



2020 Transparency Report

Deloitte LLP and Deloitte Limited



Regulatory context

This Audit Transparency Report (Report) has been prepared in accordance with Article 13 of Regulation No 537/2014 of the European Parliament and of the Council of 16 April 2014 (the EU Audit Regulation). The EU Audit Regulation came into force on 17 June 2016 and requires the publication of an annual transparency report by audit firms that carry out statutory audits of public interest entities. It superseded the provisions of the Statutory Auditors (Transparency) Instrument 2008.

This Report also includes disclosures required by the Audit Firm Governance Code Revised 2016 (the Code), which sets a benchmark for good governance and applies to UK firms auditing 20 or more listed companies. A reconciliation to the revised Code is provided in Appendix 9.

Deloitte Limited, the Deloitte practice operating in Gibraltar that has been a subsidiary of Deloitte LLP¹ since 1 June 2017, is also required to prepare an audit transparency report under Article 13 of the EU Audit Regulation. This Report relates to Deloitte LLP and Deloitte Limited's principal activities in the UK and Gibraltar respectively for the year ended 31 May 2020, unless otherwise stated.

Deloitte LLP also has a subsidiary in Switzerland that prepares its own transparency report. Consequently, Deloitte's activities in Switzerland are not covered in this Report, unless otherwise stated.

Local audits

Public sector bodies in the United Kingdom have differing audit requirements and arrangements, depending upon the country and the type of body. 'Local audits' (or 'local public audits') are audits of English bodies conducted in accordance with the Local Audit and Accountability Act 2014. These local audits cover Local Authorities, Clinical Commissioning Groups, and NHS Trusts (but not NHS Foundation Trusts).

As we have issued audit reports in respect of major local audits² during the year ended 31 May 2020, we are also required to comply with The Local Auditors (Transparency) Regulations 2020. Appendix 10 includes a summary of the requirements of The Local Auditors (Transparency) Regulations 2020 and where these requirements are addressed within this Report.

We are appointed auditors for three NHS Trusts and, in respect of the year-ended 31 March 2019 (and so with audit reports issued in the year ended 31 May 2020), for 36 local government bodies (including pension schemes). Our local government audit appointments were made by Public Sector Audit Appointments Limited (PSAA) as an appointing person under the provisions of the Local Audit and Accountability Act 2014 and regulation 3 of the Local Audit (Appointing Person) Regulations 2015. PSAA's role includes contract management with Deloitte and other audit firms for the delivery of consistent, quality and effective audit services to relevant authorities.

Our arrangements in respect of NHS Foundation Trusts (which are not required to be included in this Report under The Local Auditors (Transparency) Regulations 2020) are consistent with those for local audits.

¹ Deloitte Limited is a subsidiary of Deloitte LLP (collectively, Deloitte or the firm), which is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee. DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

² As defined in The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014.

Contents

Message from Richard Houston, Senior Partner and Chief Executive	04
The Deloitte Perspective	07
Report on the work of the Independent Non-Executives from Jim Coyle	10
Message from Stephen Griggs, UK Managing Partner	13
Our purpose and commitment: instilling trust and confidence	15
Message from Jack Kelly, former UK Audit & Assurance Head of Quality & Risk	16
Message from Alan Chaudhuri, UK Audit & Assurance Head of Quality & Risk	18
Delivering quality audits	19
Frequently asked questions on audit quality	24
Governance, legal structure and Deloitte network	42
Report on the work of the UK Oversight Board from Steve Williams, Chair	43
Deloitte UK: Governance and legal structure	48
NSE governance	53
Deloitte network	55
Conducting business with honesty, integrity and high standards of professional behaviour	56
Message from Feargus Mitchell, UK Ethics Partner	57
Conflicts of interest	61
Independence	62
Principal risks and uncertainties	66
Security, confidentiality and data protection	68
Appendices	70
Appendix 1: Executive Group and UK Oversight Board Members	71
Appendix 2: Financial information	79
Appendix 3: Public interest entities	80
Appendix 4: Audit quality monitoring, measurement and results	85
Appendix 5: Principal risks and mitigations	102
Appendix 6: Equity partner appraisal and pay	110
Appendix 7: Deloitte Gibraltar	111
Appendix 8: EU/EEA audit firms	114
Appendix 9: Audit Firm Governance Code and EU Audit Regulation disclosure requirements	116
Appendix 10: Local Audit disclosure requirements	127
Glossary	131



Message from Richard Houston, Senior Partner and Chief Executive

This report is important to me, my fellow partners and all our colleagues; it provides us with a clear way to communicate what we are proud of, but also what we need to focus on in the future.

