a sample of other audits reviewed to identify actions we can take to improve audit quality across our practice.

In addition to the corporate AQR process, we also undertake reviews of our public sector audit engagements performed under either the PSAA or Audit Scotland regimes. These reviews are undertaken using the same process as the corporate AQR, but were performed in the winter of 2017/2018 for audit clients with year-ends primarily in spring 2017.

The results are provided to PSAA and included in its assessment of the quality of our work in this sector. Audit Scotland requires one engagement to be reviewed each year and the result is reported to the organisation as part of its regime requirements. The results of all recent reviews are as follows:



Results presented in percentage terms; absolute number of engagements reviewed presented in brackets

We are pleased with the substantial increase in the proportion of category 1-rated engagements. However, we are disappointed that two (18%) of the engagements reviewed were rated 3. One of these was subsequently reviewed by the FRC as previously noted. A number of actions have been taken on both the specific engagements and across the public sector group to address the issues identified. Overall, although the internal review process has indicated a continuing high level of engagements meeting our audit quality expectations, our audit quality ambition is to reduce further the number of engagements rated 2 or 3 as we learn lessons from our RCA. We investigate the root causes of the findings identified by our AQR process; the FY18 AQR results will be included in our EY UK 2019 Transparency Report.

## Quality - RCA

### Root Cause Analysis (RCA)

Detailed RCA of our internal and external audit inspection findings continues to be an important part of our SAQ programme. RCA is carried out on audits where key findings have been identified, as well as on engagements deemed as being of a particularly high standard. We also carry out RCA on selected prior year adjustments and for non-personal independence breaches.

The RCA is performed by an experienced team of audit professionals using the following approach and methodology for all investigations:

- ▶ Tracing the findings that gave rise to any finding back to the relevant activity and gathering information on what happened
- ▶ Performing desktop analysis of findings and the related audit documentation
- ▶ Carrying out in-depth interviews with key members of the audit team, including the partner, senior manager, the Engagement Quality Control Review partner, members of the wider audit team and specialists (where relevant)
- ▶ Aggregating engagement-level root causes and identifying common themes

### Number of inspections subject to RCA



Internal inspections



External inspections



Other\*

- includes prior year audit adjustments, office wide reviews and non-personal independence breaches

### Case Study: RCA - What leads to high-quality audits?

As part of our RCA we investigated what drove the success of a regional office that obtained the highest possible rating for all recent internal audit quality reviews. We identified a strong audit quality culture supported by a number of office-level initiatives:

- ▶ Well embedded EY Expert Model helped clarify the expectations of the audit
- ▶ Involvement of partners and associate partners in the regular Assurance employee meetings
- ▶ Personal development days when all auditors meet to discuss performance and developmental feedback, and attend small training sessions on current, relevant audit and accounting matters
- ▶ Ad hoc 20-minute interactive web training sessions called 'bite size quality sessions'
- ▶ 'Pass the baton' - an initiative where colleagues explain the expectations of moving up to the next career level to the peer group immediately below them

These initiatives combined to improve the engagement and retention of team members, supporting the delivery of high-quality audits.

## Quality - RCA

The findings from RCA are reported to internal and external stakeholders, including the AQB, FRC and ICAEW. An action plan is developed in response to the RCA findings and monitored by the AQB.

The findings reported following the 2017/18 RCA were:

Factors key to good quality results	Root causes of weaker quality results
Implementation of the EY Expert Model	Audit work and basis for related conclusions not explained adequately on the file
A high degree of partner involvement	Overreliance on work of specialists supporting the engagement team
Support provided by our AQST	Insufficient application of professional scepticism
A more consistent use of new technology and enablers	In the case of pension scheme assets, insufficient focus on an area that was not a significant risk

## Quality – skills and specialists

### Specialist involvement

On our audit engagements we work closely with our specialists from other service lines and we believe that by leveraging their expertise, we enhance our ability to deliver high-quality audits.

