

Deloitte.



Deloitte LLP
Audit Transparency
Report
2016

For the year ended 31 May 2016

Regulatory context

This Audit Transparency Report (Report) has been prepared in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 (the Instrument), made by the Professional Oversight Board (POB) of the Financial Reporting Council (FRC) on 3 April 2008. The Instrument came into force on 6 April 2008 and requires the publication of certain information by transparency reporting auditors,¹ such as Deloitte LLP² (Deloitte or the firm). This Report relates to the firm's principal activities in the UK for the year ended 31 May 2016, unless otherwise stated.

In addition to the requirements of the Instrument, the POB issued the Audit Quality Framework (AQF) in February 2008 and indicated that Transparency Reports may represent a useful opportunity for audit firms to set out the steps that they are taking to achieve audit quality by reference to the AQF. This Report addresses all of the elements set out in the AQF. A reconciliation of this Report to the AQF has been supplied to the FRC. This Report has also been prepared with due regard to publications issued by, and comments received from, the POB and its successor, the Conduct Committee, regarding transparency reporting by audit firms.

In January 2010, the Institute of Chartered Accountants in England & Wales (ICAEW) published the Audit Firm Governance Code (Code), which sets a benchmark for good governance and applies to firms auditing 20 or more listed companies. This Report includes disclosures required by the Code (including those published on our website) and explains steps taken by Deloitte to comply with the Code. A reconciliation to the Code is provided in appendix 5.

The FRC reviewed the Code during the year and, as a result, a revised Code was published on 27 July 2016. Compliance with this revised Code will be addressed in future Transparency Reports.

¹ Transparency reporting auditors are defined as statutory auditors that have made an audit report on the annual accounts of one or more public interest entities during the financial year of that statutory auditor

² Deloitte LLP is the UK member firm of the Deloitte Network. The Deloitte Network comprises Deloitte Touche Tomatsu Limited (Deloitte Global) – a UK private company limited by guarantee – its member firms and each of their related entities

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Section 1

Introduction

1.1 Foreword, our purpose and priorities

Foreword

I am pleased to present Deloitte's Audit Transparency Report in respect of the year ended 31 May 2016, our ninth such report.

Being transparent about our commitment to audit quality is very much in the public interest and underpins our approach to this Report. It is an important element of our communication with regulators, investors, audit committee chairs and other stakeholders. As ever, I am extremely grateful to our Independent Non-Executives, Sir Gerry Grimstone, Ruth Markland and Sir Michael Peat, for their effective challenge and the wise counsel they provide in this regard.

Our purpose

Our firm's purpose is to make an impact that matters: for our clients, our people and society. Our impact is shaped by the work we do in providing trust and confidence; in supporting inclusive growth and innovation; and in building skills and developing future business leaders. Ingrained in our work is our commitment to quality.

We continue to embrace technology to drive further quality improvements in our audit. For example, our Spotlight analytics tool allows our audit teams to efficiently identify unusual trends and anomalies within large sets of data, enabling them to concentrate on areas of judgement.

Our annual Stakeholder Forum brings together a range of the firm's stakeholders including investors, regulators, professional bodies, government, business groups and audit committee chairs, to discuss areas of interest and concern with our senior leadership.

The EU audit market reforms, taking effect for financial periods starting after June 2016, have led to an evolution in the audit market. Hundred-year audit tenures are a thing of the past and we have already seen unprecedented volumes of audit tenders in the FTSE 350. This, coupled with stricter non-audit services restrictions for public interest entities (PIEs), will create both challenges and opportunities for audit firms and the entities we audit.



Nick Owen
Chairman of Deloitte in the UK



1. Providing trust and confidence

One of the ways we contribute to society is by providing trust and confidence in the capital markets and a key element of that is delivering high-quality audits. In FY16, Deloitte signed over 15,500 audit reports. Of these, 70 were for entities we audit in the FTSE 350.

Similarly, trust in public institutions is an important ingredient for a prosperous society and we work with a wide range of organisations across the public sector to support them in this challenging environment.



2. Supporting inclusive growth and innovation

Our clients are facing unprecedented disruption – from new technologies, digital transformation, cyber threats, increasing regulation and economic volatility – all of which could impede growth unless businesses innovate.

Boards are coping well with a pace of change far greater than previously seen, although geopolitical and macroeconomic uncertainty cannot be eliminated and corporates need to see them as a fixed part of the landscape they have to navigate.

While the UK has voted for a future outside of the EU, it remains a competitive, innovative and highly-skilled economy and an attractive place for business. However, we are likely to see a period of uncertainty and businesses need to ensure they are set up to navigate the immediate risks and impacts of an exit, and have the processes and people in place to manage a period of upheaval.

Since the result was announced on 24 June 2016, we have been supporting our clients to understand how Brexit could affect them – and the resulting threats and opportunities – and how they might adapt. We have also been actively engaging with our stakeholders on their concerns, priorities and other aspects of the 'Leave' vote and what it means going forward – short-, medium- and longer-term.

3. Building skills and developing future business leaders

To provide the highest quality service, we believe we need to hire people who think and innovate differently, who come from a variety of backgrounds and who bring a range of perspectives and experience into the firm.

To enable this, we have transformed our recruitment processes and are one of the largest British businesses to adopt contextualised recruitment, a system which helps us to recruit based on future potential rather than past circumstance, reducing potential barriers to a career in the profession for people from all walks of life.

The firm is also introducing school- and university-blind, as well as name-blind, interviews to address unconscious bias. We are doubling the number of positions available on our BrightStart School Leaver recruitment programme and increasing the number of work experience opportunities.

We continue to invest in our people; this year, we invested £35 million in learning and development.

We remain committed to supporting our clients in developing their leaders. Our CFO Transition Lab is a personalised one-day workshop for newly appointed CFOs to help them make an efficient and powerful transition into their new role. Its success has inspired us to set up programmes for a number of C-suite roles including CIOs, CHROs and we are about to launch a Transition Lab for CEOs. We are also committed to supporting Non-Executive Directors to fulfil their responsibilities and are offering Transition Labs for newly appointed Audit Committee Chairs. This year we helped 115 C-suite executives and Non-Executive Directors transition into new roles.

Our priorities for FY17

Over the coming year we will:

- Drive further improvements in audit quality, including through innovation and the development of our people
- Continue to engage proactively with regulators on the new regulatory environment for audit and other professional services
- Continue to engage with our key stakeholders, both through our chairmanship of the Policy and Reputation Group³ (PRG) and as a standalone firm
- Lead the Deloitte Network on issues that matter to our stakeholders
- Drive continued improvement in international consistency between Member Firm client service and quality processes through enhanced collaboration across our network

- Launch our 'One Million Futures' programme. Working with up to 40 charity and social enterprise partners across the UK, we will provide access to the professional skills and expertise of Deloitte across the UK to enhance people's employability by raising aspirations, improving skills and developing leaders; in the classroom, workplace and boardroom

Your views

Your views are important to us. If you have comments about any aspect of this Report, please send them to atr@deloitte.co.uk.

Thank you for your interest.

3. The PRG is a UK forum for the 'Big 6' firms to debate topical issues that impact the reputation of the firms collectively and the profession

1.2 Report from the Independent Non-Executives

Introduction

Sir Gerry Grimstone, Ruth Markland and I are the Independent Non-Executives (INEs) on the main Board of Partners of Deloitte (the Board). Gerry and I were appointed in 2011 and Ruth in 2015.

Our primary responsibility is to help ensure that public interest considerations are central to Deloitte's decision-making. This includes, in particular, the firm's commitment to high quality audits and remaining a prominent and powerful participant in the audit market.

We discharge our responsibilities by being actively involved in Deloitte's supervisory and governance processes. We are Board members (the Board usually meets every month for a whole day); we attend meetings of the Audit & Risk Committee (A&RC); one of us is a member of the Remuneration Committee and the Compensation Committee; one is a member of the Nomination Committee; and one has quarterly update meetings with the Partner in Charge of National Quality and Risk, the four Service Line Quality and Risk partners, the Ethics Partner and the partner responsible for Internal Audit. In addition, we meet as members of the Public Interest Oversight Committee (PIOC) every two months.

Our duties are primarily fulfilled through our engagement as members of the Board and its subcommittees and by our interaction with partners and staff on more informal occasions; however, the PIOC meetings provide an opportunity for us to discuss matters of interest and/or concern between ourselves.

We also meet investor groups and representatives from professional bodies on a regular basis. During the year, I wrote to 35 investors and am in the process of having a series of follow-up meetings.

Audit Quality

We pay particular attention to audit quality through our membership of any Board sub-committee established to consider audit matters. For example, as members of the A&RC, we attended the meeting which recently received the annual presentation from the Audit Service Line Managing Partner and Quality and Risk Partner.

Indeed, I meet with the Audit Service Line Quality and Risk Partner on a quarterly basis and met with the firm's newly established Audit Quality Forum during the year. From time to time, we also meet regulators of the firm (in FY16, the FRC and the ICAEW), including on two occasions their audit quality reviewers to discuss the conclusions of their annual reviews of Deloitte's audit files and practices and, when required, to seek their guidance.

We bring appropriate challenge and different perspectives, drawing on our diverse external roles and experiences, to reinforce and encourage the wide range of work which Deloitte is undertaking to enhance audit quality. We have been (and continue to be) members of a number of audit committees and my own competence includes auditing and accounting as a former KPMG partner.

Reputation and Continuity

While a primary focus is on audit services, it is of course important that Deloitte as a whole continues to be successful; not least so that it can remain a strong participant in the audit market. For this reason we take a close interest in all the firm's activities, in the UK and globally, to help ensure that its reputation is protected and its business as a whole remains strong and sustainable.

For example, Ruth and I attended a Global Member Firm INE meeting which considered progress against our global strategy, global governance structures and current stakeholder engagement and public policy issues impacting the Deloitte Network.

Conclusion

There are no particular concerns that Ruth, Gerry and I believe should be brought to the attention of readers of this report. We continue to have confidence in Deloitte's governance and in the firm's commitment to good stewardship and the public interest.

Thank you for reading this report. Communicating effectively with stakeholders is an important part of our role, and we would be grateful to receive any comments or other input. If you would like to contact us, our e-mail address is independentnon-execs@deloitte.co.uk.



Sir Michael Peat
Chairman of the Public Interest Oversight Committee (PIOC)

Section 2

Providing trust: quality and governance

2.1 Delivering quality audits

In this section we set out how we deliver quality audits, building on our culture of ethics and integrity and on the recognition that quality is our number one priority. This is driven by:

1. Having the right tone at the top
2. Our investment in people
3. Our investment in systems and processes to enhance engagement performance
4. Having close global links

We outline below the steps we have taken to embed quality, from the top, as an integral part of our talent model; the investment we have made to consistently deliver quality in our engagements; and the ways in which we respond to challenges from clients, regulators, investors and our own people, both in the UK and globally.

1. Tone at the top

Our leadership is committed to ensuring quality work and has established a culture of ethical behaviour and integrity, both of which are unconditional. The reputation and success of our firm are dependent upon each and every individual's behaviour and understanding of integrity, our emphasis on personal brand and on the importance of consultation to facilitate sound decision-making. We will always support our people to do the right thing. Further details on our ethics programme are set out in section 2.3.

Our focus on performing a quality audit is embedded throughout our practice, through our day-to-day policies and methodologies, which sit alongside initiatives to address the areas that we identify for improvement. Our structures, processes and strategies put quality, professionalism and integrity at the heart of every decision we make.

UK Audit Quality Board (AQB)

We established our AQB in 2014, comprising partners and directors from across our audit practice. Its remit is to:

- Develop and govern activities that will achieve sustainable improvements in audit quality
- Implement these improvements across the audit practice
- Respond to audit quality issues raised by regulators and stakeholders, including the FRC's Audit Quality Review (AQR) team, the ICAEW's Quality Assurance Department (QAD) and the US Public Company Accounting Oversight Board (PCAOB)

The AQB meets quarterly and actions driven by the AQB during the year include the matters covered in this section of the report, specifically:

- Outcomes from external and internal inspections
- Strategic responses to the underlying causes of inspection findings
- Further enhancement of the content and delivery of our learning curriculum
- Improving the challenge from our Engagement Quality Control Reviewers
- Identifying priorities and creating a formal Audit Quality Plan for 2017

Emerging Issues Group (EIG)

Established during the year, our EIG comprises practitioners, technical experts and industry experts. It meets to discuss key findings and root causes from internal and external inspections and considers emerging themes or issues from other sources. The EIG helps to develop actions to address these matters, working with the National Accounting & Auditing technical team (NAA) and the network of Audit Quality Leaders who are embedded in the audit groups.

Audit Quality Forum

The AQB established an Audit Quality Forum in 2015, comprising junior staff from associate to manager grades to give a voice to people at different stages of their careers to further improve audit quality. The forum meets four times a year, including one meeting attended by the Chairman of the PIOC. Matters discussed in the current year included the content and delivery of learning, the project management of audit engagements and the resourcing and structure of engagement teams, as they relate to audit quality. Results were fed back to the AQB for further action, as necessary.

2. Investment in people

The processes outlined below seek to ensure that the professionals working on our audit engagements have the necessary knowledge, capabilities, experience and competence to deliver work of the highest quality and that they are appropriately supervised by skilled partners and managers.

Recruitment

During the year ended 31 May 2016 we recruited 754 people to our Audit & Risk Advisory graduate and school leaver programmes. We maintain the high calibre of our people through a rigorous recruitment process, including skills assessments and competency-based interviews.

Measuring and rewarding performance

We create an environment where achieving high quality is valued, invested in and rewarded.

An Audit Quality & Compliance Dashboard is produced for all audit partners and staff at manager grade and above. This dashboard measures results from internal and external reviews, updates of personal independence and continuing professional development records, and timely completion of essential professional updates and other e-learning, where applicable.

Dashboards are discussed at appraisal meetings and form an integral part of each person's performance assessment for the year.

Individual appraisals include feedback provided on specific engagements from fellow team members and from partners, to provide a rounded view of individuals' performance and development needs. The evaluation of professionals for promotion involves a detailed scrutiny of personal performance, with quality at its core, linked to our competency model.

This year we introduced team and individual awards for audit quality, to highlight success and to share the stories from the shortlisted and winning teams as role models for outstanding audit quality across the audit practice. The nominees were either self-nominated or nominated by another practitioner, and were evaluated centrally. Recognition was given in three areas: applying the global audit imperatives, exercising professional scepticism and a focus on auditing internal controls. We also use the annual bonus scheme to recognise the demonstration of exceptional audit quality.

Each audit partner and signing director receives an Audit Responsibility Rating, reflecting the level of risk, complexity and public scrutiny they shoulder in their roles, including as Engagement Quality Control Reviewer on audit engagements. This recognises the levels of responsibility and required performance on audit engagements as key drivers in the reward and promotion of our audit partners and staff.

During the year we set up an Audit Quality Remuneration Committee, comprising senior partners within the audit practice, to evaluate identified regulatory, internal practice review and other quality issues in order to provide an independent challenge to the audit quality contribution of each audit partner. The Committee's recommendations are used by the Audit & Risk Advisory Executive to make final decisions on audit partner reward and promotion.

Learning programmes

Our approach to continuing professional development is based around targeted learning programmes, including regular audit, accounting and industry-specific training to keep all of our professionals at the forefront of new developments and regulations.

All qualified audit professionals are required to attend annual technical update training, a residential course covering audit, accounting and other matters such as professional scepticism, audit tools and project management. Experienced partners lead the delivery of the course, seeking to ensure consistency, quality and maximum impact.

In summer 2015, we followed up this course with a focused Financial Services Sector course to share some of the additional learning that applies to these complex and often high profile engagements.

During 2016, the annual update training took the form of five days of Summer Technical Training for all qualified audit professionals, followed by an intensive PCAOB course for people working on US Securities and Exchange Commission (SEC) engagements.

From summer 2016 we have adopted the new mandatory global audit learning curriculum for all levels, to promote consistency with other Deloitte member firms. We are also introducing a parallel curriculum designed for our practitioners working on PCAOB engagements. We will continue to supplement these courses with UK-specific learning topics and courses as required, to best meet the needs of our business and markets.

All of our partners and staff are also supported in their legal, ethical and quality responsibilities by appropriate learning programmes, including regulatory/policy compliance, personal independence, anti-money laundering and anti-bribery. In addition, we run regular Essential Professional Updates for audit professionals, which cover current and emerging audit and accounting matters.

On-the-job training

We develop our professionals by appropriate mentoring, on-the-job training, regular feedback, appraisal and other support activities, supervised by partners and other senior team members.

In the autumn of each year we run partner-led Engagement Team Based Learning, designed to help our people integrate their learnings from the Summer Technical Training, and other training courses, into their work on audit engagements. During autumn 2015 the focus of Engagement Team Based Learning was on management estimates, internal controls and audit project planning. For the coming year the sessions will have a focus on implementing the enhanced audit methodology.

3. Investment in systems and processes to enhance engagement performance

The steps outlined below demonstrate the investment we have made in our underlying audit methodology, tools and resources to enhance the effectiveness of our audit process. These processes are supported by a culture that aims to promote the merits of consultation on difficult issues and to help audit partners exercise sound professional judgement.

Audit methodology and software

The Deloitte Audit Approach Methodologies are designed centrally by our global team (to which all member firms contribute) and then tailored to comply with all UK professional standards and legal and regulatory requirements. We also tailor our methodologies for International Auditing Standards and PCAOB-related audits, which apply specifically to SEC registrants and their components.

During the coming year we will be enhancing our audit methodologies across all the member firms in our network. The focus of the enhanced methodology is to encourage a more robust, fact-based risk assessment, with an increased focus on internal controls and the use of analytics. This approach was rolled out during our Summer Technical Training 2016 and will be applied to audit engagements for years ending on or after 31 December 2016.

Our methodologies are built into bespoke software, providing a clear framework of procedures. This also gives our audit partners and staff the tools to help them assess risks and make robust audit judgements, with regular partner and manager involvement right from the outset of the engagement, while better managing the progress of engagements and evidencing the appropriate reviews and documents on file. We upgrade the software on a regular basis, including to support our enhanced audit methodology during 2016.

Developing the audit of the future

It is key to our strategy that we continue to innovate, in order to continue to improve the quality and efficiency of our audits. Over the last few years we have successfully rolled out several new programmes, including developing and embedding data analytics tools, to improve the effectiveness of detailed testing and enable our audit teams to bring relevant, tailored insights to the entities we audit. During the year we continued to enhance these tools, allowing our auditors to respond to audit risks with greater precision.