Welcome to our FY20 Audit Transparency Report – my second as Senior Partner and CEO of Deloitte in the UK and of Deloitte North and South Europe (NSE). Last year, I ended my message to you with a call for feedback. This year I'd like to start with this request, not least because we have evolved the report in line with what we have read and heard from stakeholders. Has it worked? Are we being sufficiently transparent? Is it easier to digest, more engaging to read, clearer and more concise? Please do [let me know](#).

I recall last year referring to “economic and regulatory challenges” ahead. Audit reform has rightly continued in 2020, and the year also brought events we would not have foreseen twelve months ago: from the economic and social consequences of a global pandemic to the just anger over racial inequality in the UK and globally.

COVID-19 – leading in a crisis

In March, as the lockdown measures came into force, we transitioned over 20,000 of our people to remote working and began supporting public and private sector organisations with the national response to COVID-19 (our Annual Report has some great examples). We had to adapt new ways of working, including with those entities we audit, as our UK Managing Partner and outgoing Head of Audit & Assurance Stephen Griggs explains.

In April, we had to take the difficult decision to ask partners and staff to make some financial sacrifices to help us meet our priorities of protecting jobs and the long-term financial stability of our firm. I have been incredibly proud of the actions of our people throughout this pandemic. They have responded by finding new ways to connect and support each other, giving up time and money to ensure charities and social enterprises can support those most in need, and enabling our clients - who employ thousands of people and deliver critical national projects - to continue to operate in the most difficult of times.

Black Lives Matter – our commitments and plan

In response to the killing of George Floyd and subsequent Black Lives Matter demonstrations, we published our Black Action Plan, based on five key commitments that align to our global shared values of inclusion and taking care of each other. This plan, which forms a key facet of our People & Purpose strategy led by Dimple Agarwal, was brought together by colleagues from across the firm, including our People & Purpose leaders, our Ethnicity Council and our Multicultural Network. It reflects the feedback and experiences shared by our black colleagues, and I truly believe it will help address the systemic issues and evolve our culture for the better.

It is diversity that makes our firm, our project delivery and our relationships richer and more powerful. Different experiences, perspectives and voices make us stronger. During a webinar I held in July for all our people in the UK I made clear our leadership's commitment to equality and inclusion, and that we have a zero tolerance policy towards racism or any form of discrimination.