Specialists' work can make up a quarter of an audit. For instance, on one large bank audit we involved specialists such as: IT, Tax, Financial Accounting, Risk (including credit, conduct, capital, regulations), Valuation and Business Modelling (forecasts and pensions), Actuaries, Data Analytics, Fraud (including Anti-Money Laundering).

All our specialists are subject to a mandatory audit training curriculum rolled out annually. We are committed to continuing to ensure effective integration of specialists on our audits. During FY18 and in the summer of 2018 we held training for auditors on coordination with and reliance on specialists. Such training included a classroom session and a webcast for the audit practice and reemphasised the importance of exercising professional scepticism when relying on specialists' work. Furthermore, specialists facilitated training sessions for auditors on certain topics, such as conduct provisions.

### Group audits

Our audit methodology sets out clear guidance on how we conduct group audits. The group engagement partner is responsible for the direction, supervision and performance of the group audit engagement. We have a range of programmes, templates and guidance that have been designed to help execute these responsibilities and document how we have done so. This covers using both firms within our EY network or other audit firms. We are pleased that the FRC has included within its public report, in both of the last two years, areas of good practice noted in the work reviewed in relation to group audit team oversight.

### Training

Our investment in training continues to support our audit quality ambitions and once again this year we made a significant investment in our training curriculum. All partners and staff are set minimum continuing professional development (CPD) requirements (discussed further on page 108) and those individuals involved in audits regulated by the PCAOB undertake specific training covering the relevant audit and accounting standards. As discussed further below, our people believe our training programme is enabling them to deliver high-quality audits. In the last three calendar years, we have delivered the following mandatory structured training hours, principally relating to audit and financial reporting:

	FY18	FY17	FY16
Senior 2	95	83	76
Senior 3	50	56	69
Manager	54	66	72
Senior manager	41	47	48
Director/Partner	41	47	48

The training curricula are designed each year to reflect the current needs of the business.

The increase in training hours at Senior 2 includes an additional day of training on new audit technologies and a shift in training hours from Senior 3 to Senior 2.

Consequently, the decrease at Senior 3 is due to a realignment of core curriculum learning across the Senior ranks so this year group now has fewer mandated learning hours.

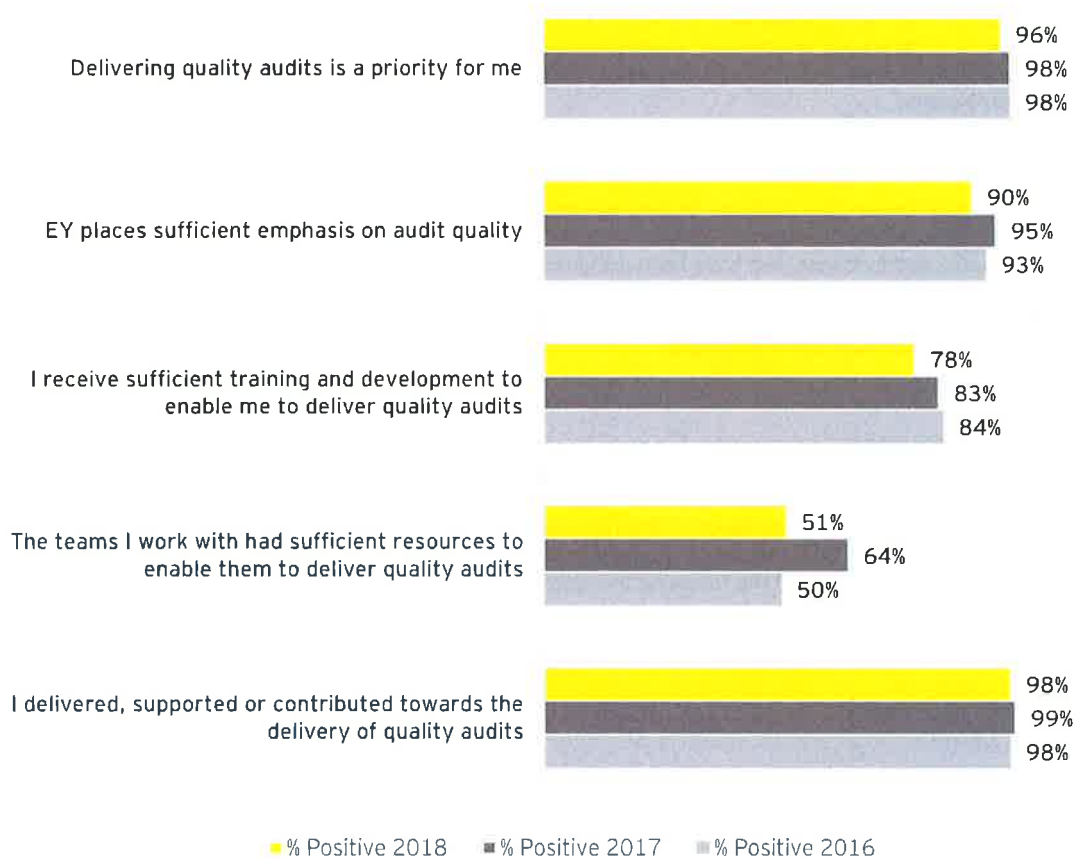
The decrease at Manager, Senior Manager and Director/Partner is largely due to a reduced need for training on audit tools that are now fully embedded (e.g., our audit firm software – EY Canvas) and fewer updates to accounting standards, not already covered in previous training.