In addition, we have invested in a number of proof of concepts and pilots to explore the potential use of automation and cognitive technologies within our audit business. Whilst the maturity of these technologies is varied, we believe it is critical that we invest now to fully understand their broad capabilities. These tools will shape the future of audit and enable us to focus on significant areas of interest and core judgements, bringing valuable insight. We are engaging with our people, as well as third parties, as we explore these technologies, recognising that the breadth of their skillsets and perspectives forms an important part of the innovation process.

We have continued to expand our Centres of Excellence which provide specialist knowledge and the ability to generate meaningful benchmarks. This year we established the Pensions Audit Centre of Excellence and the Asset Pricing Centre of Excellence.

Use of specialists and experts

We involve experts who are not part of the core audit team throughout our audit work. Our specialist auditors, including tax, IT, actuarial and valuations specialists, receive annual audit training and work directly within our audit systems.

Consultation

Our audit partners and staff benefit from strong technical support on accounting, auditing and regulatory matters as they affect the entities we audit and the audit work itself.

During autumn 2016, we will be introducing a new consultation system to make it simpler to record when – and in what form – consultation on audit and accounting technical matters has taken place. This will help us ensure consistency in response to consultations and to identify any trends where further guidance and training may be needed.

Audit project management and timing

During 2016 we started formalising our audit milestones programme by providing guidance to teams on objective completion dates for key activities. This has been made mandatory for our larger audits, and is strongly recommended for smaller engagements. Milestone tracking is supported by bespoke diagnostic software that integrates with our audit software to provide real-time information to partners and staff on the progress of their audits. During 2017 we will be encouraging our audit teams to share their performance against audit milestones with Audit Committees, as we believe this is a key indicator of audit quality.

Audit reporting

We believe that high quality, insightful audit reports must be carefully tailored to the entity, clear and unambiguous. All of our enhanced audit reports are reviewed by our Enhanced Auditor Reporting Panel to consider the appropriateness and clarity of the report. This panel also seeks to share best practice in audit reporting and latest developments, such as the upcoming changes as a result of EU regulation, to help audit engagement teams give further perspective in audit reports.

We recognise that, in addition to focusing on the quality of our own audit reports, auditors also have an important role to play in raising the overall quality of the financial statements. We established the Quality Corporate Reporting Centre of Excellence in summer 2016, to assist our people in dealing with increasing complexity around financial reporting.

The remit of the Centre of Excellence encompasses enhanced pre-issuance reviews on those audited entities that exhibit risk factors related to corporate reporting; performance of thematic reviews in targeted disclosures areas; and publication of both internal and external guidance to contribute to improving the production of insightful and accurate financial information by the entities we audit. Effective, clear and timely communication with audit committees, and with others charged with governance, is also key to the quality of our audits. We aim to continually improve the quality of such reporting, including enhancing the clarity of our explanations of the audit process, for example when discussing materiality and the impact this has on the audit work undertaken.

During 2016, three of our enhanced audit reports won 'best in class' at the Investment Association's annual auditor reporting awards. These awards recognise excellence in auditor reporting, highlighting those reports that are the most informative and clear to investors. Our audit report for Marks & Spencer Group plc won the overall award for best FTSE 100 audit report; while our audit report for Direct Line Insurance plc won the award for Best Disclosure of Materiality in the FTSE 100; and our audit report for Intermediate Capital Group plc won the award for Disclosures of Risk of Material Misstatement for other Premium Listed companies.

To further improve disclosure of the auditor's approach to testing areas of significant risk, increasing transparency and effectiveness of the audit, we developed a special assurance report – a snapshot of key risks facing a company – published at the same time as its preliminary announcement. This bridges the investor communications gap between publication of a company's preliminary announcement and the annual report. Progress so far has been positive, with five such reports being published in FY16 for entities we audit in the FTSE 350.

Engagement Quality Control Review

For PIEs, an independent engagement quality control review (EQCR) partner has responsibility for the whole of an engagement's EQCR process, including directing the Professional Standards Review (PSR). PSR supports our high standards of professional scepticism and audit quality by providing independent challenge on each of our audit engagements focusing on significant accounting, auditing and financial reporting judgements, appropriate audit documentation and disclosure areas.

The EQCR partner role is performed by a group of highly experienced senior audit partners for the majority of the firm's FTSE 350 audited entities. EQCR partners are involved in our larger and more complex engagements; for other engagements, the EQCR process is undertaken by the PSR team. The EQCR partner is not part of the entity-facing team and is therefore well-placed to bring independent challenge to the audit process.

All engagements where the team is considering issuing a modified audit opinion are subject to an additional level of independent review by the Centre of Excellence for Modified Opinions. This centre reviews the proposed wording and audit documentation to assess its appropriateness, accuracy and consistency.

During the year we rolled out the PSR Centre of Excellence, providing a dedicated central professional standards review team for certain engagements in the private markets arena, focussing on providing a consistent and experienced approach to their reviews.

Driving continual improvement

We are always looking to improve aspects of our business and use the findings of the practice review, other internal reviews and external regulatory reviews to enhance our system of quality control. This is led, implemented and monitored at the leadership level by the Audit & Risk Advisory Executive and, in more detail, by the AQB.

Causal Factor Analysis

We perform causal factor analysis on engagements that are subject to inspection by our regulators or by our internal practice review. We also perform causal factor analysis on regulatory and internal inspections of our system of quality control. The scope of causal factor analysis covers:

- engagements receiving adverse ratings in regulatory or internal inspections
- selected findings arising from inspections of our system of quality control
- recurring findings across a number of engagements or areas, regardless of inspection outcome
- a selection of our highest quality audits assessed during inspections and selected examples of good practice
- other quality matters including a selection of first year audits, prior period adjustments and FRC Corporate Reporting Review Panel enquiry letters.

The causal factor process involves a detailed analysis of the audit work in the area of the finding or good practice, review of relevant technical guidance and learning materials, an analysis of relevant audit quality indicators and interviews with key engagement personnel who were responsible for the preparation or review of the relevant area.

Causal factors are reported as part of our inspection summaries to Audit Leadership, the AQB, EIG, Audit & Risk Committee and PIOC.

Recurring themes, common pitfalls, good practice observations and causal factors are communicated on a regular basis to audit practitioners.

4. Close global links

We serve many global clients and focus on providing consistent, quality audits across the whole of our international network. We work closely with our Deloitte Touche Tohmatsu Limited (DTTL) (also referred to as Deloitte Global) colleagues and with those in other member firms in the Deloitte Network to achieve this.

The Deloitte Network has adopted several measures to drive quality improvements across the world. The UK member firm's participation in these projects includes:

- Our Audit Quality & Risk Partner's membership of the Global Audit Quality Board to drive the audit quality agenda for the Deloitte Network, including ownership of the Audit Quality Framework
- The establishment of a Global Centre of Excellence for Audit Quality (see below for scope and activities)
- The production of an annual Audit Quality Plan by each member firm, which details its response to the Audit Quality Framework and measures progress against this
- The analysis undertaken by each member firm on the findings from internal and external inspections, to determine the underlying causes behind them. In the UK, in addition to focusing on findings requiring improvement, we also share examples where internal and external inspections have found areas of best practice, enabling us to encourage their wider adoption
- The introduction of 'health checks' (reviews of live engagements) using the findings from inspections and diagnostic tools, to drive the selection of engagements and file areas for review
- The measurement of Audit Quality Indicators (AQIs) by member firms
- The roll-out of audit milestones to support engagement teams in their project management responsibilities

The Deloitte Network established a global Centre of Excellence for Audit Quality in 2015, with a focus on enhancing audit quality on global systemically important financial institutions and PCAOB engagements. The aim is to instil best practice globally by sharing knowledge, experience and lessons learned among network firms. The EMEA managing director of this Centre of Excellence is based in the UK and works closely with our PCAOB Audit Quality and Risk Management team. In the UK, our actions to enhance audit quality on PCAOB engagements have included:

- The introduction and local implementation of a global PCAOB audit approach manual, in addition to our separate audit approach manual for International Auditing Standards
- The introduction of internal inspections designed to replicate a PCAOB inspection, both in the style of the review and in the consequences of the results of the inspection
- Deployment of a new learning syllabus focused on PCAOB requirements, for all staff working on PCAOB engagements

The Deloitte Network has nine International Financial Reporting Standards (IFRS) Centres of Excellence (including one in the UK) to provide our audit professionals with swift and consistent responses to IFRS technical queries. Specifically, in the UK:

- We work closely with our global auditing and accounting colleagues to provide a consistent approach
- The expertise of the UK-based Global IFRS and Offerings Services network is available to support our professionals on IFRS and US accounting and auditing issues and SEC listing rules and regulation
- Global IFRS technical activities, including communications, are led from the UK

Global audit imperatives

The Deloitte Network's aim is to drive professional excellence through the consistent application of eight global audit imperatives, which have been adopted by every member firm. All audit professionals are expected to know what these are and to understand that they need to demonstrate each one on every audit. The global audit imperatives for 2016, as presented below, have been implemented in the UK and are supported by the initiatives discussed throughout section 2.1. We monitor adherence to these imperatives through our internal inspections and by an annual survey, to identify where additional actions may be required.

1. Remain objective and sceptical throughout the audit – challenge areas involving management judgement or transactions outside the normal course of business.
2. Focus on the importance of obtaining a sufficient understanding of internal control and, when appropriate, testing controls that respond to identified risks of material misstatement.
3. Develop and execute a comprehensive audit project plan to optimise and innovate the timing and delivery of procedures throughout the audit cycle.
4. Apply expertise in areas involving specialists through the tailoring of audit responses specific to the entity.
5. Remain resolute on directing, supervising and reviewing the work of component auditors.
6. Advance professional development through enriching your skillset and the skillset of others.
7. Tailor audit procedures based on deep understanding of the entity's business to respond to risks, including risks due to fraud.
8. We all own quality – individually and together.

2.2 Audit quality metrics

In this section we describe how audit quality is monitored at Deloitte, both internally and externally.

Internal inspection: practice reviews

The purpose of the practice review is to determine whether we have complied, in all material respects, with the professional standards and the policies contained in the Deloitte Policies Manual and Audit Approach Manuals, as well as the applicable professional standards and regulatory and legal requirements.

In 2015 we began a three year process to transform the way we conduct and measure our internal inspection process. The aim of the transformation is to bring a level of rigour and scrutiny to an internal inspection that matches the level of an external regulatory inspection. During 2015 we focused on transforming the way we conduct individual engagement reviews and this year on transforming the way we review the firm's System of Quality Control (SoQC).

Engagements are selected across our audit business portfolio, with the files then subject to independent inspection by professionals from the central inspection team, along with reviewers (partners and senior auditors) from other UK offices, groups and overseas member firms. We focus on selecting reviewers who have relevant industry experience and who are capable of bringing robust independent challenge. Reviewers are given thorough inspection training by the leaders of our central inspection team.

At the end of each review, the findings are moderated centrally by a moderation panel. This moderation panel applies a regulatory lens from our library of inspection findings to ensure that findings are classified consistently. The moderation panel determines the rating for each review and we adopt a similar rating approach to our regulators, with engagements being classified as Compliant, Improvement Required or Non-Compliant.

Of the 146 UK engagements⁴ reviewed as part of the FY16 practice review, 7% were assessed as non-compliant. This is discussed further in the Audit Quality Indicators section below.

The practice review currently covers each of our partner and director Responsible Individuals at least every two years and is subject to oversight by an independent partner from another member firm within the Deloitte Network.

The results of the practice review are communicated to the UK Audit & Risk Advisory Executive, the UK Risk & Reputation Leader, the A&RC and the PIOC. In addition, a member of the Deloitte Global Audit Executive attends the UK closing meeting and the results are reported to the Deloitte Global Audit and Risk Advisory Executive.

The UK practice review represented a time investment of approximately 2,920 days this year from experienced professionals, as well as significant senior partner resource.

Some key aspects of the firm's internal quality control systems have been outlined throughout section 2. As part of the practice review we test certain elements of the internal quality control system, the SoQC. During FY17 we will be transforming the way we test our SoQC. Among other inputs, we are incorporating the European Audit Inspection Group (EAIG's) Common Audit Inspection Methodology programme for reviewing a firm's SoQC. The EAIG, a sub-group of the Committee of European Audit Oversight Bodies (CEAOB)⁵, will contribute to the technical assessment of audit firms and has developed an inspection findings database where Member State regulators share findings.

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

In accordance with the Schedule to the Instrument, and based on the practice review carried out in 2015, we confirm that we are satisfied that our internal quality controls and systems are, in general, robust and operate effectively and allow us to readily identify any areas of potential improvement or refinement. We continually seek to improve all aspects of our business and we use the findings of the practice review, other internal reviews and external regulatory reviews to enhance our SoQC.

⁴ While our Swiss practice is included in our practice review programme, their results are not included in these numbers

⁵ The CEAOB was set up as a result of the new EU audit legislation to play a role in establishing colleges of Member State regulators to inspect members of accounting networks and to promote a consistent approach across the EU

External reviews

In addition to our own internal reviews of audit quality, we are subject to external reviews by the FRC's AQR team, the ICAEW's QAD and the PCAOB (whose next review will take place in autumn 2016).

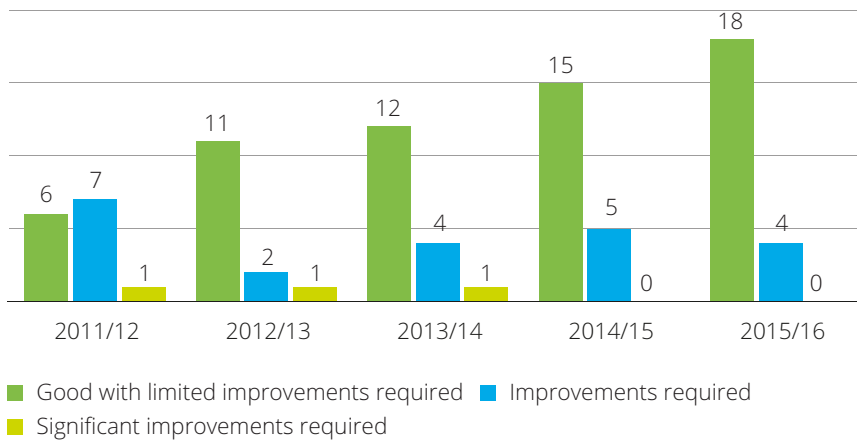
2015/16 Audit Quality Inspection Report on Deloitte LLP (Deloitte)

The AQR undertakes independent inspections of the overall quality of the auditing function in the UK in relation to listed and other major PIEs. The AQR published a report on the findings of its 2015/16 inspection of Deloitte on 19 May 2016. The full report is available on the FRC's website at the following link: <https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Inspection-Report-May-2016-Deloitte.pdf>

Deloitte's policies and processes supporting audit quality were reviewed, as were 22 individual audits. The AQR's review identified that, in response to their previous inspection report, we had made the following improvements to our policies and procedures:

- Our guidance regarding the testing of journals has been enhanced
- Additional sector-specific training was provided for individuals involved in financial services audits, together with additional training on internal controls for all audit staff
- We have made a number of improvements to our internal monitoring process, including the development of a moderation process in order to increase consistency

Results of AQR reviews of the firm



We consider that the AQR's report provides a balanced view of the focus and results of its inspections and is an accurate reflection of our efforts to improve audit quality across our practice over a number of years. We have developed, or are developing, actions and programmes to address the findings detailed in the report. These actions and programmes are described throughout section 2 above. Our actions, in response to the AQR's latest findings and as reported to the FRC, are as follows:

Improve the extent of challenge of management in relation to areas of judgment, in particular for impairment reviews and judgmental valuations.

Throughout our training, methodology and work we emphasise the critical importance of challenging management in areas of judgement. This has been, and will continue to be, at the very heart of our work. In response to the AQR's findings: we are further enhancing our audit methodology and our audit work programmes; we have implemented additional learning associated with the challenge of management in areas of judgement including all the matters identified as specific examples; and we are addressing the matters identified in both external and internal inspections process through our summer audit learning and engagement team based learning programmes.

Improve aspects of our audit approach in the areas of revenue and inventory.

The update to our methodology and the related training are designed to assist audit teams to capture precise risks and design relevant procedures, including our approach to sampling, to ensure that our audit work appropriately addresses the risks identified. We are addressing the examples reported in both external and internal inspections through our summer audit and accounting excellence programmes and engagement team based learning.

Ensure high quality reporting to Audit Committees is achieved on a consistent basis.

We recognise the importance of clear reporting to Audit Committees and we are committed to ensuring that we achieve a consistent standard of reporting across all our engagements. During the current year we will address and reinforce the matters referred to by the AQR through training and our engagement quality control reviews. Specifically we are enhancing our guidance on the content and timing of communication with audit committees and our evidence of the outcomes of discussions and meetings; we will reiterate within all independence training the importance of informing those charged with governance about the necessary safeguards for threats arising from non-audit services; where we utilise internal experts to challenge and evaluate management's methodology, assumptions and judgements, we will reiterate the importance of clearly explaining any differences and the potential effect between management's assessment and that of our internal experts.

Strengthen our audit approach in relation to defined benefit pension scheme balances and disclosures.

We have reinforced the procedures audit teams should be performing in the area of defined benefit pension scheme balances in corporate entities. The guidance includes reinforcing the need to evaluate the accuracy and completeness of data provided by management to actuaries, and the required level of control over the custodian confirmation process.

We are updating our methodology and audit work programmes to improve clarity over our risk identification process which will ensure the risks are appropriately captured and addressed by audit processes.

Strengthen our policies and procedures regarding the engagement quality control review process.

We endorse and recognise the importance of robust and challenging quality control reviews over all our audits. In response to the AQR's findings: during the year we have introduced updated guidance and templates to enhance the documentation of engagement quality control reviews of public interest entities; we now require each PSR reviewer to provide their independence confirmation in writing within the audit file; and while all EQCR and PSR reviewers have the requisite skills and experience to execute technical reviews of financial statements, in response to the matter raised, we have introduced an additional technical review of financial statements for audits which display certain risk characteristics.

FRC Audit Quality Thematic Reviews

The FRC's AQR team uses thematic reviews to supplement its annual programme of audit inspections of individual firms. In a thematic review, firms' policies and procedures are reviewed in respect of a specific aspect of auditing to test their application in practice. Thematic reviews analyse further aspects of auditing which are not considered in detail during their routine audit inspections. Thematic reviews seek to identify both good practice and areas of common weakness among audit firms.

During the year, the FRC published its reports arising from thematic reviews of firms' audit quality monitoring and engagement quality control reviews. The FRC also provided informal feedback to us from its thematic review on sampling. We have found the feedback from all of these reviews to be valuable, and it contributes to the changes we have made to audit methodology and guidance.

The outcomes of the FRC's thematic reviews on the use of data analytics and root cause analysis of inspection findings will be available for inclusion in next year's Audit Transparency Report.