Richard Houston
Senior Partner & CEO

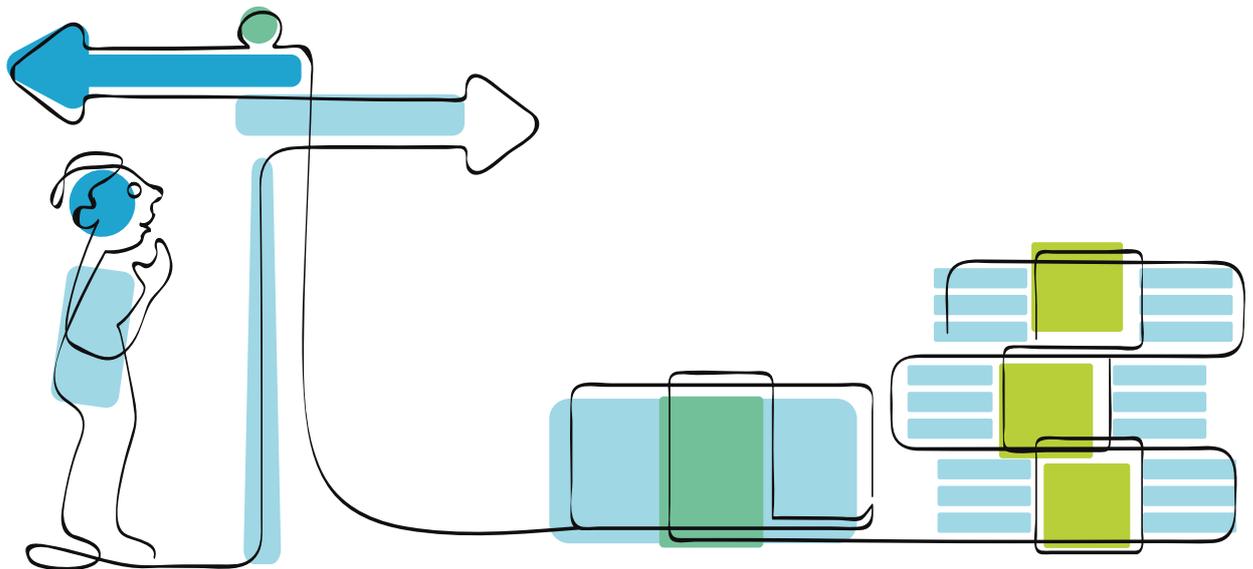
“Audit reform has rightly continued in 2020, and the year also brought events we would not have foreseen twelve months ago: from the economic and social consequences of a global pandemic to the just anger over racial inequality in the UK and globally.”

Audit in the spotlight

Audit reform is essential to evolve the audit product and enhance trust in audit and we are embracing this, as Stephen Griggs sets out. There should be no doubt audit remains a critical part of our firm. It is a fundamental component of our multi-disciplinary model (MDM), strategy, approach and ethos - and remains an important part of the capital market ecosystem.

Recognising the market challenge around transparency of our structure and oversight, we have a firm-wide team working to get us ready for operational separation, with the guiding principle being that audit remains a core part of our MDM, but is financially and operationally independent and focused on delivering high quality audit work in support of the public interest. Indeed, the challenges of auditing during the COVID-19 pandemic have reinforced the need for the Audit & Assurance practice to retain access to high-quality specialists and remain resilient. This breadth of expertise will also be important as the audit product itself evolves in response to stakeholder needs.

This year saw the conclusion of the Financial Reporting Council (FRC) investigation into Deloitte UK’s financial reporting work for Autonomy between 2009-2011. I was disappointed in the ruling and that aspects of our audit work were found to fall below professional standards expected. As Stephen and Jim make clear, since the audit of Autonomy over a decade ago we have significantly evolved our audit practices, investing in firm-wide controls, technology and processes. This investment will continue and remains a priority for our firm.



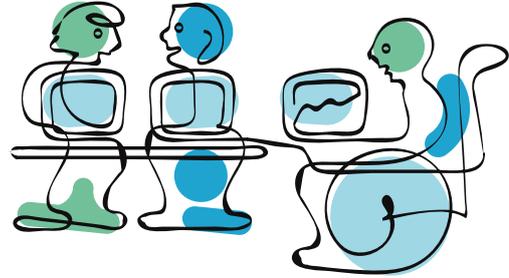


What else do we cover in this report?

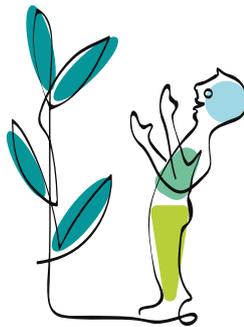
This report explores our challenges, achievements and developments in 2020, as well as:



Our culture and approach to ethics and managing issues



Our evolving firm governance in response to external challenge



How we have adapted during the pandemic and how audits continue to evolve to respond to broader issues such as climate change and sustainability



Our commitment to working in the wider public interest

Reflections as we look ahead

A big focus for me this year has been on the health and safety of our people, and our firm's resilience in the face of the pandemic. Now is the time to look ahead to recovery and what this means for our business and our current and future employees. There is much we can learn from the way we've adapted during the pandemic and it will be crucial to keep building agility into our business. The need for agility will drive how we work, the technology we use and the different products and services we can offer – like our recent decision to acquire the business and assets of design and technology consultancy [Keytree](#).