## Quality – our people’s view

### What our people tell us

Our success in meeting our stated audit quality ambitions is dependent on the individuals delivering our audit engagements. It is therefore critical that we listen to our people and provide the support they need to achieve sustainable audit quality. We conduct an annual Audit Quality Survey, which focuses on audit quality and provides valuable feedback from our audit engagement teams.

The relevant audit quality indicators (AQIs) from the survey are as follows:



We are pleased that once again a very large majority of our people report that delivering quality audits is a priority for them, that EY places sufficient emphasis on audit quality and that they delivered or contributed to delivering high-quality audits during FY18.

In current year we included the question, 'I understand my role as an auditor in providing independent assurance, supporting strong capital markets and protecting the public interest'. We are very pleased that our annual audit quality survey results show a **97%** positive response to this question. We believe this is a reflection of our strong audit culture, which is embedded in everything we do, and the increasing focus we have been placing on purpose and the societal importance of the role we perform.

## Quality - our people's view

We are disappointed to see a decrease in positive responses to the question asking our people if their teams had sufficient resources to enable them to deliver those quality audits.

We have seen improvements on this question in both of the last two years. We have analysed this response and identified some variation in the pressures felt at different levels and in some geographical areas. Some offices have felt more pressure due to resourcing constraints, whether due to higher than expected attrition, growth or challenges in the recruitment market. However, the patterns identified have confirmed that we must do more targeted work.

In response to this matter, the priorities of the SAQ programme will include monitoring the resourcing position at a disaggregated level, monthly reporting to the AQB, and determining ways of sharing resources to address any areas of need. We will also continue to focus on providing audit teams with access to tools such as robots and data analytics to help them deliver high-quality audits efficiently. We are continuing to implement the EY Expert Model, enhancing the AQST and focusing further on project management to help teams deliver their audits.

We noted a slight decline in positive responses to the sufficiency of training and development, although the result is still at a high level. We have continued to invest in training and development through dedicated Audit Quality Summits and targeted summer training, to provide our people the skills they need to deliver quality audits. Increasingly we are training people on new tools and technologies. As people switch to using analytics and robots, the feedback they give is that they need more practical hands-on training in order to feel comfortable. We believe this may have impacted the responses received. As we carry out office visits and focus groups this year, we will talk to people to understand if there is anything more we need to do in this area.