Other overseas and offshore regulatory bodies

The firm is also subject to regulation by certain overseas regulators where we audit entities listed on an exchange in their jurisdiction and we are registered with that regulator. Such regulators include:

- **United States:** the PCAOB is the regulator for the audits of public companies with securities listed in the US. The firm's engagements relevant to the PCAOB include SEC registrants that are Foreign Private Issuers and the UK components of US listed groups. The PCAOB has the right to inspect the firm and their 2013 inspection report was published on 10 November 2014. Further details are provided within the metrics on audit quality reviews below.

- **The Crown Dependencies of Jersey, Guernsey and the Isle of Man:** under arrangements with the relevant regulatory authorities in the Crown Dependencies, the AQR undertakes the review of relevant audits performed by the firm in respect of the financial statements of entities registered in the Crown Dependencies.
- **Others, namely the Netherlands, Canada, Japan, Ireland and South Africa:** in each case the relevant regulators have jurisdiction over the firm's audit practice in respect of the audit of entities listed in the above geographies and, in the case of Ireland, also those incorporated there.

Audit Quality Indicators (AQIs)

New expanded audit reports have greatly contributed to providing more insight into audit processes, but there is still room for improvement. Enhancing our own understanding of what audit quality means to companies and their investors helps us better focus on ways to further improve audit quality.

In 2014 the six largest audit firms worked together, through the PRG, to identify the key factors contributing to audit quality. 11 metrics were identified and disclosed in the firms' 2014 Audit Transparency Reports, measuring activity across a number of important areas. We recognise the importance of being able to compare the performance of firms over time, as well as the extent to which the firms are active in each area, so the firms have again agreed for the same metrics to be disclosed in this year's Audit Transparency Reports, alongside the prior year comparatives.

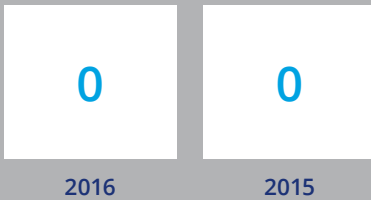
Deloitte's AQIs are set out below. We have endeavoured to include all of the information suggested in the standardised metrics. However, it should be recognised that every firm has differing business and operating models. Therefore, whilst every effort has been made to produce consistent information, there will undoubtedly be some variations across firms.

In the interests of transparency, along with narrative commentary on the metrics given, we have also included explanations of how the dataset has been built up and where we will seek to extend or enhance metrics in future years.

This year we have chosen to include two additional metrics, showing the tenure of our audit partners and the overall partner and staff turnover. These form part of the suite of metrics that we review internally to monitor any impact they may have on audit quality.

Metrics on external investigations related to audit

Number of cases in the last 12 months in which the FRC's Conduct Committee has found against the firm or one of its members



Deloitte commentary

During the year to 31 May 2016, there were no findings by a tribunal convened by the FRC's Conduct Committee in relation to the firm's audit work.

There are two ongoing investigations relating to the audit work of the firm or its partners which are yet to be concluded and are therefore excluded from the 2016 total for cases concluded. These are:

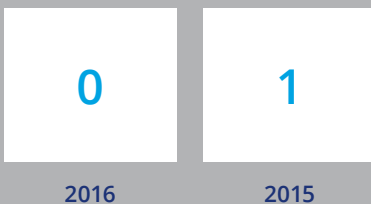
Autonomy Corporation plc: An investigation commenced in February 2013 concerning the firm's audit work on Autonomy's 2009-2011 financial reporting.

Serco Group plc and certain of its subsidiaries: An investigation commenced in June 2016 concerning the firm's audit work on Serco's 2011-2012 financial statements.

There was one additional investigation relating to the audit work of the firm or its partners which was concluded in the year ended 31 May 2015. A formal complaint was brought and a Tribunal hearing occurred in May-June 2016, however, the decision of the Tribunal is still awaited. This is also excluded from the 2016 total for cases concluded and relates to:

Aero Inventory plc: An investigation commenced in February 2011 concerning the firm's audit work on Aero's 2006-2008 financial statements.

Number of cases in the last 12 months in which the disciplinary committee of any other regulatory body has found against the firm or one of its members



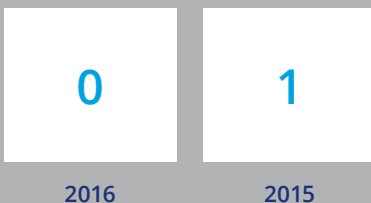
Deloitte commentary

No such cases occurred during the year to 31 May 2016.

The breach during the year to 31 May 2015, as disclosed in our previous Transparency Report, related to a failure to ensure that an individual did not act as audit engagement partner of a subsidiary of a listed entity for more than five years.

Metrics on external investigations related to other matters

Number of cases in the last 12 months in which the FRC's Conduct Committee has found against the firm or one of its members



Deloitte commentary

There is an ongoing investigation relating to the conduct of a partner in connection with actuarial advice provided to Equity Syndicate Management Limited between 2007 and 2009. This is yet to be concluded and is therefore excluded from the 2016 metric.

The following metrics on audit quality reviews detail the results of different inspections of the firm, both internal (practice review) and external (by the FRC's AQR team, the ICAEW's QAD and the PCAOB).

Metrics on audit quality reviews

Results of the firm's internal audit quality reviews

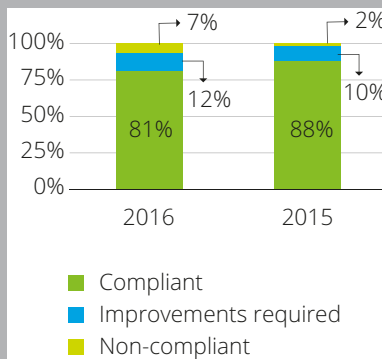
Number of Audit engagements reviewed:

146

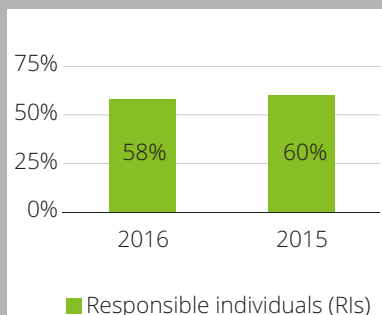
2016

118

2015



Annualised % of Responsible Individuals (RIs) subject to firm's internal audit quality reviews



Deloitte commentary

Results of firm's internal audit quality reviews

The firm conducts an internal practice review of the Audit service line every year during the summer months. Both audit and advisory engagements are covered by this practice review, along with an assessment as to whether the overall system of quality control for the practice is operating effectively.

A central quality team is responsible for planning and moderating the reviews and each office or sub-group review team is overseen by a partner from another part of the UK firm.

Both the current and comparative data are for the UK alone, excluding the Swiss audit practice. Any comparison of 2016 and 2015 results should bear in mind that we continually seek to refine our approach to internal practice review and to make the reviews more challenging and robust.

The rise in the percentage of audits rated non-compliant is largely due to four audits specifically selected in response to a potential issue being identified and, following a thorough review, all four were deemed to be non-compliant. The relevant engagement teams all included a senior member of staff who was known to be leaving the firm and, as a result, we have strengthened our procedures in this area.

Deloitte commentary

Annualised % of RIs subject to firm's internal audit quality reviews

Our approach to internal audit practice review selection is such that each RI will normally be subject to review every two years.

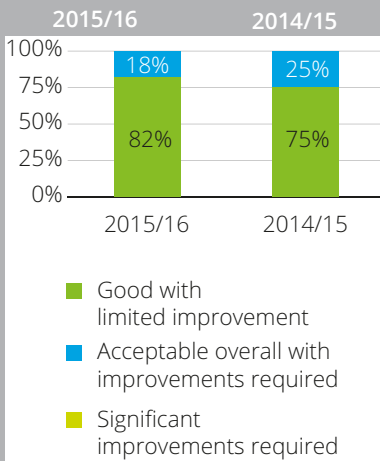
Metrics on audit quality reviews

Results of AQR reviews on the firm

Number of Audit engagements reviewed:

22

20



Deloitte commentary

Results of inspection by AQR

The results of our most recent AQR inspection are discussed above and the full 2015/16 report of the AQR on Deloitte can be found at <https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Inspection-Report-May-2016-Deloitte.pdf>

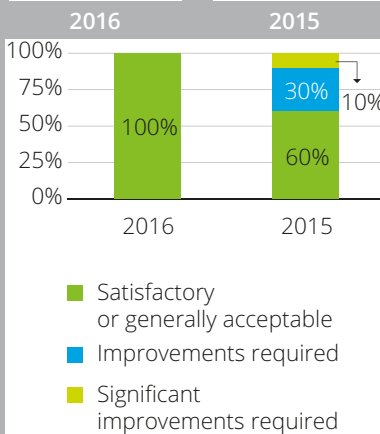
We have given careful consideration to each of the FRC's comments and recommendations. We use the external inspection process, as well as findings from our own quality review procedures, to drive further improvements to our quality agenda. We have already taken action to respond to the key themes of the 2015/16 AQR report, many of which are described earlier in this section and will continue to undertake further activities to embed the changes into our practice.

Results of inspection by the QAD of the ICAEW

Number of Engagements reviewed:

10

10



Deloitte commentary

The QAD undertakes inspections of UK statutory audits which are outside the scope of the AQR's inspections. The firm receives a private annual report from the QAD documenting its findings.

The overall conclusion in the report dated 12 May 2016, which covered reviews of audit reports signed in 2015, was that "the audit work was of an overall high standard, with any non-compliance confined to just one or two areas." Areas identified for improvement included a weakness in the approach to revenue testing. The reviews also identified a small number of other points for improvement, primarily relating to completion matters and documentation issues. The QAD concluded that all ten files reviewed were satisfactory or generally acceptable. We have already taken action to respond to the key themes of the QAD report and will continue to undertake further activities to embed the changes into our practice.

Metrics on audit quality reviews

Results of inspection by the PCAOB

Number of Part I references in the latest PCAOB inspection report

5

Latest AQI⁶

Deloitte commentary

The most recent inspection report on Deloitte was published by the PCAOB on 10 November 2014. The full report can be found at http://pcaobus.org/Inspections/Reports/Documents/2015_Deloitte_LL.P.pdf

(The previous report was issued on 30 September 2010 and contained two Part I references.)

We have evaluated the PCAOB’s comments on each of the issuer audits identified in Part I of the report and taken actions as appropriate under PCAOB standards across our portfolio. The actions we have taken on each of their comment areas have been reviewed and accepted by the PCAOB. Our firm is committed to using the PCAOB’s observations, in conjunction with findings arising from our own quality review procedures and those from our UK regulators, to achieve improvements in audit quality.

Reviews by the PCAOB of UK audits are only undertaken on a triennial basis, with the latest results published over a year after the related audit work was performed, so this may not be considered a current indication of audit quality. We are expecting reviews of 2015-16 audits to start in autumn 2016, with the results published in 2017.

Metrics on partner and staff tenure

Average tenure (in years) of audit partners

18.0

2016

16.7

2015

Deloitte commentary

The average tenure of our audit partners indicates our focus on retaining and promoting experienced professionals for the benefit of audit quality. It reflects the deep experience of our partners and long-term commitment to the profession. Our model is designed to encourage the partners with the most experience to mentor the next generation of partners.

The figure stated is the individuals’ tenure with Deloitte. The tenure of a number of our audit partners at Andersen before 2002 is not included in this figure.

Average partner and staff turnover

16.6%

2016

17.0%

2015

Deloitte commentary

This metric measures the annual staff turnover for our audit practice in the UK, including all grades of staff and partners. Turnover remains roughly consistent with 2015.

We believe that our staff turnover appropriately reflects the profile of our business. We have huge pride in the exceptional talent of all our people, even after they leave the firm. We have set up the Deloitte Alumni Network to keep in touch with our alumni. <http://www2.deloitte.com/uk/en/pages/careers/articles/alumni.html>

6 The PCAOB review is undertaken every three years and this metric relates to audit work performed in 2013

Metrics on investment

Number of hours training undertaken per person (partners and qualified staff) in the Audit service line:

54

2016

60

2015

Deloitte commentary

This metric is derived from taking the total hours of learning delivered in structured sessions to Audit professionals and dividing this by the number of qualified personnel in the Audit service line. Audit professionals are deemed to be any individual from qualified assistant manager through to partner inclusive. There is an expected degree of fluctuation year on year, depending on the volume and complexity of regulatory changes that we need to update our people on.

Structured learning includes:

- Summer technical training, mandatory for all audit professionals
- Mandatory training for personnel accredited to work on SEC audit engagements
- Mandatory firm-wide training for example on ethics and anti-money laundering regulations
- Industry related learning for audit personnel including seminars and masterclasses

In addition, all qualified staff are required to view regular technical webinars and this is monitored. These one hour sessions provide updates on corporate and financial reporting, auditing and regulatory information to audit partners and staff in the UK. Seven mandatory webinars and one optional webinar were made available for professionals during the year.

Further description of the learning and development programmes provided to audit professionals can be found in section 2.1.

Note: This metric does not include any of the exam training provided to non-qualified staff under training contracts, nor does it include the hours of personal learning undertaken to fulfil Continuing Professional Development requirements.

Investment in research and development on assurance in the Audit service line

Deloitte commentary

Given that many of our professionals from across the firm contribute to our audit innovation agenda in varying proportions of their time, it is difficult for us to quantify an absolute value for this metric. We have instead elected to make qualitative disclosure in this area.

We draw your attention to the following items:

- On a global basis, there has been further development of our Engagement Management System, supporting our enhanced global methodology as described earlier in this section, and providing enhanced functionality for teams working on our very largest engagements
- We have invested in extending our Centres of Excellence, with new Centres of Excellence for Pensions, Professional Standards Review, Corporate Reporting and Asset Pricing
- To support our milestones programme, analytics have been developed to enable engagement teams to monitor their progress against milestones on a portfolio basis, supported by an online portal that was rolled out to all our people during the year
- Further enhancements have been made to our client analytical tool, Spotlight

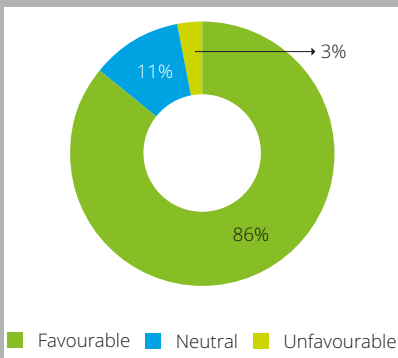
In addition to these specific initiatives within Deloitte, a number of our professionals contribute externally to various committees and working groups and actively participate in initiatives co-ordinated by professional bodies in developing thought leadership and audit insights.

Metrics gathered by staff survey

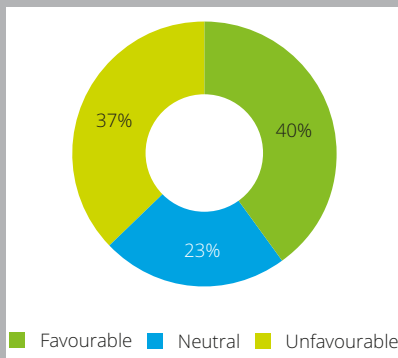
Staff surveys are conducted across our business every 18 months to two years. These results are from our FY15 survey and were reported in our previous Transparency Report. Our next survey will be conducted during FY17.

Staff survey question

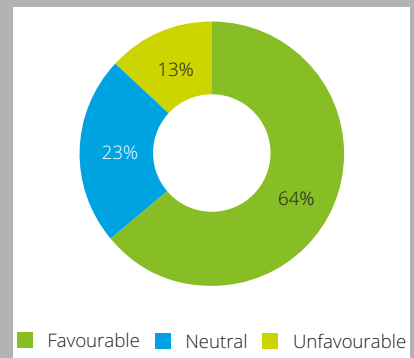
“I am encouraged to perform a high quality audit”



“The time and resources available to me enables the delivery of a high quality audit”



“The training and development I receive enables the delivery of a quality audit”



Deloitte commentary

All of our audit professionals – plus professionals who work in other service lines and who make contributions to statutory audit work – were invited to answer these three questions. The responses were noted as Favourable/Neutral/Unfavourable and reported accordingly.

In our FY15 people engagement survey, 86% of those professionals who responded to the survey agreed that they were encouraged to perform a high quality audit. In response to our people’s concerns regarding the time and resources available to them, we have taken action, including increasing our headcount; growing the range of capabilities available to our engagement teams through Centres of Excellence and driving greater usage of those centres; adopting a more flexible resourcing model within the business and focusing training on the more challenging areas, including project management, directing our practitioners towards the tools and templates we have developed.

Metrics on investor liaison**Deloitte commentary**

In October 2015, we held our fourth Deloitte Stakeholder Forum for investors, business and professional bodies, government and regulators. We consider this to be a vital opportunity for members of our leadership to listen and respond to the issues that matter most to our stakeholders. We have also extended this concept by running a separate session for audit committee chairs, in addition to the main forum.

A number of our senior leaders, including our INEs, meet periodically with individual investors or small groups of investors to discuss topics such as corporate reporting, audit quality and the firm's governance arrangements. Our INEs' engagement with investors is discussed in the earlier report from the Independent Non-Executives.

Deloitte has contributed to a number of events organised by the PRG in the last 12 months as part of an ongoing investor dialogue programme. Further events are planned and Deloitte will continue to be fully involved.