The role of business in our society has, I believe, never been more relevant. This pandemic has demonstrated the difference it can make to some of the biggest challenges the country faces. To ensure our economy and our communities can recover, the values shown by many organisations – of responsibility, empathy, collaboration, agility and innovation - must endure.

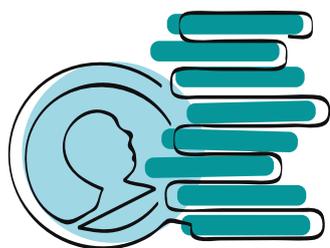
Finally, the past six months have challenged our society and our business so I'd like to personally thank our people, our partners and our clients for their unwavering support and understanding during the COVID-19 crisis.

Thank you.

The Deloitte Perspective

In the rapidly changing world of commerce, reliable stakeholder information – and the role of audit as part of this – have never been more important. We are committed to playing a leading role in driving audit quality, by making changes to our own business, and by proactively engaging in the broader audit reform agenda. There are six key areas we consider to be most important in this debate, each of which is explored in more detail throughout the report.

We support the audit reform agenda and are embracing the necessary changes



It is clear that fundamental changes to the audit market and the audit product are essential to meet the needs of business, investors, regulators and other stakeholders. While delays to the anticipated legislation are perhaps inevitable due to COVID-19, it is crucial we do not lose momentum.

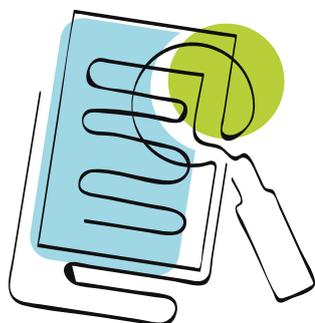
Reforming audit is absolutely the right thing to do and we are proactively engaged in the wider debate, as well as making the necessary changes to our own business. Operational separation of our Audit & Assurance practice is one key area where we are developing our plans which we aim to implement well ahead of the required 2024 deadline.

We see these changes as a vital part of the evolution needed to deliver higher quality audits.

Stephen Griggs, our **UK Managing Partner**, shares his views on audit reform.

[Click here](#)

Improving audit quality is critical to rebuilding public trust in audit



The assurance provided by auditors is crucial to the effective functioning of capital markets. When businesses fail and the work of the auditor is called into question, trust in the profession is inevitably undermined. COVID-19 is challenging business models and corporate viability, which has direct implications for our audits around key judgements like asset impairment and going concern. As a result, the profession is under more intense scrutiny than ever before.

In this context, audit quality is and will remain our number one priority. We have a focus on learning from our experience and pushing ourselves to raise the bar continuously. We know we have more to do and are absolutely committed to playing our part in delivering change that embraces audit quality and helps restore trust.

In the following section, **Jack Kelly**, former **UK Audit & Assurance Head of Quality & Risk to 31 May 2020** and his successor **Alan Chaudhuri** share their views on our inspection results and the change we think is required.

[Click here](#)



The responsibilities on companies and their boards should be enhanced to place a greater emphasis on internal controls over financial reporting



We are committed to playing our part in delivering the changes needed to rebuild trust in audit. It is equally important to consider these alongside the wider package of necessary reforms, including the responsibility of companies and their boards in vital areas such as high quality and transparent corporate reporting and ensuring an effective control environment.

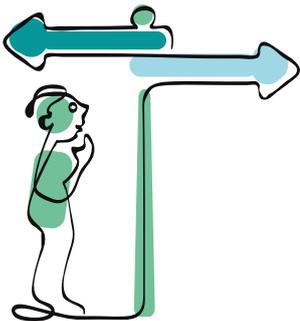
For example, where the quality of an audit is called into question, there can be a correlation with poor corporate controls, so we firmly support the adoption of a form of Sarbanes-Oxley in the UK, to increase transparency and accountability. Similarly, changes to accounting standards have heightened the degree of subjectivity and judgement inherent in financial statements.

These are both areas where investors, regulators and government have a key role to play in defining the wider landscape within which both the integrity of financial reporting and audit quality can flourish, resulting in more meaningful reporting for stakeholders.