# Technology in today's audit

## Developments to our audit platform

This year saw the introduction of the client portal as the latest add-on feature to our global audit platform EY Canvas. This allows engagement teams to exchange information securely, monitor requests and manage tasks in an efficient manner directly with our clients.

Since its introduction we have enrolled over **740 EY UK clients** onto the EY Canvas Client Portal, covering almost **1,500** individual engagements.

Our client response has been overwhelmingly positive. From the outset, clients recognised the benefits of the EY Canvas Client Portal, including the enhanced data security it provides by automatically uploading their information onto the platform, creating confidence that their data has been safely delivered directly to EY engagement teams. The greater efficiency of exchanging requests and information in this way has saved time for all those involved. Furthermore, the new on-demand visibility of the status of audit requests has improved collaboration and is driving fast adoption of the client portal.

## Data analytics

Our use of data analytics in the audit continues to expand. Our approach is to embed the use of data analytics procedures into the audit across our client's business cycle leveraging our investments in the EY Helix technologies and our data analytic specialists along with structured guidance to ensure consistency in application. We are pleased that the FRC has noted our use of data analytics in the audit of revenue as an example of good practice.

We continue to support our people in appropriate use of data analytics through training and coaching to enable them to extract value from this approach both in terms of high-quality audit evidence and valuable client insight.

The number of audits using data analytics doubled in the last year. In the coming year, we will continue to focus on the 'digital audit', to further embed the use of data analytics and other technologies throughout the audit. This will be supported with appropriate training for our people.

## Case Study: Revenue data analytics

In its 2017/2018 inspection report, the FRC noted our use of revenue data analytics and the informative audit committee reporting in this area as good practice.

By analysing journal entries posted throughout the year, our standard revenue analytics programme helps teams understand the correlation between different types of transactions and revenue, receivables and cash collections to validate expected trends or identify unexpected trends for further investigation.

This and other analyser tools enable audit teams to document the background, risks and procedures performed and conclusions, while describing the detailed analytics performed in a clear way that is easy for a reviewer to understand. Teams are enhancing audit committee reporting with insights from the data analytics that merit clients' attention.

The scope of data analytics we are now applying extends beyond a sole focus on financial data. Through the convergence of our Assurance disciplines, the analytical techniques developed in our Forensics & Integrity Services are now being used on our audit engagements, enabling our professionals to consider a broader range of non-financial risks in their day-to-day work.

As an example, when scoping our financial audits, the EY Risk Scan analytics triangulate leading indicators of risk (including fraud, forensics and culture) by integrating data from a multitude of internal and external sources with traditional financial data. This provides our teams with the benefit of greater insight into risk factors when deciding how to scope, plan and allocate resources for their audit engagements.



## Technology in today's audit

### Robotic Process Automation (RPA)

This year saw the deployment of Robotic Process Automation (RPA) into our Assurance business for specific standardised processes. Audit teams are now accustomed to using RPA 'bots' to help with a number of these processes, ranging from simple administrative tasks through to more complex activities such as analysing bank statements and selecting audit samples.

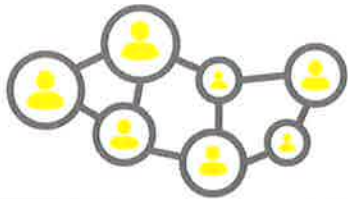
Our focus now is on embedding robotics into our analytics-led audit approach, using bots to execute the routine parts of the process (such as work paper production, sample selection and client requests etc.). This frees up auditor time, allowing our practitioners to focus more effectively on areas where judgement is required (such as understanding the outliers, validating the process and corroborating the picture with third-party evidence). This is helping to deliver higher consistency and quality, improved efficiency and more fulfilling careers for our people.