As the publication of consistent AQIs is still a relatively new initiative, we would welcome feedback from users of this information on its usefulness and how to further refine the indicators in future years, to ensure they continue to be relevant and useful. Please share your feedback with us via atr@deloitte.co.uk

Audit Committee Chair survey

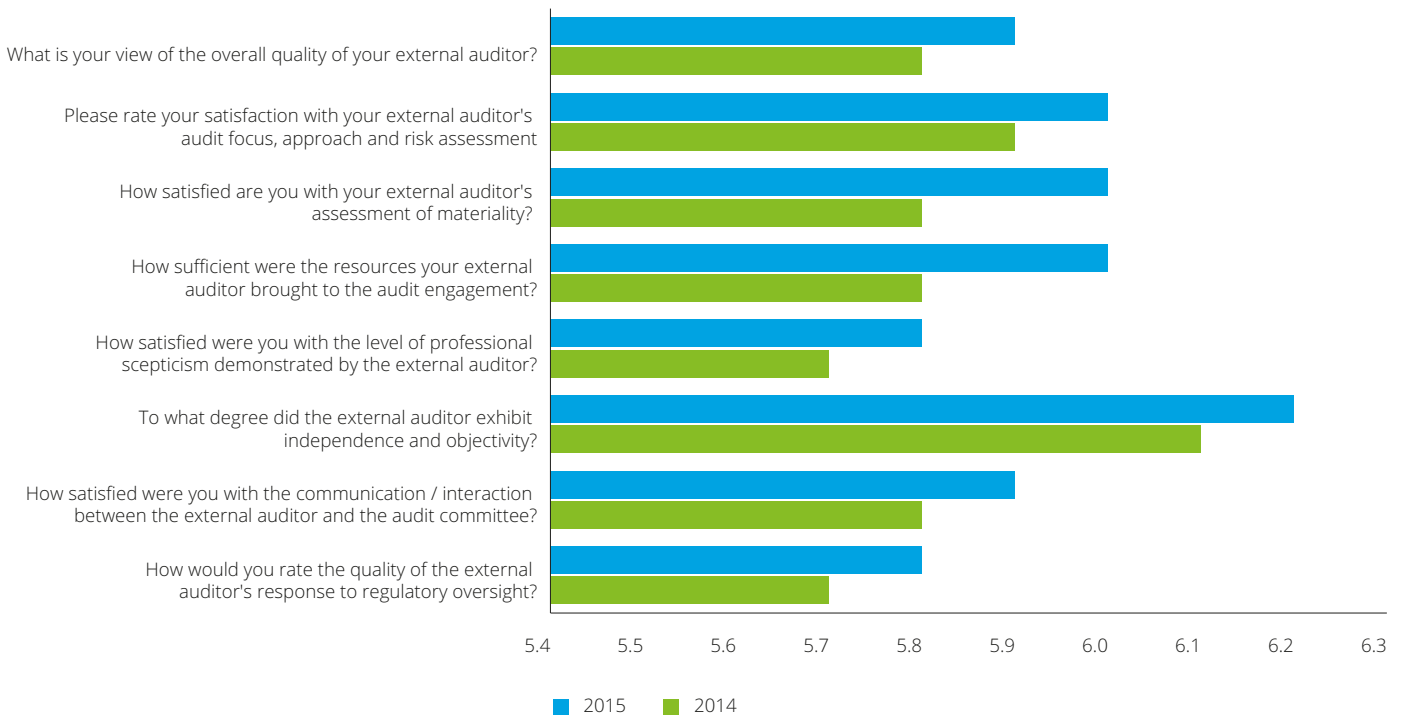
In November 2015 the results from the Audit Committee Chair Survey 2015 were published. This was the second year of the survey, and the first to be overseen by the FRC. Audit Committee Chairs scored their auditors highly across all questions, with evidence of improvement in all categories since the 2014 survey. The lowest overall scores, for a second year, were for questions on professional scepticism and the auditors’ responses to regulatory oversight, suggesting there is still some work for firms to do in this area, although both areas showed improvement since the prior year.

Just over 200 Audit Committee Chairs responded to the survey. Eight questions were posed, covering various aspects of the audit process including one question asking for an overall assessment of audit quality. Respondents were asked to rank their responses on a scale of 1 (low) to 7 (high). The mean response for each question is shown in the chart below.

Generally, the results of the survey continue to paint a positive picture about the quality of audit delivered by the six largest firms operating in the large company audit market. Nevertheless, we recognise the need to continue to raise the bar and we seek to further improve the quality of audits particularly in areas such as professional scepticism.

The 2016 survey was again overseen by the FRC and is currently being finalised. The results will be published later in 2016.

Comparison of mean scores per question



2.3 Ethics

Acting with integrity in all we do underpins all aspects of work at Deloitte and the role of leadership in setting 'tone from the top' remains the dominant theme in the delivery of our ethics programme.

Our Ethics Team works with members of the firm's Executive Group (Executive) and Board to support firm-wide programmes to encourage our people to discuss ethical concerns as they arise. Senior Ethics Team members also attend partner and leadership meetings across the firm to discuss specific messaging and reinforce the firm's expectations around role-model behaviour at all levels of leadership. In addition, the Ethics Team actively supported the launch of the firm's pioneering Respect & Inclusion programme, to ensure that our people thrive, develop and succeed based on their talent and regardless of ethnicity, gender, sexual orientation, or any other dimension that can be used to differentiate people from one another.

Our online Ethics Code, which launched last year, has been well received by clients and practitioners alike. It uses interactive resources to promote the discussion of ethical issues in an impactful way as we seek to embed the values we espouse in the Code.

Primary principles

Our ethics programme is based on these primary principles:

- To cultivate and embed a consultative culture underpinned by respect; and
- To educate our people to recognise when they are faced with an ethical dilemma or issue, and to feel empowered to seek

appropriate support to resolve it.

A key component of our outreach programme is our suite of interactive learning videos that use scenario-based situations to stimulate a facilitated discussion about how ethical difficulties can be overcome by consulting others. These videos are supplemented by compulsory e-learning; and the firm continues to explore other formats to deliver these messages in creative and engaging ways.

A consultative culture

We encourage our partners and staff to speak to their colleagues to work through ethical concerns or questions and firm-wide communications emphasise our commitment to promoting this consultative culture. Our Ethics Team regularly facilitates focus groups to help leadership to understand issues that are affecting their people and provides support in making changes where necessary.

The Ethics Office is also available for consultation, where conversations take place on a strictly confidential basis. An externally-administered 'Speak-Up' portal allows ethical concerns to be reported anonymously, including from correspondents outside of the firm. All matters raised in good faith are investigated seriously and independently. We do not tolerate retaliation at any level.

We continue to share our expertise by delivering presentations on ethics to external audiences to support their own work in this area.

2.4 Independence

Systems and processes

We invest in systems and processes to safeguard the independence and objectivity of our firm, our professionals and our engagement teams, and to avoid conflicts of interest in engagements.

Our engagement take-on, continuance, compliance, audit appointment and client database tools are all internally developed and comprise solutions to address the complexity of global regulatory requirements. The tools are designed to be intuitive, while facilitating timely compliance, reporting and monitoring, and to ensure that we (including our partners, professionals and any of their close connections) do not engage in certain transactions or relationships with restricted entities. The main systems and processes of internal control in this area are:

- **Restricted Entities Database** – records comprehensive details on every entity from which we are required to maintain independence ('restricted entities') allowing partners and staff to check independence requirements for any type of investment or product before they enter into any financial relationship. It is also used as part of the engagement acceptance procedures to check that the proposed scope of services will not impair independence.
- **Annual Returns** – obtains confirmation from partners, professionals and support staff, upon joining the firm and on an annual basis thereafter, that they are aware of restricted entity policies and that they are not engaged in any restricted transactions or business relationships.
- **Personal Connections system** – enables us to monitor the financial interests of all partners and client-facing staff of manager grade and above. Individuals are required to record their, and their immediate family members', financial interests. The system interfaces with the Restricted Entities Database to alert the individual if a new or existing connection is with a restricted entity and prescribes what action the individual needs to take.
- **Inspection & Testing** – assessment of the financial holdings of a sample of partners and client facing staff of manager grade and above is carried out each year by a dedicated team. Inspection & Testing is an in-depth review of an individual's, and their immediate family members', financial holdings and business relationships, including those financial interests previously disclosed to the firm through their Personal Connections record and those identified using third party documentary evidence.
- **Business Relationships Monitoring System** – records all business relationships and alliances of the firm. A dedicated team independently reviews any proposed business relationship to identify potential threats to independence and may decline the proposed relationship or prescribe safeguards to address any threat to independence, as required.
- **Conflict Checking system** – identifies and manages potential conflicts in respect of proposed engagements, business and financial relationships. The conflict check system automatically searches the Restricted Entities Database to identify whether any of the relevant entities are restricted. Where they are, the conflict check response will require consultation with the relevant partners to confirm that the proposed engagement, business or financial relationship will not impair independence. Such confirmation and approval must be obtained prior to acceptance.
- **Client due diligence** – part of our client/engagement take-on process, as required by our anti-money laundering procedures, which includes a link with the conflict check system, risk assessment and partner engagement acceptance approvals.

If any queries arise as a result of any of the above systems, dedicated support is provided through our Quality & Risk Management teams, who advise on any actions required to mitigate, where possible, the risk to independence. Additionally, they may consult with Deloitte Global's independence group if they determine that the circumstances require global input or advice. Where it is determined that it is not possible to sufficiently mitigate the independence risk identified, the engagement or relationship will be declined.

Raising awareness

In addition to our systems and processes, we continue to increase awareness and improve education, particularly in the area of personal independence. Our 2015/16 awareness programme included items such as:

- Creation of a sub-group of the Executive to discuss and propose changes and enhancements to our policies and procedures
- Communication to the firm on the new independence rules and the impact on individuals and, where applicable, updates required to their Personal Connections record
- Presentations to retiring partners explaining the independence considerations following retirement
- Tailored communications to individuals where the restrictions on their connections have changed due to an audited entity's restructuring
- A presentation, and guidance materials, to all newly promoted managers and senior managers to enhance understanding of independence requirements
- Presentations to the audit practice and the Quality and Risk community on the EU audit reforms
- Enhanced onboarding process for lateral hire equity partners, providing one-to-one consultations prior to joining the firm, helping to identify any potential independence concerns in a timely manner, and working with the individual to implement appropriate actions

- Completion of Inspection & Testing of all individuals in a Leadership role, including a one-to-one consultation to discuss their personal compliance responsibilities

- Spot checks on empty or incomplete Personal Connections records

FRC Revised Ethical Standard

On 17 June 2016, the FRC issued the Revised Ethical Standard to implement the European Audit Regulation and Directive. We have been actively involved in the consultation process with the FRC and have taken the necessary steps to update our internal independence policies, procedures and systems for the changes. As part of our Annual Return process, our people will need to confirm their awareness of the new Ethical Standard.

Presentations, particularly around the provision of non-audit services and new personal independence considerations, have also been made to the audit practice and further learning and communications are being rolled out firm-wide.

Audit Tendering

The audit industry is facing a time of unprecedented change and the complexities of the global independence landscape are growing. An increased volume of audited entities are rotating their auditor as a result of the new rules and, consequently, we have increased the level of support we provide to engagement teams in relation to independence matters on audit tenders. Our Audit Capture Office, within our Audit Service Line, and our independence teams provide dedicated support to the partners leading the bids for the audits of large and significant entities to ensure independence aspects, including any cooling-in requirements, are addressed as soon as possible and as an integral part of the audit tender process.

Our independence practices are subject to review on an ongoing basis.

Confirmation of review of independence practices and monitoring

In accordance with the Schedule to the Instrument, we confirm that an internal review of our independence practices has been properly conducted in the year as part of the 2015 practice review. Our internal practice review and other monitoring processes provide us with assurance that these policies are, in general, appropriately observed and, where exceptions are noted, identify where further action is required. In addition, the practice review includes an assessment of compliance with Deloitte Global and UK independence policies. The results of these internal reviews are reported to the UK Executive and Board and to Deloitte Global's Chief Executive Officer and Board.

2.5 Governance

1. Governance structure

The principal activities of the Deloitte LLP group are the provision of audit & risk advisory, tax, consulting and financial advisory services in the United Kingdom, Channel Islands, Isle of Man and, through its subsidiaries, in Switzerland and the Commonwealth of Independent States (CIS). In addition, financial advisory services are provided in the Middle East by a joint venture with the local Deloitte member firm and in India through a three-way joint venture with the Canadian and Indian Deloitte member firms.

We operate an integrated business model: each of our four service lines applies a common set of procedures and policies, where appropriate, and each has developed additional and bespoke policies and guidance to reflect the specific requirements of its business offerings. For the purposes of transparency reporting under the Instrument, this Report contains information about Deloitte which is relevant to all of the service lines, as well as specific matters relevant to our audit business.

Biographical details of members of the firm's governance structure and management team are provided in appendix 1, and their meeting attendance details for the year are presented at the end of this section.

The roles, responsibilities and membership of the key elements of our governance structure are set out below:

	Role and responsibilities	Membership
The Board of Partners	<p>Responsible for the promotion and protection of partner interests and for the oversight of management</p> <p>Determines Deloitte's long-term strategies and has specific oversight of risk and quality</p> <p>Meets at least nine times per annum</p>	<p>The Chairman</p> <p>The Senior Partner and Chief Executive</p> <p>The three INEs</p> <p>A further 11 elected partners (who must not be members of the Executive)</p> <p>Three Executive partners proposed by the Senior Partner and Chief Executive and affirmed by the partners</p>
Board Sub-Committees	<p>Cover audit & risk, compensation, remuneration, nomination, public interest oversight, corporate responsibility and transactions</p> <p>Ensure that Deloitte adheres to applicable corporate governance, quality and risk management requirements, and discloses these matters in full</p> <p>A detailed explanation of the role of each Committee is provided below</p>	<p>Elected members of the Board who are independent from the Executive</p> <p>The INEs</p> <p>Other members of the partner group</p>
The Executive Group	<p>Assists the Senior Partner and Chief Executive in managing the firm</p> <p>Implements the policies and strategies of the firm as determined by the Board</p> <p>Has responsibility for the firm's operating functions and for planning of the firm's future development</p> <p>Has authority to manage the day-to-day operations of the firm.</p>	<p>Partners appointed by the Senior Partner and Chief Executive</p> <p>Each partner on the Executive has specific responsibilities with an emphasis on the group working as a team to lead the firm</p> <p>Every member of the Executive is also actively engaged with our clients</p>
The Audit Executive	<p>Delivery of Deloitte's business objectives within the UK audit service line</p>	<p>Appointed by the Managing Partner, Audit & Risk Advisory with oversight from the Executive</p>

The role of the Senior Partner and Chief Executive

The Senior Partner and Chief Executive, David Sproul, has full executive authority for the management of Deloitte. He was nominated by the Board and elected by the partners for a four-year term of office; his second four-year term started on 1 June 2015.

The responsibilities of the Senior Partner and Chief Executive fall under five principal headings:

- The business of Deloitte, including the development and management of professional services at the highest level of quality and in compliance with all applicable regulations
- The development and implementation of policies and strategic direction
- Financial performance
- Partners, including the development and management of our talent goals
- International, representing the UK firm in its association with Deloitte Global.

David communicates regularly with the partner group and with all of our people, in person and through a series of webcasts, voicemails and email alerts.

2. Roles of the Board sub-committees⁷

The Audit & Risk Committee (A&RC)

Role

The A&RC plays a key role in our governance structure, having responsibility for monitoring the:

- Effectiveness of the firm's internal control and risk management systems
- Arrangements by which staff of the firm may raise concerns about possible improprieties
- Scope, results and effectiveness of the firm's internal audit function
- Effectiveness and independence of the firm's statutory auditor
- Reappointment, remuneration and engagement terms of the auditor including the policy in relation to the provision of non-audit services
- Planning, conduct and conclusions of the external audit
- Integrity of the firm's financial statements and the significant reporting estimates and judgements contained in them
- Preparation of the firm's Transparency and Impact reports

Further details on the terms of reference and work of the A&RC can be found on our website at http://www.deloitte.com/view/en_GB/uk/about/our-leadership-and-governance/index.htm.

Membership

Chris Powell, Chairman

Chris Loughran

John Maxey

Feargus Mitchell

Stephen Williams

Nick Owen and INEs in attendance. Since December 2015 Sir Gerry Grimstone, Ruth Markland and Sir Michael Peat attend A&RC meetings. Prior to that date, one INE would attend on a rotation basis.

⁷ Committee membership is correct as at August 2016

Activities of the A&RC: A report from Chris Powell, Chairman of the A&RC

The A&RC, including its Chairman, is appointed by the Board each year and consists of at least three partners (excluding any partners who hold senior management appointments, such as members of the Executive). In addition, our INEs attend the A&RC meetings and representatives of the external auditors, internal audit and others, such as Quality & Risk, attend at the invitation of the Chairman. Our activities and findings are reported to the Board.

The A&RC met six times during the year ended 31 May 2016. At each meeting the A&RC met in closed session prior to the attendance of the invitees. I would like to thank all the members of the A&RC for their contribution and hard work during the year.

I set out below a brief summary of our activities and areas of focus during the year. These activities are critical in enabling the A&RC to conclude on the effectiveness of the firm's system of internal control and on the firm's compliance with the Code.

Accounting matters

We discussed updates from the firm's CFO on accounting matters and the proposed accounting treatment of these. We also reviewed the draft FY16 annual report and financial statements, focusing on disclosures and reconciliation with the firm's management accounts.

Statutory audit

We completed a performance evaluation of external audit and confirmed the reappointment of BDO LLP (BDO) in October 2015. In December 2015 we reviewed, discussed and approved BDO's statutory audit approach and plan which set out the nature and scope of work which would be undertaken. At the April 2016 meeting, we reviewed their interim findings and the impact on the audit approach.

At the July 2016 meeting, we reviewed a report from the statutory auditor. This included the findings of the audit, with emphasis on the significant risk areas, a summary of misstatements identified by the audit and commentary on the design effectiveness of internal controls and adherence to risk management procedures relevant to the preparation of the financial statements.

We monitored the provision of non-audit services and concluded that non-audit fees of £18,000 for additional assurance over certain environmental performance data in the Impact Report did not represent a threat to independence.

Narrative and other reporting

We provided independent oversight of management's development of all our external reporting, with particular emphasis on our public interest obligations, the needs of our stakeholders and the disclosures required under the Code.

We discussed the overall purpose and content of this Audit Transparency Report and reviewed the content with particular emphasis on messages from the Chairman and INEs in section 1 and changes from the last year.

We noted that the financial disclosures in the Audit Transparency Report are consistent with those reflected in the financial statements.

Principal risks and uncertainties

The Executive's assessment of the potential risks to the achievement of the firm's strategy and to maintaining its reputation is set out in an Enterprise Risk Framework (ERF). In line with the firm's FY16 planning process, the Executive undertook a refresh of the ERF to: identify any new enterprise risks; remove, if appropriate, any of the existing risks no longer considered significant; validate or update the risk definitions; and consider any changes to risk owners.

The Executive updated its ERF in September 2015 and March 2016 and the Managing Partner for Quality & Risk reported the results to the December 2015 and June 2016 meetings respectively. We discussed in detail and challenged the Executive's assessment of the firm's enterprise risks including, for each, their rating of residual risk exposure, trending, speed of onset and the status of further actions, if any. The results of the annual refresh and these six-monthly updates are discussed with the A&RC which provides a further challenge to the Executive's assessments.