As **Stephen Griggs** sets out, the pandemic has perhaps placed even greater onus on business to ensure controls and processes are robust. Meanwhile, as auditors (see page 22), it is also critical for us to have a deep understanding of the controls at the entities we audit.

[Click here](#)

We are committed to developing a culture of challenge



Our top priority is to deliver independent, high quality audits. To do this we need to ensure all our audit teams are technically proficient and have ethical behaviour, integrity, professional scepticism and objectivity at their core.

But this is only part of the story. Developing a culture of challenge is fundamental – where our people are trained, empowered and supported to critically question without bias or constraint. Equally, having the perspective to stand back and assess the bigger picture is just as important as close scrutiny of the detail. These are both key areas of focus where we continue to invest in our people and our processes.

Whatever our audit work uncovers, we will always seek to do the right thing. This will not always be the easy, obvious or popular option, but it is the only outcome we are prepared to accept in discharging our public interest obligations.

Feergus Mitchell, our **UK Ethics Partner**, sets out how we protect the integrity, independence and objectivity of our firm. He also provides a summary of ethics matters reported during the year and what we are doing to continue to educate our people and encourage them to speak up.

[Click here](#)

We are investing in our audit product to deliver higher quality assurance, responding to increasingly complex business environments and the needs of broader stakeholders



Innovation is a key driver of success in the fast-changing world of commerce. As the reach and impact of business continues to grow, stakeholders become more widespread and it is increasingly important that audit operates in the broader public interest. These complex business environments require our audits to be rigorous, dynamic, multidimensional and insightful. Management teams and audit committees also expect audit to evolve as they innovate their commercial offerings and processes.

While traditional procedures such as third party verification remain a core part of our audits, we are modernising our approach through greater use of automation around analytics, artificial intelligence, and cognitive and cloud-based technologies. We are also rolling out IT-enabled, standardised Deloitte Way Workflows and advanced project management tools to enhance our ways of working.

These innovations are transforming our ability to challenge the numbers, provide better assurance and deliver higher quality audits. This significant global investment is essential to ensure we continue to drive quality and develop the audit of the future, responding to both the technology advances in business and the expectations of our stakeholders.

In the Delivering quality audits section we provide more information about audit transformation and what that means for the audit of the future.

[Click here](#)

We will operate and report on our audit business in an open and transparent manner



We acknowledge that building trust in the profession requires us to operate and report on our audit business in an even more open and transparent manner than has been the case in the past. This commitment is necessarily wide-ranging and covers, for example, how and what we pay our audit partners, and the often unpublicised ways in which we challenge management to ensure the quality of our audits.

This will be a key feature of next year's transparency report, as we transition to an operationally separate audit business.

In the meantime, we have included examples of our audit work in this year's report through a series of 'snapshots', along with details of our Independent Non-Executives' oversight of the audit partner remuneration process and its linkage to audit quality. We also set out details of the fines and other sanctions the firm has incurred and the remediation steps we are taking in response.

[Click here](#)



Report on the work of the Independent Non-Executives from Jim Coyle

In what has been a difficult year, we have seen continuing progress on measures to promote audit quality, secure the firm's reputation and reduce the risk of firm failure, all of which we oversee in the public interest.

Firstly, I would like to welcome Almira Delibegovic-Broome QC and Shirley Garrod, who both joined me as Independent Non-Executives (INEs) towards the end of the year.

The recent appointment of Margaret, Baroness Ford of Cunninghame OBE took place after year-end and Almira, Shirley and I very much look forward to working with her.

I would also like to thank Gerry, Lord Grimstone of Boscobel Kt, and Ruth Markland for their excellent service to Deloitte, and indeed to the audit profession, during their time with the firm.

What do audit firm INEs do?

Our duties and responsibilities under the Audit Firm Governance Code (the Code) are to oversee how management promotes audit quality, secures the firm's reputation and reduces the risk of firm failure.

There is, quite rightly, significant public interest in what the firm does – the assurance auditors provide is critical to the effective functioning of capital markets and we take our responsibilities very seriously.