### Digital Degree Apprenticeships

EY UK is investing in Digital Degree Apprenticeships to increase our pipeline of talent capable of responding to our clients' digital and technology needs across core parts of our business. We understand the necessity of investing now in skills for the future.

The apprenticeship combines full-time paid work and part-time university study to offer candidates the opportunity to gain a full Bachelor's or Master's degree, while benefiting from practical on-the-job training.

Apprentices will spend 80% of their time on the job within their service line contributing to client engagements, and 20% of their time away from client work so they can study towards the Digital Degree. Up to 10% of our student intake will be recruited under this scheme to provide a source of skilled, digitally literate talent.



In FY19 we will have **13 digital apprentices** joining Assurance, and we expect to see this number double in the following year and continue to grow significantly.

Over time we will see their unique skillset continue to grow and develop, helping us in our assurance transformation activities.

## The future of assurance

### Investing for the future

Across EY globally there are plans for the investment of US\$1bn in new technology solutions, client services, innovation and the EY ecosystem over the next two financial years, commencing from July 2018. This move is part of an ongoing strategy to provide clients and people with innovative offerings using the latest disruptive technologies.

The new US\$1bn funding is in addition to the existing, significant annual technology investment. The investment will be used to create new technology-based services and solutions in areas such as financial services, cyber, risk management, managed services and software services, as well as digital tax and audit services.

Mark Weinberger, EY Global Chairman and CEO, says:

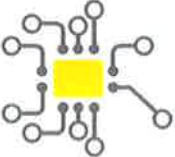
“In this transformative age, businesses and governments are under significant pressure to not only keep pace, but get ahead of the vast disruption and technological change. We see enormous opportunities in helping clients address these challenges and stay ahead of the technology curve. With this investment and expanded technology leadership team, EY will help businesses navigate industry disruption to realise their growth potential.”

### Big Data and AI

Global investment in and deployment of emerging technologies such as RPA and blockchain continue to disrupt entire industries, creating new markets and business models. Big Data is the backbone of this disruption. Driven by the convergence of social, mobile, cloud and the Internet of Things, the volume of data is growing exponentially.

EY UK is now actively exploiting Big Data by gathering and aggregating vast amounts of internal and external data points as part of the delivery of our Assurance services. At the same time we are starting to assist our clients in their efforts to manage the potential risks of Big Data, such as loss of privacy and cybersecurity.

The number of AI tools actively used on our Assurance engagements, including audit, is increasing.



Last year we audited **500 client financial models** (built in Excel) using our new AI-based system, which uses **384 data points** to assess each cell for potential errors.

A number of other AI-enabled tools are also on the path to formal certification for use on our audit engagements. Deploying AI-enabled tools reduces the risk of human error, increases the consistency of execution of work and frees people up to focus on areas of higher risk and judgement, leading to improved audit quality.

# The future of assurance

## Case Study: British Science Association Huxley Summit

The Huxley Summit is a high profile thought leadership event run by the British Science Association. EY UK sponsored the 2017 Huxley Summit and supported the debate on how organisations can build trust through the way they deal with data and how greater transparency will help fuel more innovation. EY UK carried out qualitative research and quantitative analysis on data ethics and governance. In our efforts to fulfil the EY purpose of Building a Better Working World, we set out to understand whether the issues being highlighted by the academic and science communities are resonating and being reflected in the actions of corporates.

Our research included an independent survey of approximately 200 leading companies, one-to-one interviews with business leaders and an examination of prior EY research on the topic to supplement the survey results. Our findings covered:

- ▶ attitudes to trust
- ▶ the drive for data value and opportunity
- ▶ the role of regulation
- ▶ what can be done to balance fair use, trust and acceptance with commercial gain

In a world that is increasingly driven by data and technology, reputations are harder to protect and societal trust in business is becoming harder to maintain. We hope our research can help the capital markets and wider society work together to address an issue that could potentially damage trust in the market.