Chris Powell
Chairman of the A&RC

At 31 May 2016 the enterprise risks which the Executive, the A&RC and the Board considered to have the most potential significant impact on Deloitte's reputation, if they materialised, and related key mitigations were:

Priority risks	Mitigations
<p>Systemic or major failure of audit quality or compliance with audit independence rules: inability to prevent significant and/or multiple failures in the delivery of audit quality, including failures brought about by component auditors, the unsuccessful deployment and implementation of technology or methodology and risk associated with unsatisfactory regulatory inspections. The firm and/or its people fail to comply with audit independence rules.</p>	<ul style="list-style-type: none"> • Response to audit quality observations raised by the FRC's AQR, the ICAEW's QAD team or the PCAOB, including a root cause investigation of each finding, along with improvements to internal quality review procedures • Audit Professional Standards Review • Deloitte and personal independence systems and monitoring • Annual certification of compliance with independence rules by all members and staff • Mitigations below (as applied to non-audit service quality) apply equally to audit quality.
<p>Systematic or major failure of non-audit client service quality: inability to prevent significant and/or multiple failures in delivery of non-audit service quality, including failures brought about by unsuccessful deployment and implementation of technology or methodology; and the firm fails to continue to enhance non-audit service quality.</p>	<ul style="list-style-type: none"> • Deloitte-wide Quality and Risk community led and staffed by dedicated experts. Established quality policies, processes and procedures on specific regulatory, legal, ethical and professional requirements • Training programmes that are a combination of core, compulsory training and tailored elements • Practice and portfolio reviews of engagements and clients • Client and engagement take on systems (including a link to public interest considerations).
<p>Failure to mobilise and enable the firm towards our desired client portfolio: failure to focus the firm on agreed priority clients; to maximise the benefits of our multi-disciplinary model; to respond with agility to audit market transformation; and to identify and develop new generation clients and markets.</p>	<ul style="list-style-type: none"> • Single Clients & Markets strategy, with execution driven through integrated governance • Agreed client portfolios and programme, including audit capture and focus on multi-disciplinary model • Clients and Markets function re-organised to align with and support execution of strategy • Aligned investments to strategy, including investment into new market opportunities • Aligned and agreed KPIs.
<p>Failure to manage regulatory and public interest threats: the failure to mitigate risks arising from changes in policy and the regulatory landscape. The risk that the firm acts without appropriate regard to the public interest.</p>	<ul style="list-style-type: none"> • Proactively shaping and influencing the mitigation of global regulatory and public interest risks impacting the Deloitte Network • Stakeholder Engagement Programme to communicate our position and what we stand for and to use these interactions to shape our strategy • Responding to Public Policy and Regulatory consultations • Three Independent Non-Executives (INEs) on the Board and PIOC • A Public Interest Review Group to review potentially contentious public interest matters • A Tax Review Panel to consider the reputational issues associated with complex tax engagements • Ethics Programme (including our Ethics Code and Speak-up Line) to provide our people with guidance and support.

Priority risks	Mitigations
<p>Failure to deliver the talent and culture strategy for our people and partners: the risk of failing to align the talent strategy with the changing shape of our business/market; the firm fails to recruit, develop, progress and retain a high quality, diverse and mobile workforce and to embed and maintain an inclusive culture in which inappropriate behaviour is freely reported and promptly addressed.</p>	<ul style="list-style-type: none"> • Robust HR policies including Equal Opportunities, Respect and Inclusion and Agile working • A range of leadership-supported initiatives, including ‘Wellbeing’, ‘Work Agility’ (including our award-winning Time Out programme), ‘Working Parents Transitions’ and ‘Women in Leadership’ programmes to aid in the development and retention of our people • Enhanced performance management and career planning processes that recognise quality, ethics and performance • Tailored training and professional development programmes, including mandatory Respect and Inclusion workshops for all partners and directors and mandatory Respect and Inclusion e-learning for all staff • Actions for improving the gender balance in our senior roles and the development of women throughout the firm – including a high potential programme, an industry-first Return to Work internship programme and enhancements to our recruitment processes • Deloitte Code, incorporating ethical principles and Deloitte Global shared values, complemented by an enhanced ethics programme including whistle-blowing and speak-up line processes and reporting channels.
<p>Failure to manage data security: the risk of loss, unauthorised access to or inappropriate use of client or firm data.</p>	<ul style="list-style-type: none"> • A centralised group security function in the form of the Deloitte Business Security team with defined data security responsibilities • Defined security strategy including information security policies, processes, guidelines and ongoing member firm collaboration • IT technical solutions including, but not limited to, encryption, data leakage protection, privileged access management, event monitoring and incident management • Good practice logical and systems management controls • Implementation of a third party risk assessment framework in order to ensure the firm continues to meet regulatory and client requirements • Physical security controls covering premises access and working areas • Personnel security and vetting controls • Security training and awareness programme • ISO 27001/Cyber Essentials Plus certification and audit • Business Resilience and IT Disaster Recovery processes.
<p>Failure to ensure the IT infrastructure supports the current and future business models: the risk that the firm fails to ensure that the IT infrastructure supports the firm’s ability to efficiently, effectively and securely deliver services under current and future business models</p>	<ul style="list-style-type: none"> • IT strategy objectives and assessment of future technology requirements • IT framework in line with the IT Service Management Infrastructure Library (ITIL) and Control Objectives for Information and Related Technology (COBIT) standards • An IT Risk Committee comprising key stakeholders from IT, Quality & Risk and Deloitte Business Security which considers IT infrastructure matters • Review of known errors caused by interoperability issues • IT Disaster Recovery capability and process • Monitoring of SLAs for third party IT providers.

Priority risks	Mitigations
<p>Failure to innovate our core services, and create adjacent or transformational services, that respond to a changing market: the risk to the firm of failing to lead and/or respond to disruptive change, both in terms of the nature of services as well as the means by which these services are delivered.</p>	<ul style="list-style-type: none"> • An embedded innovation strategy focused on refreshing Deloitte's core products and services as well as developing new business offerings • An Incubation programme to accelerate sustainable businesses that harness disruptive trends and technologies • Programme of delivering internal and client deployments focused on disruption and development of business models • Focused leadership from a dedicated member of the Firm's Executive ensuring our response to disruptive change is mandated throughout the Firm.
<p>Failure to create a resilient operating model and capacity for change within the firm that aligns to Deloitte Global network strategy: the risk that the firm fails to evolve and optimise its operating model; the risk that the firm fails to play a leading role in influencing and executing the Deloitte Global Network strategy.</p>	<ul style="list-style-type: none"> • Strong central governance established with detailed implementation actions across business functions • Chief Operating Officer role on the Executive • Alignment of Partner objectives to support strategic and operational goals • Strategic and operational targets embedded within the business • Strong UK representation and participation in Deloitte Global leadership and governance bodies: David Cruickshank, Global Chairman; Panos Kakoullis, Global Audit Lead; Tim Mahapatra, Global Financial Advisory Lead; David Barnes; Global Public Policy Lead.
<p>Failure to have clear succession planning for key leadership roles: the risk that the firm fails to establish succession planning and development for key LCSP, UK and Deloitte Global leadership roles, consistent with our sense of partnership.</p>	<ul style="list-style-type: none"> • Regular review of succession planning and accountability at Executive level • Ensure a strong pipeline of future senior leaders • Establish a pipeline of candidates for elected leadership roles in the context of operating structure.

The principal risks will be reviewed in light of the result of the UK's EU referendum. Consideration will be given to the rise of any new risks and the potential impact on existing risks.

Ethics, whistleblowing and fraud

We considered a report from the Ethics Partner summarising the processes to manage potential conflicts and independence including business relationships, regulatory compliance and the impact of audit rotation.

In closed sessions we considered reports from the Ethics Partner on fraud related matters and on arrangements in place for professionals to raise concerns about possible improprieties or unethical behaviour including the 'Speak-Up' hotline.

We considered the implications to the firm and our stakeholders of the reported instances and whether these constituted fraud, breaches of firm policy (including our Ethics Code) and regulatory or legal requirements. We also reviewed details of the investigation and follow-up of any issues raised.

We considered a report from the firm's Money Laundering Reporting Officer, who is also the Anti-Bribery Officer, covering the firm's compliance with the Proceeds of Crime Act, Terrorism Act, Money Laundering Regulations and Bribery Act and summarising any money laundering or anti-bribery matters which he considered should be brought to the A&RC's attention.

Quality & Risk

The firm's Quality & Risk teams play a vital part in ensuring quality is at the heart of all we do and that risk is appropriately managed. In addition to the other matters set out above we consider reports from:

- The firm's Managing Partner, Quality & Risk on any decisions taken by the firm's Executive Risk Committee that could materially affect the firm's risk appetite
- The firm's Head of National Quality & Risk Management on the results of the firm's portfolio risk review
- The firm's Head of National Quality & Risk Management on the role and applicability of the firm's regulators covering: Financial Conduct Authority compliance; audit regulation and conduct; other regulators (including the ICAEW Practice Assurance regime which is applicable to the whole firm)
- The firm's Head of National Quality & Risk Management on claims, investigations, reputational issues and risk financing

- The firm's service line managing partners and quality & risk partners on the management of quality and risk in each service line. Audit's presentation to the A&RC took place in June 2015 and, in view of the significance and importance of the service line, Audit also presents annually directly to the full Board.

Data security, resilience and continuity

The Managing Partner for Quality & Risk and Head of Business Security updated the A&RC on progress in implementing the firm's Business Security Strategy including a paper on the firm's resilience and business continuity arrangements.

Treasury and risk funding

We discussed and approved updates to the firm's Treasury Policy and considered a paper by the CFO on the firm's risk funding position.

Assurance

The firm's assurance function was restructured during the year, replacing the previous single internal assurance provider with a 'second line of defence' function, the Central Monitoring Group (CMG) and a 'third line of defence' function, Deloitte Internal Audit.

The CMG, which reports to the Managing Partner, Quality & Risk, is responsible for establishing a comprehensive and holistic monitoring framework and reporting the outputs from this monitoring activity to the Executive and, as required, the A&RC. In addition to planning, coordinating and reporting monitoring activities undertaken across the firm, the CMG monitors the implementation of internal audit actions and can perform ad hoc or thematic monitoring in response to any specific issues or concerns.

Internal Audit, led by a partner from the firm's Risk Advisory practice, provides assurance based on a strategic plan for the three years ending 31 May 2018. The plan was prepared with reference to the key risks set out in the ERF and on the basis that all key business processes would be considered over a three-year period.

The plan was approved by the A&RC in October 2015 and will be reviewed on an annual basis to confirm that it remains appropriate and to ensure that it reflects changes to the business and responds to emerging business risks. The internal audit plan is designed to complement the planned assurance from monitoring activities overseen by the CMG.

We considered the effectiveness of the firm's internal audit function, the adequacy of its resources, its coordination with the statutory auditor, access to information and standing within the firm. In reviewing and approving the strategic internal audit plan, we ensured a focus on the highest priority risks, while maintaining an appropriate balance with coverage of core business processes.

We considered the results of internal audit's work on a periodic basis and monitored management's responsiveness to internal audit's recommendations through the follow-up reports received from the CMG.

Risk management and internal control

In maintaining a sound system of internal control and risk management and in reviewing its effectiveness, the firm uses the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting as a framework.

Our review of the effectiveness of the firm's system of internal control incorporates all of the activities noted above and, based on our discussions and the evidence provided, we have concluded that no significant failings or weaknesses exist which require disclosure. Although actions arise from both the ERF and internal audit reports, these are not of such significance that they individually or collectively undermine the system of internal control in place, rather they represent actions which we believe will further strengthen our system of internal control.

On the basis of the reviews carried out, the A&RC is satisfied that the firm's system of internal control is operating effectively.

The Code

We reviewed a report on behalf of the partner responsible for the firm's Audit Transparency Report including an opinion on the extent of compliance with the Code's risk management principles and provision. We confirmed that we complied with the Code requirements for the financial year and set out the details in appendix 5, including review and approval of all relevant disclosures for the annual financial statements, this Audit Transparency Report and our website.

The FRC reviewed the Code during the year and, as a result, a revised Code was published on 27 July 2016. Compliance with this revised Code will be addressed in our future Transparency Reports. We continue to support the aims and principles of the Code and actively participated in the FRC's review.

The Public Interest Oversight Committee (PIOC)

Role

The PIOC oversees public interest matters as they affect our firm.

In order to comply with the Code, the PIOC was constituted as a sub-committee of the main Board in 2011. The PIOC comprises solely the three INEs and its terms of reference can be found at http://www.deloitte.com/view/en_GB/uk/about/our-leadership-and-governance/index.htm.

The PIOC met on four occasions during the year ended 31 May 2016, with Nick Owen also in attendance.

Membership

Sir Michael Peat, Chairman

Sir Gerry Grimstone

Ruth Markland

Nick Owen in attendance

Activities of the PIOC

Section 1.2 explains the work of the PIOC in further detail.

Independence of INEs

In assessing the independence of the firm's INEs, we:

- Considered the INEs' financial interests and business, family and employment relationships entered into and notified to the firm
- Applied the Code's principles and complied with its provisions on INEs without placing them in the chain of command
- Considered the independence requirements of the UK and US regulators, as well as those of the International Federation of Accountants.

Other matters

Appropriate indemnity insurance is in place in respect of any legal action against any INE and sufficient resources are provided by the firm to enable each INE to perform their duties.

A process has also been established to resolve disputes between the INEs and the governance structures and management of the firm.

Compensation Committee

Role

Each year the Board appoints a Compensation Committee to make observations to it with regard to the proposed assignment of equity groups and the allocation of profit sharing units to partners who are members of the Board. The Committee operates in accordance with policy objectives and guidelines laid down by the Board and is made up of the Chairman of the Board who chairs the Committee, two partners who are non-executive members of, and appointed by, the Board and two partners (not being members of the Board at the time of their election) elected by the partners.

The Compensation Committee serves for the duration of a calendar year. Elections and appointments to the Compensation Committee are held or made every year and a partner elected or appointed to the Compensation Committee serves for the entire year. The Compensation Committee met once this year.

Membership

Nick Owen (Chairman)

Nick Edwards

Chris Powell

Jack Kelly

Pat Loftus

Sir Gerry Grimstone in attendance

Remuneration Committee

Role

Each year after the Board has appointed two partners to the Compensation Committee, the Board appoints a Remuneration Committee to make recommendations to it with regard to the proposed assignment of equity groups and the allocation of profit sharing units to the Chairman, the Senior Partner and Chief Executive and such other holders of senior management appointments as the Board may have determined. The Board appoints one of the members of the Committee as its Chairman. The Committee is made up of three partners who are non-executive members of the Board and the two members of the Board who are members of the Compensation Committee.

The Remuneration Committee serves for a calendar year. Appointments to the Remuneration Committee are made every year and a partner appointed to the Remuneration Committee serves for the entire year. The Remuneration Committee met five times during the year.

Membership

Chris Powell (Chairman)

Nick Edwards

Reto Savoia

Feargus Mitchell

Mark Mullins

Sir Gerry Grimstone in attendance

Nomination Committee

Role

Each year the Board sets up a Nomination Committee to oversee the selection of candidates to stand in Board elections. The Nomination Committee operates in accordance with policy objectives laid down by the Board and is made up of the Chairman of the Board, who shall be the Chairman of the Committee, at least two partners who are non-executive members of the Board and four partners (not being members of the Board or the Executive at the time of their election) elected by the partners.

The Nomination Committee serves for the duration of a calendar year. Elections and appointments to the Nomination Committee are held or made every year and a Partner elected or appointed to the Nomination Committee serves for the entire year. The Nomination Committee met four times during the year.

Membership

Nick Owen (Chairman)

Anna Marks

Nick Edwards

Bill Cohen

Kalvinder Dhillon

Richard Bell

Martin Jenkins

Ruth Markland in attendance

Responsible Business Committee

Role

The Responsible Business Committee has responsibility for determining the UK firm’s responsible business strategy, for approving the responsible business plans and monitoring performance against those plans, for oversight of management in the implementation and delivery of the firm’s responsible business strategy and for the firm’s and the Deloitte Foundation’s charitable and philanthropic activities.

Membership comprises the Chairman of the Board, who acts as Chairman to the Committee, three other Board members and up to four co-opted partners with responsibility for the firm’s responsible business agenda. The Responsible Business Committee met once this year.

Membership

Nick Owen (Chairman)

John Maxey

Anna Marks

Mark Mullins

David Barnes and Claire Burton in attendance

Transaction Sub-committee

Role

The Transaction Sub-Committee was established during the year to consider any transaction of the firm on behalf of the Board.

Membership

Maxine Saunders (Chairman)

Zahir Bokhari

John Maxey

Reto Savoia

Chris Loughran

3. FY16 meeting attendance

Committee	Board of Partners	Audit & Risk Committee	Compensation Committee	Remuneration Committee	Nomination Committee	PIOC	Responsible Business	Transaction Committee	Executive Group
Number of meetings June 2015-May 2016	12	6	1	5	4	4	1	17	10
David Sproul, Senior Partner and Chief Executive	12								10
David Cruickshank, Chairman to 31 May 2015			1		1				
Nick Owen, Chairman from 1 June 2015	12	6 (in attendance)	1		3	4 (in attendance)	1	9	
Zahir Bokhari	11				3			15	
Emma Codd	11								10
Nick Edwards	12			5	0 ⁸				
Matt Ellis Joined Executive May 2016									1
Mark FitzPatrick	11								8
Vimi Grewal-Carr									10
Stephen Griggs									9
Sir Gerry Grimstone	11	4 (in attendance)		4 (in attendance)		4			
Pat Loftus									10
Andy Hodge Retired May 2016									8

8 Nick Edwards joined the Nomination Committee on 1 January 2016

Committee	Board of Partners	Audit & Risk Committee	Compensation Committee	Remuneration Committee	Nomination Committee	PIOC	Responsible Business	Transaction Committee	Executive Group
Richard Houston									10
Neville Kahn									10
Chris Loughran	12	6						15	
Ruth Markland	11	4 <small>(in attendance)</small>			1	3			
Anna Marks	10	2			0 ⁹				
John Maxey	12	3					1	15	
Fergus Mitchell	10	4		4					
Mark Mullins	10	1		3					
Sir Michael Peat	12	4 <small>(in attendance)</small>				4			
Chris Powell	12	6	1	5	3	1			
Paul Robinson	12								9
Maxine Saunders	2			1	2		1	15	
Reto Savoia	10			3				9	
Sharon Thorne									10
Steve Ward									8
Stephen Williams	12	3					1		
Denis Woulfe	2	2							

9 Anna Marks joined the Nomination Committee on 1 January 2016

2.6 – Legal structure and international network

Deloitte LLP is a limited liability partnership, incorporated under the Limited Liability Partnerships Act 2000 and is wholly owned by its members (normally referred to as equity partners). The firm provides external audit services from 21 cities/towns in the UK, Channel Islands and Isle of Man. Deloitte LLP employs over 15,000 staff (FTE) and has over 900 partners¹⁰.

Deloitte LLP is the UK member firm of the Deloitte Network. The Deloitte Network comprises DTTL (Deloitte Global) – a UK private company limited by guarantee – its member firms and each of their related entities in more than 150 countries and territories. Deloitte Global and each of its member firms are legally separate and independent entities.

Deloitte Global does not provide professional services to clients, or direct, manage, control or own any interest in any member firm or any member firm's affiliated entities. Member firms in the Deloitte Network provide services to clients, either directly or through their affiliates (member firms and their affiliates are collectively referred to herein as 'member firms'). Member firms operate under the Deloitte brand and related names, including Deloitte, Deloitte & Touche, Deloitte Touche Tohmatsu and Tohmatsu.

Member firms provide professional services in particular geographic areas and are subject to the laws, regulations and professional requirements of the jurisdictions in which they operate. Each member firm is structured differently in accordance with, among others, national laws, regulations and customary practices.

Member firms are not subsidiaries or branch offices of Deloitte Global and do not act as agents for Deloitte Global or other member firms. Rather, they are locally-formed entities, with their own ownership structure independent of Deloitte Global, that have voluntarily become members of the Deloitte Network with a primary purpose to co-ordinate their approach to client service, professional standards, shared values, methodologies and systems of quality control and risk management. Deloitte Global has adopted certain policies and protocols in each of these areas in an effort to establish a consistently high level of quality, professional conduct and service in all member firms. This structure confers significant strengths, combining high quality standards and methodologies with a deep understanding of local markets and a sense of responsibility and initiative among professionals who have a direct stake in the integrity and growth of their respective practices.

The Deloitte Network provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. For the year ended 31 May 2015 (FY16 data is not yet available), total headcount globally was over 225,400 and total aggregate Deloitte member firm revenue was US\$35.2 billion.

The Deloitte Network has governance and management structures in place at both the global and member firm levels. The Board of Directors is Deloitte Global's highest governing body; Deloitte Global's highest management body is the Deloitte Global Executive, which is led and managed by the Deloitte Global CEO.

The Deloitte Global Executive

The appointment of the Deloitte Global CEO is ratified by the partners of the individual member firms. He/she serves a term of four years and may be approved and ratified for one additional four-year term. Punit Renjen, the Deloitte Global CEO since 1 June 2015, leads and manages the Global Executive. He appoints the members, subject to approval by the Governance Committee of the Deloitte Global Board. Susan Yashar serves as Deloitte Global General Counsel.

In FY16 the Deloitte Global Executive consisted of 26 members. It includes senior leaders from Deloitte Global and certain member firms' leaders and is responsible for establishing Deloitte Global's strategy and the vision for the Deloitte Network. The Deloitte Global Executive works in a collegial style and reaches decisions through consensus.

The Deloitte Global Executive meets live approximately six times during the year. A typical agenda covers the organisation's priorities, current initiatives, and network matters. Every agenda includes topics related to member firm clients and/or talent leadership. The roles and responsibilities of Deloitte Global Executive members focus on key leadership areas including client, business, geographic, talent and network.

The Deloitte Global Operating Committee

At the beginning of his term, Punit Renjen established a global Operating Committee (effective 1 June 2015). The Operating Committee, composed of leaders from Deloitte Global and certain member firms aligned to the businesses, regions, and other key areas, provides a vital link between strategy and execution that helps enable the network to perform effectively and efficiently.

¹⁰ Figures relate to the UK, Channel Islands and Isle of Man

The Operating Committee is headed by Deloitte Global Chief Operating Officer Frank Friedman. Its members include, from Deloitte Global, five global business operating leaders, three regional leaders, the Chief Information Officer, and leaders from Clients & Industries, Talent, Strategy & Brand, and Risk. It also includes a four-person council of executive member firm COO representatives.

Global Audit Leadership Team

The Global Audit Leadership Team (GALT) is an important group supporting the execution of the Deloitte Global Audit strategy. GALT is chaired by the Global Audit Business Leader and its members consist of the Global Audit Executive, the Audit Business Leaders of the Deloitte Global Executive Member Firms and the three Regional Audit Leaders. The focus of the team is on ensuring consistency in delivering high quality audits across the network, collaborating and sharing the best innovations generated within member firms and working collectively to grow the audit business across the globe. The team regularly seeks an outside perspective, meeting with senior executives at the entities we audit to understand their current expectations of a Deloitte member firm as their auditor.

The Deloitte Global Board of Directors and the Governance Committee

The Deloitte Global Board addresses Deloitte Global's most important governance issues, including global strategies, major transactions and the election of the CEO. It is led by the Deloitte Global Chairman who is elected by the Board members. The current Chairman is David Cruickshank who, like Punit Renjen, began his four-year term of office on 1 June 2015.

The Deloitte Global Board has 32 members: the Deloitte Global CEO and 31 members appointed by individual member firms, themselves selected based on size, the number of significant clients they serve and other factors. The Board also includes three regional seats, ensuring that smaller member firms are represented. Members of the Deloitte Global Board are senior member firm partners or principals and are usually on the executives or boards of their member firms. Determinations regarding the allocation of Deloitte Global Board seats are made by the Board Composition Committee every four years with an interim review every two years. Board composition is multicultural with a proportionate representation of member firms and gender is considered by member firms as they appoint individuals to these positions.

The Deloitte Global Board is supported by its standing Governance Committee, which exercises oversight of the management of Deloitte Global. The Governance Committee comprises representatives from the 12 member firms that are considered to have the greatest impact on the network based on a number of metrics including, but not restricted to, revenues, plus the Deloitte Global CEO. Each Governance Committee member has one vote on matters considered by the Committee, except for the CEO who is ex-officio. To avoid conflicts of interest, no member of the Governance Committee may also serve on the Deloitte Global Executive, except for the Deloitte Global CEO.

The Deloitte Global Board also has a number of other subcommittees responsible for considering and recommending action on a wide range of issues falling within their remit. They include Board Composition, Succession, Risk, Audit and Finance, Membership Affairs, and Chairman and CEO Evaluation and CEO Compensation.

The Board performs an annual self-assessment to gather feedback on its collective performance and identify potential areas for operational improvements. As its name suggests, the Chairman and CEO Evaluation and CEO Compensation Committee objectively evaluates the goals and objectives of the Chairman and CEO, and recommends appropriate compensation for the CEO.

Deloitte Global Governance and member firm voting rights

Member firms have voting rights in Deloitte Global that are set each year to be proportional to their respective professional headcount and annual revenue (each weighted 50%). Member firms approve the annual allocation of votes among themselves.

Appendices

Appendix 1 – Executive Group and Board Members, as at August 2016

The Executive Group



David Sproul, Senior Partner and Chief Executive

Prior to his election in 2011, David Sproul was Managing Director for Tax in the UK and in EMEA. David was re-elected as Senior Partner and Chief Executive of Deloitte in the UK in 2015.

David has held various roles in his 14 years at Deloitte, including leading the Consulting and Advisory business from 2002 to 2004, and responsibility for developing the Talent agenda from 2004 to 2006.



Emma Codd, Managing Partner Talent

Emma Codd is a partner in the Forensic practice where she established and manages the Business Intelligence Services team, advising clients on the identification and mitigation of integrity and corruption risks when investing and operating in new geographical markets.

Emma's previous roles include UK member of the Global Young Partner Advisory Council and Chair of the UK Executive Advisory Group. Prior to her appointment as UK Managing Partner for Talent, Emma was heavily involved in Deloitte's diversity, respect and inclusion agenda and held the role of sponsoring partner of the Women's Network until her appointment to the Executive. She has been with Deloitte for 19 years.



Mark FitzPatrick, Managing Partner Clients and Markets

Mark FitzPatrick was a Vice Chairman of Deloitte for four years, leading the CFO Programme and developing the CFO Transition Labs. Mark previously led the Insurance & Investment Management Audit Practice and the Insurance Industry Practice.

Mark has worked at Deloitte for 25 years, building his industry focus on insurance and investment management in the UK, Europe and South Africa.



Vimi Grewal-Carr, Managing Partner Innovation and Alternative Delivery Models

Vimi Grewal-Carr is a Global Lead Client Service partner working with capital market & investment banking clients to help them address their most critical business issues and transform their organisation in response to significant market events. Her specific expertise includes M&A integration, advising clients on the use of offshoring/near-shoring, building Straight Through Processing solutions and technology integration. Vimi has been with Deloitte for nearly 19 years.



Stephen Griggs, Managing Partner Audit & Risk Advisory

Stephen Griggs was appointed Managing Partner, Audit & Risk Advisory on 1 June 2015.

He is a senior Audit partner with over 25 years' experience, specialising in leading large public company audits and transaction projects across a broad range of industry sectors. Stephen has held various leadership roles in the past, including CFO, Board member and Talent Partner for the Audit practice. Stephen joined Deloitte 14 years ago.



Matt Ellis, Managing Partner Tax¹¹

Matt Ellis is the Managing Partner of Deloitte's UK Tax Practice and is responsible for the strategic direction and performance of the business. Matt's career in Tax spans over 30 years – 17 of which have been with Deloitte – during which time he has advised major UK companies across various industry sectors. In addition to this Matt also represents the UK Tax practice on the Global Tax and Legal Executive and EMEA Leadership team. Matt is a member of the Chartered Institute of Taxation.



Richard Houston, Managing Partner Consulting

Richard Houston was elected Managing Partner Consulting and member of the Global Consulting Management Committee effective 1 June 2015. His previous roles include Head of Strategy & Operations within Consulting and joint leader of the Finance, Risk and Regulation firm-wide proposition.

Richard has been a Financial Services Partner since 1998 and specialises in the design and delivery of complex, multi-year, major change programmes supported by sophisticated commercial arrangements. Richard joined Deloitte 14 years ago.



Neville Kahn, Managing Partner Financial Advisory

Neville Kahn was appointed Managing Partner Financial Advisory on 1 June 2013 and is a senior Insolvency Partner. Neville joined Deloitte in 2002 and was previously the UK and Global Head of Restructuring Services. His main client responsibilities include advising stakeholders in distressed businesses.



Paul Robinson, Managing Partner Operations

Paul Robinson was appointed Managing Partner Operations on 1 June 2015 with responsibility for executing the firm's strategy and managing business operations. He is also a member of the UK Board.

Prior to this, Paul was Managing Partner of Consulting and he has been a member of the Global Consulting Executive since 2004. With more than 25 years within the Consulting industry, 18 of which with Deloitte in the UK, he has significant experience in providing advisory and strategic services to clients across diverse business sectors.

¹¹ Matt Ellis replaced Andy Hodge as Managing Partner Tax when Andy retired on 31 May 2016



Sharon Thorne, Managing Partner Global

Sharon Thorne is Managing Partner Global for Deloitte UK. This is a role which recognises the importance of international trade and investment to the Deloitte Network, clients and stakeholders. As part of this Sharon has oversight of our overseas collaborations. She is also a member of the Deloitte Global Board. Previous leadership roles have included Managing Partner Regional Markets and Managing Partner Talent.

Sharon is a senior Audit partner and works with large listed and private clients across a broad range of sectors including retail, consumer and technology. She has been with Deloitte for 22 years. Sharon is also a Non-Executive Director of the CBI and a trustee of Prostate Cancer UK.



Steve Ward, Managing Partner Quality & Risk

Steve Ward is Managing Partner Quality & Risk and the firm's Risk & Reputation leader. He has been a partner in the firm for 24 years and in this time has been a Board member, Head of Tax for the Regions and Head of London Tax.

Steve has 31 years' tax experience with Deloitte advising a wide variety of publicly held UK and International groups. His industry focus is on healthcare & life sciences.



Simon Owen, Managing Partner and Chief Executive for Switzerland

Simon is the Chief Executive for Deloitte AG (Deloitte Switzerland) and became a member of the UK Executive from 1 June 2016. He has been a partner for over 15 years – joining Deloitte in 2002 – and was previously UK Managing Partner, Innovation and Solutions as well as having led our UK & EMEA Enterprise Risk practices.

Simon has considerable experience in business process and change, risk and regulation, enterprise risk, counter fraud and information security.



Pat Loftus, Vice Chair and member of the Executive Group

Pat Loftus is a Vice Chairman and Head of Private Markets. Pat joined Deloitte 2002; he has been a partner for over 25 years and spent over 15 years in Financial Advisory and Tax, before leading the Deloitte Audit Practice in the North West. Pat was Practice Senior Partner for the North West for over 10 years and retains a position as adviser to some of Deloitte's key clients.

Board of Partners

**Nick Owen, Chairman**

Nick Owen previously led Deloitte's Private Sector Consulting Industry Team and has 28 years' experience predominantly in the private sector working with oil & gas, media, telecommunications, consumer business, manufacturing and life science businesses. He joined Deloitte in 2002 and previously served on both the firm's Executive and the Consulting Executive.

David Sproul

(See Executive Group)

**Zahir Bokhari**

Zahir has been providing audit, assurance and advisory services to banking and capital markets companies since joining Deloitte 28 years ago. Zahir is a Vice Chairman and an elected Board member.

**Nick Edwards**

Nick Edwards is a Financial Advisory partner and, as the National Head of Restructuring Services, a member of the UK Financial Advisory Executive. He became an elected Board member in June 2011.

Nick has been with Deloitte for 31 years and has over 25 years' experience working with stakeholders of financially distressed and insolvent businesses to assess options and to develop and implement appropriate restructuring solutions.

**Chris Loughran**

Chris Loughran is a Consulting Partner and a Vice Chairman of Deloitte. He was elected to the Board in December 2010. Until February 2015 Chris was Senior Partner in Deloitte's Midlands practice, responsible for the development and growth of Deloitte's business in the region across the full range of the firm's services.

From 2003 to 2010 Chris was a member of the Consulting Executive and led the development and growth of the firm's Technology Consulting Practice. He specialises in leading and advising on large technology-enabled change programmes and has done so in both the public and private sectors. Chris has been with Deloitte for 29 years.



Anna Marks

Anna is a senior Audit partner with significant experience in the areas of audit, due diligence and stock exchange and other regulatory reporting both in the UK and US, working with large corporate and international companies with responsibility for the leadership and co-ordination of the provision of services globally. Anna is a member of the UK Board and is a member of the Audit & Risk Advisory Executive with specific responsibility as the Partner in Charge of Talent. Anna has been with Deloitte for 19 years.



John Maxey

John Maxey joined Deloitte as a partner in 2002. He is currently an elected member of the Board and is a partner in the M&A Tax and Funds group. Throughout his career John has specialised in advising clients on M&A transactions, private equity fund raising and capital markets transactions such as IPOs and debt offerings.



Chris Powell

Chris Powell is an experienced Audit partner, based in Leeds, who works with a range of large public and private companies and other organisations. Formerly a member of the UK Audit Executive, Chris is currently a member of the Global Audit Executive Team as Global Audit Talent lead. He is also a member of the Executive Talent Council, an elected member of the UK firm's Board since 2010 and Chairman of the A&RC. Chris joined Deloitte in 2002.



Maxine Saunders

Maxine joined the firm in 1987 and moved to Financial Advisory in 1995. She has been a partner since 1999, with an increasing focus on the Technology, Media & Telecommunications sector over the last 10 years. Maxine became Head of UK Transaction Services on 1 June 2015. She was elected to the Board in December 2014.



Reto Savoia

Reto Savoia is the leader of the Swiss tax practice and a member of the Leadership Team of the Swiss firm. In his capacity as an international corporate tax partner he serves a variety of major Swiss and international companies across a range of industries. Reto maintains an international outlook by working closely with the UK and EMEA Tax Executives. He has been with Deloitte for over 10 years.



Mark Mullins

Mark Mullins is an Audit partner with 31 years' experience – 27 of which at Deloitte – auditing and advising entities across a range of industries. Mark is a member of the UK Audit & Risk Advisory Executive with responsibility for leading our Audit business.

Emma Codd

(See Executive Group)

Mark FitzPatrick

(See Executive Group)

Paul Robinson

(See Executive Group)



Feargus Mitchell

Feargus Mitchell is an actuary in Consulting. He has been with Deloitte for over 19 years; became a partner in 2000 and has worked across a range of industries and sectors, with a focus on pensions and insurance. He has had a number of leadership positions within Consulting, with his current role being to execute on Consulting's contribution to the delivery of our global strategy, and its participation in cross-Firm propositions made possible by our multi-disciplinary model.



Steve Williams

Steve Williams has been with Deloitte UK for 15 years and a partner since 2003. In total he has spent 25 years with Deloitte member firms working in a number of countries, including secondments in Macedonia and Slovenia and, while working for the Southern African firm, in Johannesburg and establishing financial services teams in Harare and Durban. Steve is currently a member of the Regions Executive and Practice Senior Partner for Scotland and Northern Ireland.



Sir Gerry Grimstone

Sir Gerry Grimstone is Chairman of Standard Life and Deputy Chairman and Senior Independent Director of Barclays. Gerry is also the lead Non-Executive at the Ministry of Defence, and is a member of HM Treasury's Financial Services Trade and Investment Board. Gerry has been a Deloitte INE since 2011.



Ruth Markland

Ruth Markland was a partner at Freshfields Bruckhaus Deringer until 2003. She is a Non-Executive Director of The Sage Group plc and a member of the supervisory board of Arcadis NV. Between 2006 and 2012 Ruth chaired the board of trustees of the Royal Voluntary Service and she was a Non-Executive Director of Standard Chartered Plc until December 2015. Ruth became a Deloitte INE in 2015.



Sir Michael Peat

Sir Michael Peat joined Peat Marwick Mitchell in 1972, becoming partner in 1985. He retired from KPMG in 1993 and in 1996 was appointed Keeper of the Privy Purse and Treasurer to the Queen. In 2002, he became Private Secretary to The Prince of Wales, with responsibility for the household, finances and charities. Sir Michael is a Director of M&C Saatchi and of Arbuthnot Latham; Chairman of GEMS; Senior Independent Non-Executive Director of Evraz plc; a partner of CQS (UK) LLP and a Director of CQS Management Limited. He became a Deloitte INE in 2011.

Appendix 2 – Financial Information

The Instrument requires transparency reporting auditors to provide financial information for the firm's financial year, including "showing the importance of the auditor's statutory audit work".

We have extracted the following financial information¹² from Deloitte's Financial Statements and financial records for the year ended 31 May 2016.