In recognition of our contribution to advancing the public debate on trust, EY UK has again been invited to be the keynote speaker at the Huxley Summit 2018 on the topic of Artificial Intelligence.

## Measuring the immeasurable

Societal trust in business is arguably at an all-time low and, in a world increasingly driven by data and technology, reputations and brands are harder to protect. In striving to fulfil EY's purpose of Building a Better Working World, we are committed to finding solutions to address issues that potentially damage trust.

Together with the Coalition for Inclusive Capitalism, we are working with more than 30 global companies across the entire investment value chain to redefine how we measure and report on corporate value, encouraging companies to measure and report on long-term value creation.

We are also focusing our attention on cultural assessments and measurement. Over the past year we have made significant strides in further embedding cultural assessments into our suite of non-audit Assurance services. This has enhanced the quality and scope of the oversight we provide to our clients, extending it into areas once considered so intangible as to be immeasurable. Our work in this area reinforces our understanding of the role of people at the heart of business, and consequently the importance of including an objective and evidence-based measurement of culture as part of the Assurance service offering.

Other initiatives include the EY Trust Analytics platform, enabled by Big Data and AI. We are starting to provide clients with a consistent and objective measure of the level of trust they have with external stakeholders. This can be used, for example, as an indicator of corporate performance by helping to forecast potential customer churn or revenue loss.

## The future of assurance

### EY Badges

In FY18 EY Badges was launched, a programme that helps our people earn digital credentials by developing future-focused skills and gain experiences that can shape their career. We consider this investment vitally important, given the rapidly changing world we work in, and it demonstrates our continued commitment to supporting the development of our people. EY Badges also help our people to differentiate themselves in the market. We are the first professional services organisation to offer digital badges globally.

There are four levels of badge distinction (bronze, silver, gold and platinum), with defined criteria to be met in learning, experiences and contributions to earn each badge.



The badges are classified under the overarching domains of Data Analytics and Leading Technologies and cover areas such as information strategy, data architecture, automation and blockchain. Our people can celebrate their earned badges online, through social media, and on their personal profile or CV to showcase their newly acquired skills.

### Case Study: Data Ninjas

The Data Ninjas Programme was developed as a learning and development scheme designed to help colleagues learn more about new technologies and the skills required to manage new ways of working with data.

The scheme provides a common purpose and structure for learning these new skills for a wide group of colleagues. The sense of community it has created has enabled colleagues to learn from each other and showcase their work to an audience who can provide feedback in a safe and constructive environment. This has not only enhanced their own personal development, it has also enabled them to present findings to clients in a more impactful and meaningful way.

## Stakeholder engagement

EY UK places a high degree of focus on proactive stakeholder engagement. With topics such as audit quality, competition and choice, and the perception of conflicts of interest at the top of the agenda, it is vital that we at EY UK are able to have an open and frank discussion with stakeholders. We believe this not only helps to increase trust and transparency, but also offers an important opportunity to understand their concerns and reach closer alignment in expectations. In turn this helps us to improve our accountability and decision making, and better fulfil our public interest responsibilities.

### Investors

Having a strong relationship with investors is important to EY UK, as investors are the ultimate audit client. This year our stakeholder engagement programme also focused on widening our investor audience to include representatives from across the investment chain. Through our biannual Dialogue with Investors event, the INEs and senior EY leaders hosted a dinner discussion and a breakfast roundtable. In total, EY UK successfully welcomed over 35 investors representing £5.28 trillion in assets under management. The attendees, who ranged from institutional investors to charities, came and spoke to our INEs about the issues that most concern them. The topics discussed included corporate governance, corporate reporting, and the management of conflicts of interest and independence. Our biannual Dialogue with Investors event also helps to equip investors with the information they need to engage with company boards on reporting and auditing matters.