Year ended 31 May 2016

1. From financial information extracted from Deloitte's financial records showing the relative importance of audit work and the levels of non-audit services provided to the entities we audit and to non-audit clients:

Revenue	FY16		FY15*	
	Amount £m	Percentage %	Amount £m	Percentage %
Audit and directly related services	489	16	483	18
Non-audit work – audited entities	213	7	181	7
Non-audit work – non-audit clients	2,338	77	2,050	75
Total	3,040	100	2,714	100

* Restatement on reclassification of £69m of revenues from 'Audit and directly related services' to 'Non-audit work – non-audit clients'. The misclassification was discovered through improved data extraction and reconciliation procedures. Total revenues remain unchanged

2. From financial information extracted from Deloitte's financial records showing the operating profit for the reportable segment under the Voluntary Code of Practice on Disclosure of Audit Profitability:

Operating Profit	FY16	FY15**
	£m	£m
Audit and directly related services	64	87

** Restatement on a change in the methodology of the allocation of overheads to present the profitability of 'Audit and directly related services'. The result is an increase of £11m in operating profit attributed to 'Audit and directly related services'

Operating profit for 'Audit and directly related services' is calculated based on direct costs, including staff costs, recorded on audit engagements, together with an allocation of overheads such as property and IT. Overhead costs have been apportioned between Audit and Non-Audit work based on chargeable hours or net revenues.

¹² Represents the Deloitte LLP Group's UK and Swiss operations (and excludes the CIS and Financial Advisory's Middle East operations)

Appendix 3 – Public Interest Entities (PIEs)

A list of PIE audits in respect of which an audit report was signed by Deloitte LLP during the year ended 31 May 2016 is provided below.

Under the provisions of the Instrument, PIE means an issuer whose transferable securities are admitted to trading on a regulated market and the audit of which is a statutory audit within the meaning of section 1210 of the Companies Act 2006.

'Issuer' and 'regulated market' have the same meaning as in Part 6 of the Financial Services and Markets Act 2000 (see sections 102A and 103); and 'transferable securities' means anything which is a transferable security for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on Markets in Financial Instruments.

We acknowledge that, under Directive 2006/43/EC, as amended by Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014, the PIE definition will change. We will address that change in future Transparency Reports, when required to do so under the legislation.

Public interest entities in respect of which we have made an audit report – year ended 31 May 2016

Name of audited entity	UK company number	Name of audited entity	UK company number
A & J Mucklow Group PLC	00717658	Bakethin Finance PLC	05074769
Abbey National Treasury Services PLC	02338548	Balfour Beatty PLC	00395826
Abengoa Yield PLC	08818211	Barratt Developments PLC	00604574
Aberforth Smaller Companies Trust PLC	SC126524	BBA Aviation PLC	00053688
Agorazo PLC	07676933	Big Yellow Group PLC	03625199
Air Partner PLC	00980675	Bioquell PLC	00206372
Albion No.2 PLC	08526813	Bishopsgate Premier Finance PLC	05183090
Alliance Trust PLC	SC001731	BlackRock Income and Growth Investment Trust PLC	04223927
Anglo American Capital PLC	04658814	Blue Planet Investment Trust PLC	SC192153
Anglo American PLC	03564138	Bluestone Securities PLC	05284354
Anglo Pacific Group PLC	00897608	Bodycote PLC	00519057
Annington Finance No. 4 PLC	03462121	Boparan Finance PLC	07594510
Annington Finance No.1 PLC	03224889	Brass No.1 PLC	07427573
AO World PLC	05525751	Brass No.2 PLC	08083402
Arran Cards Funding PLC	07408146	Brass No.3 PLC	08480121
Arran Residential Mortgages Funding 2010-1 PLC	07001889	Brass No.4 PLC	09182355
Arran Residential Mortgages Funding 2011-1 PLC	07393601	Brewin Dolphin Holdings PLC	02685806
Arran Residential Mortgages Funding 2011-2 PLC	07596584	Brunner Investment Trust PLC (The)	00226323
Arsenal Securities PLC	05659810	Bruntwood Investments PLC	08531723
Artesian Finance II PLC	04677985	Cadogan Petroleum PLC	05718406
Artesian Finance III PLC	05623796	Caledonian Environmental Services PLC	SC156608
Artesian Finance PLC	04369065	Cambian Group PLC	08929371
Ashtead Group PLC	01807982	Canary Wharf Finance II PLC	03929593
Assura PLC	09349441	Capital & Regional PLC	01399411
Assura Properties PLC	06377349	Care Homes 1 Ltd	05771789
Autokinito PLC	07768842	Care Homes 2 Ltd	05771783
Avenell Property PLC	03817411	Care Homes 3 Ltd	05771331
BAA Lynton Ltd	03330278	Channel Link Enterprises Finance PLC	06169713

Name of audited entity	UK company number	Name of audited entity	UK company number
Charles Taylor PLC	03194476	Finance For Residential Social Housing PLC	03302722
Chemring Group PLC	00086662	Fintrust Debenture PLC	02821428
Chesnara PLC	04947166	First Debenture Finance PLC	02184859
Close Brothers Finance PLC	04322721	First Flexible (No.7) PLC	04579544
Close Brothers Group PLC	00520241	First Flexible No.5 PLC	04236601
CLS Holdings PLC	02714781	First Flexible No.6 PLC	04579581
Clydeport Operations Ltd	SC134759	First Hydro Finance PLC	03085928
Coats Group PLC	00103548	FirstGroup PLC	SC157176
Connect Group PLC	05195191	Flybe Group PLC	01373432
Connect M77/GSO PLC	04698798	Fosse Master Issuer PLC	05925693
Consort Healthcare (Birmingham) Funding PLC	05538277	Foxtons Group PLC	07108742
Custodian REIT PLC	08863271	Friary No. 1 PLC	07645720
Debussy DTC PLC	08375890	Friary No.2 PLC	09000695
Deco 11 - UK Conduit 3 PLC	05990966	Fundsmith Emerging Equities Trust PLC	08756681
Deco 12 -UK 4 PLC	06105087	Game Digital PLC	09040213
Deco 6 - UK Large Loan 2 PLC	05578222	Gates Finance Ltd	04805031
Deco 8 - UK Conduit 2 PLC	05745698	Gemini (Eclipse 2006-3) PLC	05960771
Deco Series 2005-UK Conduit 1 PLC	05479512	Genus PLC	02972325
Dee Valley Group PLC	04316684	Great Portland Estates PLC	00596137
Delamare Cards MTN Issuer PLC	06652499	Greater Gabbard Ofto PLC	08180541
Dialog Semiconductor PLC	03505161	Greenock Funding No.5 PLC	06790964
Diploma PLC	03899848	Grifonas Finance No.1 PLC	05655257
Direct Line Insurance Group PLC	02280426	Grosvenor UK Finance PLC	04140116
Dixons Carphone PLC	07105905	Guildford No.1 PLC	09182307
Draco (Eclipse 2005-4) PLC	05620351	Gulf Marine Services PLC	08860816
Drax Group PLC	05562053	Halma PLC	00040932
DS Smith PLC	01377658	Hammerson PLC	00360632
Dudley Summit PLC	04180439	Hansteen Holdings PLC	05605371
E-Carat 2 PLC	08619683	Hardy Underwriting Group PLC	03217501
E-Carat 3 PLC	08827812	Harvey Nash Group PLC	03320790
E-Carat 4 PLC	09146372	Hays PLC	02150950
E-Carat 5 PLC	09349777	Healthcare Support (Newcastle) Finance PLC	05314236
Ecclesiastical Insurance Office PLC	00024869	Healthcare Support (North Staffs) Finance PLC	05309888
Electricity North West Ltd	02366949	Heathrow Finance PLC	06458635
ENW Finance PLC	06845434	Hercules (Eclipse 2006-4) PLC	05895593
Equinox (Eclipse 2006-1) PLC	05807977	HgCapital Trust PLC	01525583
EuroMASTR PLC	06135603	High Speed Rail Finance (1) PLC	08346271
Eversholt Funding PLC	07329930	Higher Education Securitised Investments Series No.1 PLC (The)	03462571
FHW Dalmore (Salford Pendleton Housing) PLC	08623329		

Name of audited entity	UK company number
Hikma Pharmaceuticals PLC	05557934
Hobart Property PLC	03978071
Holmes Master Issuer PLC	05953811
Holyrood Student Accommodation PLC	SC441988
Homeserve PLC	02648297
Howden Joinery Group PLC	02128710
Indus (Eclipse 2007-1) PLC	06056094
Informa PLC	08860726
Inmarsat PLC	04886072
Intermediate Capital Group PLC	02234775
Intermediate Finance II PLC	06015791
International Personal Finance PLC	06018973
ITE Group PLC	01927339
ITOCHU Treasury Centre Europe PLC	06699600
John Laing Group PLC	05975300
Johnston Press PLC	SC015382
JPMorgan American Investment Trust PLC	00015543
JPMorgan Smaller Companies Investment Trust PLC	02515996
Just Eat PLC	06947854
Kingfisher PLC	01664812
Lakehouse PLC	09411297
Leeds Building Society	B000320
LondonMetric Property PLC	07124797
Lookers PLC	00111876
Man Group PLC	08172396
Management Consulting Group PLC	01000608
Manchester Ship Canal Company Ltd (The)	07438096
Marks and Spencer Group PLC	04256886
Marks and Spencer PLC	00214436
Marshalls PLC	05100353
Maven Income and Growth VCT 2 PLC	04135802
Maven Income and Growth VCT 3 PLC	04283350
Maven Income and Growth VCT 4 PLC	SC272568
Maven Income and Growth VCT 6 PLC	03870187
Maven Income and Growth VCT PLC	03908220
McColl's Retail Group PLC	08783477
Meadowhall Finance PLC	05987141
Melrose Industries PLC	09800044
Mersey Docks and Harbour Company Ltd (The)	07438262

Name of audited entity	UK company number
Mitchells & Butlers Finance PLC	04778667
Mitchells & Butlers PLC	04551498
Mitie Group PLC	SC019230
Mitsubishi Corporation Finance PLC	01865061
Mondi Finance PLC	05916680
Mondi PLC	06209386
Morgan Sindall Group PLC	00521970
Morgan Stanley & Co. International PLC	02068222
Moss Bros Group PLC	00134995
Mothercare PLC	01950509
Motor 2014-1 PLC	08870058
National Express Group PLC	02590560
National Westminster Bank PLC	00929027
NBG Finance (Dollar) PLC	06509890
NBG Finance (Sterling) PLC	06509876
NBG Finance PLC	03364682
Newstone Mortgage Securities No. 1 PLC	08864907
Non-Standard Finance PLC	09122252
Northern Electric Finance PLC	03070482
Northern Electric PLC	02366942
Northern Gas Networks Finance PLC	05575923
Northern Powergrid (Yorkshire) PLC	04112320
Northern Powergrid Holdings Co.	03476201
Northgate PLC	00053171
Northumbrian Water Finance PLC	04326507
Nwen Finance PLC	08374655
Pangaea Funding 1 PLC	09073391
Paragon Group of Companies PLC (The)	02336032
Paragon Mortgages (No.10) PLC	04514738
Paragon Mortgages (No.11) PLC	04513183
Paragon Mortgages (No.12) PLC	05386924
Paragon Mortgages (No.13) PLC	05393650
Paragon Mortgages (No.14) PLC	06043254
Paragon Mortgages (No.15) PLC	06212267
Paragon Mortgages (No.17) PLC	06356366
Paragon Mortgages (No.18) PLC	08494688
Paragon Mortgages (No.19) PLC	08603520
Paragon Mortgages (No.20) PLC	08998709
Paragon Mortgages (No.21) PLC	09166258

Name of audited entity	UK company number	Name of audited entity	UK company number
Paragon Mortgages (No.22) PLC	09282025	Santander UK PLC	02294747
Paragon Mortgages (No.23) PLC	09386326	Schroder Income Growth Fund PLC	03008494
Paragon Mortgages (No.7) PLC	04513170	Scotland Gas Networks PLC	SC264065
Paragon Mortgages (No.8) PLC	04513172	Scottish Investment Trust PLC (The)	SC001651
Paragon Mortgages (No.9) PLC	04513176	Securities Trust of Scotland PLC	SC283272
Paragon Personal and Auto Finance (No. 3) PLC	04513186	SEGRO PLC	00167591
Paragon Secured Finance (No.1) PLC	04513329	Senior PLC	00282772
Partnership Assurance Group PLC	08419490	Serco Group PLC	02048608
Paypoint PLC	03581541	Severfield PLC	01721262
Peel Land & Property Investments PLC	00166957	Severn Trent PLC	02366619
Peel South East Ltd	00216214	Severn Trent Utilities Finance PLC	02914860
Perpetual Income and Growth Investment Trust PLC	03156676	SIG PLC	00998314
Petropavlovsk PLC	04343841	Sky Group Finance PLC	05576975
PHP Bond Finance PLC	08684414	Sky PLC	02247735
Precise Mortgage Funding 2014-1 PLC	09033084	Soco International PLC	03300821
Precise Mortgage Funding 2014-2 PLC	09216431	South East Water Ltd	02679874
Precise Mortgage Funding 2015-1 PLC	09387223	South Staffordshire Water PLC	02662742
Precise Mortgage Funding No. 1 PLC	08658031	Southern Gas Networks PLC	05167021
Premier Oil PLC	SC234781	Speyside Renewable Energy Finance PLC	09094282
Primary Health Properties PLC	03033634	Spirax-Sarco Engineering PLC	00596337
Principality Building Society	B000455	Spiti PLC	07767755
Provident Financial PLC	00668987	SSB No. 1 PLC	07464396
R.E.A. Holdings PLC	00671099	St Ives PLC	01552113
Radian Capital PLC	07890812	St. Modwen Properties PLC	00349201
Ranger Direct Lending Fund PLC	09510201	Sterling Resources (UK) Ltd	03531783
Reed Elsevier (Investments) PLC	05810043	Talktalk Telecom Group PLC	07105891
RELX PLC	00077536	Taylor Wimpey PLC	00296805
Renold PLC	00249688	Templeton Emerging Markets Investment Trust PLC	SC118022
Resimac UK RMBS No.1 PLC	08839392	Tenterden Funding PLC	07811222
Resloc UK 2007-1 PLC	06101090	Tesco Personal Finance PLC	SC173199
Restaurant Group PLC (The)	SC030343	Tesco PLC	00445790
Robert Walters PLC	03956083	Titlos PLC	06810180
Rotork PLC	00578327	Tombac No.1 PLC	08887086
Royal Bank of Scotland Group PLC (The)	SC045551	Tombac No.2 PLC	09844730
Royal Bank of Scotland PLC (The)	SC090312	Topps Tiles PLC	03213782
RPS Group PLC	02087786	Tribal Group PLC	04128850
RSL Finance (No.1) PLC	03665612	Trinity Mirror PLC	00082548
S & U PLC	00342025	Trustco Finance PLC	02442460
Safestore Holdings PLC	04726380	Tullett Prebon Group Holdings PLC	03904126

Name of audited entity	UK company number
Tullett Prebon PLC	05807599
Tullow Oil PLC	03919249
Ultra Electronics Holdings PLC	02830397
Unite (USAF) II PLC	08528639
Unite Group PLC (The)	03199160
Uropa Securities PLC	06169724
Vectura Group PLC	03418970
Vedanta Resources PLC	04740415
Walker Crips Group PLC	01432059
Whitbread PLC	04120344
William Hill PLC	04212563
Witan Investment Trust PLC	00101625
WPP Finance 2010	07419716
Xaar PLC	03320972
Yorkshire Building Society	B000066
Zegona Communications PLC	09395163
Zoopla Property Group PLC	09005884

Appendix 4 – Partner Remuneration

Equity partners' share of profits in Deloitte is based upon a comprehensive evaluation of their individual contribution to the achievement of the firm's strategic objectives.

All partners¹³ are assigned to an equity group, which is reviewed annually and which describes the skills, attributes and broad performance expected of them. Each equity group carries a wide band of profit sharing units so that relative contributions can be recognised.

In assessing partner performance, a strong contribution in the following areas is expected from all partners and is essential, notwithstanding the level of partners' contribution in other areas:

- **Quality:** Uncompromising quality in all professional work
- **Talent:** Contribution to mentoring, leading, recruitment, engagement, development and training of our people

The following criteria are also used for assessing the performance and contribution of each partner:

- **Clients:** Client portfolio managed and roles performed
- **Brand and eminence:** Market related activity including stakeholder relations, thought leadership, innovation and brand protection roles
- **Revenue generation, growth and business building:** Contribution to business development and relationship building
- **Financial success:** Overall contribution to the financial success of Deloitte

- **Leadership and management:**

Contribution to the firm's broad success through leadership and management roles

Partner performance is evaluated in all of the competencies, beginning with the Board's approval of the profit sharing strategy proposed by the Senior Partner and Chief Executive and concluding with the Board's review of the recommended profit allocation and equity group for each individual partner, the conclusions of which are disclosed in full to all partners.

A committee of partners oversees the management process with a focus on consistent and equitable treatment.

Specific considerations relating to audit partners

Our appraisal and promotion processes and considerations are designed with the aim of establishing a strong linkage between audit quality and partner remuneration and provide a partner selection process which is thorough and robust.

Partners who provide audit services are not evaluated or remunerated on the selling of other services to the entities they audit.

The aim is that this approach should preclude financial considerations from driving actions and decisions having a negative effect on audit quality, objectivity and independence.

We have established processes that drive the reward and promotion of our partners, which are described in more detail in Section 2. These demonstrate the links between audit quality and partner remuneration, in particular:

- The Audit Quality Dashboard identifies objective metrics of quality and measures partner performance against those metrics

- The Audit Responsibility Rating reflects the partners' roles on audit engagements to recognise the level of audit responsibility and the performance on audit engagements.

The results of these processes are considered alongside other sources of evidence in assessing partner contribution to quality and when setting objectives for the forthcoming year.

Equity partners' drawings and the contribution and repayment of partners' capital

All equity partners share in the profits and contribute the entire capital of Deloitte LLP. Each equity partner's capital contribution is linked to his or her share of profit and is repaid in full on ceasing to be an equity partner. The rate of capital contribution is determined from time to time depending on the financing requirements of the business.

Equity partners draw a proportion of their profit share in 12 monthly on-account instalments during the year in which the profit is made, with the balance of their profit, net of a tax deduction, paid in instalments in the subsequent year. All payments are made subject to the cash requirements of the business. Tax retentions are paid to HM Revenue & Customs on behalf of equity partners with any excess being released to equity partners as appropriate.

¹³ Non-equity partners are also evaluated against the criteria set out above. However, their remuneration is comprised of salary and bonus, as per other employees.

Appendix 5 – Audit Firm Governance Code and disclosure requirements

The current Code consists of 20 principles and 31 provisions. These principles and provisions are organised into six areas and we have cross-referenced in the table below to where we comply with these principles and provisions.

The FRC reviewed the Code during 2016 and, as a result, a revised Code was published on 27 July 2016. Compliance with this revised Code will be addressed in future Audit Transparency Reports.

Provision of the Code	How Deloitte LLP complies with the Code
A. Leadership	
A.1 Owner accountability principle	
The management of a firm should be accountable to the firm's owners and no individual should have unfettered powers of decision.	
A.1.1 The firm should establish board or other governance structures, with matters specifically reserved for their decision, to oversee the activities of the management team.	See section 2.5 and Leadership & Governance pages on our website
A.1.2 The firm should state in its transparency report how its governance structures and management team operate, their duties and the types of decisions they take.	Biographies in appendix 1 and partners' performance evaluation process in appendix 4.
A.1.3 The firm should state in its transparency report the names and job titles of all members of the firm's governance structures and its management team, how they are elected or appointed and their terms, length of service, meeting attendance in the year, and relevant biographical details.	
A.1.4 The firm's governance structures and management team and their members should be subject to formal, rigorous and on-going performance evaluation and, at regular intervals, members should be subject to re-election or re-selection.	
A.2 Management principle	
A firm should have effective management which has responsibility and clear authority for running the firm.	
A.2.1 The management team should have terms of reference that include clear authority over the whole firm including its non-audit businesses and these should be disclosed on the firm's website.	See section 2.5 and Leadership & Governance pages on our website
B. Values	
B.1 Professionalism principle	
A firm should perform quality work by exercising judgement and upholding values of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour in a way that properly takes the public interest into consideration.	
B.1.1 The firm's governance structures and management team should set an appropriate tone at the top through its policies and practices and by publicly committing themselves and the whole firm to quality work, the public interest and professional judgement and values.	See sections 2.1 , 2.3 and our Ethics Code on our website
B.1.2 The firm should have a code of conduct which it discloses on its website and requires everyone in the firm to apply.	See our Ethics Code on our website

Provision of the Code	How Deloitte LLP complies with the Code
B.2 Governance principle	
A firm should publicly commit itself to this Audit Firm Governance Code.	
B.2.1 The firm should incorporate the principles of this Audit Firm Governance Code into an internal code of conduct.	See our Ethics Code on our website
B.3 Openness principle	
A firm should maintain a culture of openness which encourages people to consult and share problems, knowledge and experience in order to achieve quality work in a way that properly takes the public interest into consideration.	
See sections 2.1 and 2.3.	
C. Independent Non-Executives	
C.1 Involvement of Independent Non-Executives principle	
A firm should appoint Independent Non-Executives who through their involvement collectively enhance shareholder confidence in the public interest aspects of the firm's decision making, stakeholder dialogue and management of reputational risks including those in the firm's businesses that are not otherwise effectively addressed by regulation.	
C.1.1 Independent Non-Executives should: have the majority on a body that oversees public interest matters; and/or be members of other relevant governance structures within the firm. They should also meet as a separate group to discuss matters relating to their remit.	See section 2.5.
C.1.2 The firm should disclose on its website information about the appointment, retirement and resignation of Independent Non-Executives, their duties and the arrangements by which they discharge those duties and the obligations of the firm to support them. The firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes Independent Non-Executives.	See sections 1.2 and 2.5. Further detail are on our Leadership & Governance pages on our website
C.2 Characteristics of Independent Non-Executives principle	
The Independent Non-Executives' duty of care is to the firm. They should command the respect of the firm's owners and collectively enhance shareholder confidence by virtue of their independence, number, stature, experience and expertise.	
C.2.1 The firm should state in its transparency report its criteria for assessing the impact of Independent Non-Executives on the firm's independence as auditors and their independence from the firm and its owners.	See section 2.5 and our Leadership & Governance pages on our website
C.3 Rights of Independent Non-Executives principle	
Independent Non-Executives of a firm should have rights consistent with their role including a right of access to relevant information and people to the extent permitted by law or regulation, and a right to report a fundamental disagreement regarding the firm to its owners and, where ultimately this cannot be resolved and the Independent Non-Executive resigns, to report this resignation publicly.	
C.3.1 Each Independent Non-Executive should have a contract for services setting out their rights and duties.	Each INE has an appropriate contract.

Provision of the Code	How Deloitte LLP complies with the Code
C.3.2 The firm should ensure that appropriate indemnity insurance is in place in respect of legal action against any Independent Non-Executive.	Appropriate indemnity insurance is in place in respect of any legal action against any INE.
C.3.3 The firm should provide each Independent Non-Executive with sufficient resources to undertake their duties including having access to independent professional advice at the firm's expense where an Independent Non-Executive judges such advice necessary to discharge their duties.	Sufficient resources are provided by the firm to enable each INE to perform their duties, as also set out on our Leadership & Governance pages on our website
C.3.4 The firm should establish, and disclose on its website, procedures for dealing with any fundamental disagreement that cannot otherwise be resolved between the Independent Non-Executives and members of the firm's management team and/or governance structures.	See our Leadership & Governance pages on our website
D. Operations	
D.1 Compliance principle	
A firm should comply with professional standards and applicable legal and regulatory requirements.	
D.1.1 The firm should establish policies and procedures for complying with applicable legal and regulatory requirements and international and national standards on auditing, quality control and ethics, including auditor independence.	See sections 2.1, 2.2, 2.3 and 2.4
D.1.2 The firm should establish policies and procedures for individuals signing group audit reports to comply with applicable standards on auditing dealing with group audits including reliance on other auditors whether from the same network or otherwise.	See section 2.1
D.1.3 The firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest.	See section 2.4
D.1.4 The firm should take action to address areas of concern identified by audit regulators in relation to the firm's audit work.	See section 2.2
D.2 Risk management principle	
A firm should maintain a sound system of internal control and risk management over the operations of the firm as a whole to safeguard the owners' investment and the firm's assets.	

Provision of the Code	How Deloitte LLP complies with the Code
<p>D.2.1 The firm should, at least annually, conduct a review of the effectiveness of the firm's system of internal control. The review should cover all material controls, including financial, operational and compliance controls and risk management systems.</p>	<p>See the report from Chris Powell, Chairman of the A&RC, in section 2.5.</p>
<p>D.2.2 The firm should state in its transparency report that it has performed a review of the effectiveness of the system of internal control, summarise the process it has applied and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary.</p>	
<p>D.2.3 In maintaining a sound system of internal control and risk management and in reviewing its effectiveness, the firm should use a recognised framework such as the Turnbull Guidance and disclose in its transparency report the framework it has used.</p>	
<p>D.3 People management principle</p>	
<p>A firm should apply policies and procedures for managing people across the whole firm that support its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code.</p>	
<p>D.3.1 The firm should disclose on its website how it supports its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code through recruitment, development activities, objective setting, performance evaluation, remuneration, progression, other forms of recognition, representation and involvement.</p>	<p>See section 2.1</p>
<p>D.3.2 Independent Non-Executives should be involved in reviewing people management policies and procedures.</p>	<p>See section 1.2</p>
<p>D.4 Whistleblowing principle</p>	
<p>A firm should establish and apply confidential whistleblowing policies and procedures across the firm which enable people to report, without fear, concerns about the firm's commitment to quality work and professional judgement and values in a way that properly takes the public interest into consideration.</p>	
<p>D.4.1 The firm should report to Independent Non-Executives on issues raised under its whistleblowing policies and procedures and disclose those policies and procedures on its website.</p>	<p>See our Whistleblowing Policy, accessed through our Leadership & Governance pages on our website</p>

Provision of the Code	How Deloitte LLP complies with the Code
<p>E.1 Internal reporting principle</p> <p>The management team of a firm should ensure that members of its governance structures, including owners and Independent Non-Executives, are supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.</p>	<p>Our key governance bodies (including the Public Interest Oversight Committee) received timely and relevant information to enable them to discharge their duties.</p>
<p>E.2 Financial statements principle</p> <p>A firm should publish audited financial statements prepared in accordance with a recognised financial reporting framework such as International Financial Reporting Standards or UK GAAP.</p>	<p>Deloitte LLP prepares annual audited financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and UK laws and regulations.</p> <p>The Financial Statements for the year ended 31 May 2016 are available at Companies House</p>
<p>E.2.1 The firm should explain who is responsible for preparing the financial statements and the firm’s auditors should make a statement about their reporting responsibilities.</p> <p>E.2.2 The firm should report that it is a going concern, with supporting assumptions or qualifications as necessary.</p>	<p>Deloitte LLP prepares annual audited financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and UK laws and regulations.</p> <p>The Financial Statements for the year ended 31 May 2016 are available at Companies House</p>
<p>E.3 Management commentary principle</p> <p>The management of a firm should publish on an annual basis a balanced and understandable commentary on the firm’s financial performance, position and prospects.</p>	
<p>E.3.1 The firm should include in its management commentary its principal risks and uncertainties, identifying those related to litigation, and report how they are managed in a manner consistent with the requirements of the applicable financial reporting framework.</p>	<p>See Section 2.5.</p>
<p>E.4 Governance reporting principle</p> <p>A firm should publicly report how it has applied each of the principles of the Audit Firm Governance Code excluding F.2 on shareholder dialogue and F.3 on informed voting and make a statement on its compliance with the Code’s provisions or give a considered explanation for any non-compliance.</p>	<p>This Audit Transparency Report provides the disclosures required to be made by the Code.</p> <p>A compliance statement with the Code has been included in the report from Chris Powell, Chairman of the A&RC, in Section 2.5.</p>
<p>E.4.1 The firm should publish an annual transparency report containing the disclosures required by Code Provisions A.1.2, A.1.3, C.2.1, D.1.3, D.2.2 and D.2.3.</p>	<p>See our Annual Reports page on our website</p>

Provision of the Code	How Deloitte LLP complies with the Code
E.5 Reporting quality principle	
A firm should establish formal and transparent arrangements for monitoring the quality of external reporting and for maintaining an appropriate relationship with the firm's auditors.	
E.5.1 The firm should establish an audit committee and disclose on its website information on the committee's membership and terms of reference which should deal clearly with its authority and duties, including its duties in relation to the appointment and independence of the firm's auditors. On an annual basis, the firm should publish a description of the work of the committee in discharging its duties.	See section 2.5 and our Leadership & Governance pages on our website
F. Dialogue	
F.1 Firm dialogue principle	
A firm should have dialogue with listed company shareholders, as well as listed companies and their audit committees, about matters covered by this Audit Firm Governance Code to enhance mutual communication and understanding and ensure that it keeps in touch with shareholder opinion, issues and concerns.	
F.1.1 The firm should disclose on its website its policies and procedures, including contact details, for dialogue about matters covered by this Audit Firm Governance Code with listed company shareholders and listed companies. These disclosures should cover the nature and extent of the involvement of Independent Non-Executives in such dialogue.	See sections 1.1 and 1.2 We have 'contact us' links on our website; emails are forwarded to the relevant person. Stakeholders are also welcome to contact any of the INEs at independentnon-execs@deloitte.co.uk
F.2 Shareholder dialogue principle	
Shareholders should have dialogue with audit firms to enhance mutual communication and understanding.	See sections 1.1 and 2.2 for commentary on our annual Stakeholder Forum and other investor engagement activities.
F.3 Informed voting principle	
Shareholders should have dialogue with listed companies on the process of recommending the appointment and re-appointment of auditors and should make considered use of votes in relation to such recommendations.	We consider that this principle is directed at shareholders hence not applicable for our firm

Under The Statutory Auditors (Transparency) Instrument 2008 we are required to disclose certain information. The table below shows where these disclosures can be found in this Audit Transparency Report.

Provision of the Instrument	How Deloitte LLP complies with the Instrument
1. A description of the legal structure and ownership of the transparency reporting auditor.	See section 2.6
2. Where the transparency reporting auditor belongs to a network, a description of the network and the legal and structural arrangements of the network	See section 2.6
3. A description of the governance structure of the transparency reporting auditor.	See section 2.5
4. A description of the internal quality control system of the transparency reporting auditor and a statement by the administrative or management body on the effectiveness of its functioning.	See sections 2.2 and 2.5
5. A statement of when the last monitoring of the performance by the transparency reporting auditor of statutory audit functions within the meaning of paragraph 13 of Schedule 10 to the Act (as amended by regulation 23 of the Statutory Auditors and Third Country Auditors Regulations 2007 (S.I. 2007/3494)) took place.	See section 2.2
6. A list of public interest entities in respect of which an audit report has been made by the transparency reporting auditor in the financial year of the auditor; and any such list may be made available elsewhere on the website specified in regulation 4 provided that a clear link is established between the transparency report and such a list.	See appendix 3
7. A description of the transparency reporting auditor's independence procedures and practices including a confirmation that an internal review of independence practices has been conducted.	See section 2.4
8. A statement on the policies and practices of the transparency reporting auditor designed to ensure that persons eligible for appointment as a statutory auditor continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level.	See section 2.1
9. Financial information for the financial year of the transparency reporting auditor to which the report relates, including the showing of the importance of the transparency reporting auditor's statutory audit work.	See appendix 2
10. Information about the basis for the remuneration of partners.	See appendix 4

Glossary

Acronym	Full term	Explanation/reference (where relevant)
A&RC	Audit & Risk Committee	The A&RC is a sub-committee of the UK Board
AQB	UK Audit Quality Board	The AQB is a group of partners and directors at Deloitte with a remit to develop and govern activities that will achieve sustainable improvements in audit quality; implement these improvements across the audit practice; respond to audit quality issues raised by regulators and stakeholders
AQF	Audit Quality Framework	Created by the POB following consultation by the FRC in 2008 on how audit quality could be enhanced and promoted
AQIs	Audit Quality Indicators	Metrics representing factors that contribute to audit quality that were identified by the six largest audit firms under the auspices of the PRG
AQR	Audit Quality Review (team)	The AQR team, formerly the Audit Inspection Unit (AIU), is the part of the FRC that monitors the quality of the audits of listed and other major public interest entities and the policies and procedures supporting audit quality at large audit firms in the UK
BDO	BDO LLP	Deloitte's statutory auditor
Board	UK Board of Partners	Responsible for the promotion and protection of partner interests and for the oversight of management, the Board determines Deloitte's long-term strategies and has specific oversight of risk and quality
CMG	Central Monitoring Group	The CMG (within the firm's Quality & Risk function) is responsible for the planning, co-ordination and management of monitoring activities that take place across the service lines and the rest of the firm
Code	Audit Firm Governance Code	Published by the FRC and ICAEW in 2010, the Code sets a benchmark for good governance at the UK's largest audit firms, on a 'comply or explain' basis. It also codifies much existing good practice and links to matters that audit firms must comply with as regulated professional partnerships
Deloitte	Deloitte LLP	The UK member firm of the Deloitte Network
Deloitte Network		Deloitte Touche Tohmatsu Limited (also known as Deloitte Global), its member firms, and their related entities
D TTL	Deloitte Touche Tohmatsu Limited	A UK private company limited by guarantee. (Deloitte Global) and each of its member firms are legally separate and independent entities
Deloitte Global Board	Deloitte Global Board of Directors	The Deloitte Global Board addresses Deloitte Global's most important governance issues, such as its global strategy, major transactions and the election of the CEO
EMEA	Europe, the Middle East and Africa	
EQCR	Engagement quality control review	The process of engagement quality control reviews is designed to be an independent challenge to be performed on all audit, assurance or related services engagements
Equity partner		A partner with an equity stake in the firm and a member of Deloitte LLP. Equity partners contribute capital and share the firm's profits
ERF	Enterprise Risk Framework	The Executive's assessment of the potential risks to the achievement of the firm's strategy is set out in the Enterprise Risk Framework

Acronym	Full term	Explanation/reference (where relevant)
Executive	UK Executive Group	Assists the Senior Partner and Chief Executive in managing the firm and implementing the policies and strategies of the firm as determined by the Board
FRC	Financial Reporting Council	The UK's independent regulator responsible for promoting high quality corporate governance and reporting. It sets the standards framework within which auditors, accountants and actuaries operate in the UK
GALT	Global Audit Leadership Team	The GALT supports the execution of the Deloitte Global Audit strategy
ICAEW	Institute of Chartered Accountants in England & Wales	A professional membership organisation that provides insight and leadership to the global accountancy and finance profession
IFRS	International Financial Reporting Standards	IFRS is a single set of accounting standards, developed and maintained by the International Accounting Standards Board
INEs	Independent Non-Executives	Deloitte's INEs provide challenge and counsel to the leadership of the firm. They comprise the PIOC and sit on the firm's Board
Instrument	Statutory Auditors (Transparency) Instrument 2008	The Instrument requires the publication of certain information by transparency reporting auditors
Member firm		Deloitte member firms are not one firm or a single legal entity but rather a network of independent member firms that use the Deloitte brand and serve clients through use of common professional standards and methodologies. Member firms may at times also be referred to as DTTL member firms, Deloitte Global member firms, Deloitte member firms, member firms or Deloitte firms
Non-equity partner		Non-equity partners have partner grade and status, but do not contribute capital or share in the firm's profits
Partner		References to 'partner' cover both equity and non-equity partners, unless stated otherwise
PCAOB	Public Company Accounting Oversight Board	The PCAOB is a non-profit corporation established by the US Congress as a result of the Sarbanes-Oxley Act of 2002 to oversee the audits of public companies

Acronym	Full term	Explanation/reference (where relevant)
PIE	Public Interest Entity	<p>Under the provisions of the Instrument, PIE means an issuer whose transferable securities are admitted to trading on a regulated market and the audit of which is a statutory audit within the meaning of section 1210 of the Companies Act 2006</p> <p>Under Directive 2006/43/EC, as amended by Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014, the PIE definition will change. This change had not taken effect at 31 May 2016 and has, therefore, not been reflected in this Report</p>
PIOC	Public Interest Oversight Committee	The PIOC oversees public interest matters as they affect the firm. It was constituted as a sub-committee of the main Board in 2011
POB	Professional Oversight Board	The POB was set up in 2004 as part of the reformed FRC following the Government's Review of Audit Regulation in 2003. The FRC's work on professional oversight is now carried out by the Conduct Committee
PRG	Policy and Reputation Group	The PRG is a forum for the six largest professional services firms in the UK to debate topical public interest issues that affect the reputation of the firms collectively and, by extension, the profession
PSR	Professional Standards Review	PSR provides independent challenge on each of our audit engagements, focusing on significant accounting, auditing and financial reporting judgements, appropriate audit documentation and disclosure areas
RI	Responsible Individual	Individuals who are ICAEW Responsible Individuals are deemed responsible for audit work
QAD	Quality Assurance Department	The QAD conducts the ICAEW's practice assurance reviews
SEC	Securities and Exchange Commission	The SEC is an agency of the United States federal government. It has a three-part mission: to protect investors; maintain fair, orderly and efficient markets; and facilitate capital formation
UK firm	Deloitte LLP	The UK member firm of Deloitte Global

Notes

Notes



References to Deloitte are references to Deloitte LLP, the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

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