Given that the Audit Firm Governance Code (AFGC) is principally for investors, we at EY UK are constantly looking for innovative ways to build and broaden a stronger relationship with the investor community. In FY18 as a new addition to our stakeholder engagement programme, EY UK also engaged with investors through podcast interviews, where the investors talked about key regulatory and public policy topics that are of keen interest to them. Topics covered included Brexit, modern slavery, financial reporting and gender pay gap reporting.

EY UK also holds a strategic collaboration with the Investor Forum, an investor-led organisation whose members are asset managers or owners, including pension funds, life insurers and sovereign wealth funds.

### Case Study: Investor Forum

On 25 April 2018, the Investor Forum convened 40 members of the investment community to discuss the topic of collective engagement. EY UK joined a panel alongside investors to talk about engagement and share insights on the Embankment Project, a project we continue to work on through our partnership with the Coalition for Inclusive Capitalism which seeks to develop a new framework to measure how businesses can deliver value over the long term.



THE INVESTOR FORUM

During the discussion investors highlighted that companies could do much more to disclose non-financial information in a way that investors can find what they need, and that focuses on what's important to the end users reading their reports, as it is often the case that sustainability information is published at a different time to financial results. Insights like this demonstrate the value of investor engagement. Companies need to engage with investors, in order to understand firstly what information is important to them and secondly how best they can communicate it. The discussion also highlighted that companies should consider how an evolution in the focus of client mandates and a much broader consideration of value are beginning to impact the nature of investment decisions; it is these considerations that motivate the Embankment Project.

## Stakeholder engagement

In addition to engagement with Institutional Investors, EY UK also engages constructively with board members on current trends and issues facing UK business. This year, we have also sought to further develop the platform to which we can facilitate peer to peer engagement.

### EY UK Centre for Board Matters (EY UK CBM)

We refreshed the EY Independent Director programme in the second half of FY18 and it has been re-branded as the EY UK Centre for Board Matters (UK CBM). With this re-brand comes a much greater focus on engaging FTSE 350 non-executive directors and audit committee members by delivering timely insights on the current issues and trends UK businesses face. Each quarter we focus on a theme with a range of on-demand content and a series of invitation-only events. The main focus for the programme during the latter half of FY18 was to inform members of the new programme structure and to initiate the webcast and Board Matters podcast series. Members from our Non-Executive Director (NED) community can access this theme-based content on our website - <http://www.ey.com/uk/boardmatters>.

We have also recorded a webcast on General Data Protection Regulation with SAP, an EY alliance partner, which is continuing to inform audiences of the implications now that the regulation is law.

Our annual summer reception took place on 5 June 2018 at Tate Modern, where we hosted 197 delegates. Our annual winter reception was hosted by ITV's Political Editor, Robert Peston, who gave guests a unique insight into the changing political landscape. Following another successful event hosted in October, Are you ready for the robot revolution?, Richard Anning of the ICAEW was inspired to write a blog on the topic, attracting over 2,000 views by October 2018. The UK CBM has an ongoing partnership with Criticaleye, the peer-to-peer board community, and we are looking forward to building on the success of 2017's NED Retreat, which we will be sponsoring again in 2018.

Total number of  
NEDs in attendance  
at FY18 events:

**434**

During FY19 we will work to develop the initial success of the UK CBM and engage FTSE 350 NEDs by creating unique and relevant content.

### Audit committees

Globally, EY collaborates with the consultancy firm Tapestry Networks to engage with the chairs of audit committees. Members of Tapestry's audit committee network are all senior leaders from more than 300 public companies and a wide variety of public institutions. EY UK will continue to engage with this network to help ensure we stay up to date with the key topics and themes of interest to audit committee chairs.

### Case Study: European Audit Committee Leadership Summit

In April 2018, members of the Audit Committee Leadership Network in North America and the European Audit Committee Leadership Network met in London for the 13th annual Audit Committee Leadership Summit, where EY presented. During the summit, members discussed lessons learned from cyber breach responses, digital transformation and strategy, and audit committee effectiveness.