We have a wealth of knowledge and experience from our previous and current roles, which the firm proactively leverages. We bring an external perspective that really focuses on the public interest.

We are members of the firm's UK Oversight Board (UKOB), for which I am Deputy Chair, giving us all access to the same information as the partner members. We question and challenge management in the UKOB meetings as and when we feel it is necessary.

We also have a separate INE Oversight Committee, which I chair, comprising just the INEs. The committee meets at least five times a year, normally after the UKOB meetings, and provides an opportunity for more in-depth discussion around areas of particular public interest with key members of the management team. This year, we have covered ethics and whistleblowing, the work of the Public Interest Review Group, public affairs, audit quality, audit partner remuneration and audit reform.

As well as the formal meetings, we meet regularly, both as a group and individually, with various members of the firm's management team. Deloitte provides us with a chief of staff, from the firm's Public Policy team, and secretarial support to help us to get out into the business, deepen our understanding of how the firm operates and the challenges it faces, and to optimise our input.

This year, we also sat in on some meetings of the Public Interest Review Group and Audit Quality Forum and I joined a meeting of the Midlands partner group, with more regional partner meetings planned for later in FY21.

There is a direct reporting line between the UK Ethics Partner and the INEs; in fact I was involved in the interview process for his appointment during the year. Feargus meets with us on a regular basis (at the UKOB, INE Oversight Committee and in one-to-one meetings) and there have been occasions during the year when he has asked for INE input on specific proposed engagements of particular public interest.

I was also involved in the interview process for the appointment of the Audit & Assurance Head of Quality & Risk, which was taken up by Alan Chaudhuri on 1 June 2020. I strongly supported the appointment of Feargus and Alan and think both are great additions to Deloitte's management team.



Jim Coyle
Independent Non-Executive

"The assurance auditors provide is critical to the effective functioning of the capital markets in the UK and we take our responsibilities very seriously."

During the year we engaged with investors and audit committees through roundtables, events at the Deloitte Academy and Deloitte's Audit AGM. We met with the FRC twice during the year as part of its Audit Firm Monitoring and Supervision programme and once in respect of its Audit Quality Reviews. In July 2020, we also attended a roundtable organised by the FRC with INEs from the other large firms, to discuss audit reform and proposed changes to the Code.

How has your role changed during the COVID-19 pandemic?

Throughout lockdown, the importance of our governance role increased significantly and our public interest focus was even more critical.

Steve Williams, UKOB chair, initiated weekly update meetings to keep us informed on the actions being considered and taken by management. Extra UKOB meetings were also arranged in May and June to discuss and challenge management's response, particularly around the firm's resilience and reputation.

In addition, Shirley attends the meetings of the Partnership Council (the body responsible for ensuring fairness and equity between partners) as an observer and there have been extra meetings of that body to consider the impact of the COVID-19 response on the partners.

Almira, Shirley and I met with both Jack Kelly and Alan Chaudhuri (outgoing and current UK Audit & Assurance Heads of Quality & Risk) to discuss the challenges to audit and the actions being taken to maintain audit quality.

While I met with the Audit Quality Forum in person earlier in the year, Shirley and Almira's meeting with them happened during lockdown. It was hugely valuable for them to hear directly from Deloitte's people about their day-to-day experiences of auditing remotely; particularly the challenges they faced in continuing to deliver audit quality, but also what positives they want to retain when things go back to 'normal'.

How have you overseen the audit partner remuneration process?

It's important to note this isn't a regulatory requirement yet. However, Deloitte has chosen to involve the INEs early as a voluntary move towards the governance changes proposed by the Competition & Markets Authority in April 2019 and now adopted by the FRC in its principles for operational separation.

To note, the FRC recently reviewed the firm's audit partner remuneration process (as discussed later in this Report); no negative findings were reported.

During the year, I attended three meetings of the Audit Quality Remuneration Committee as an observer and saw for myself how rigorously audit quality events are considered by the members of that committee. Almira, Shirley and I also discussed the final recommendations on overall audit partner remuneration with Stephen Griggs and Alan Chaudhuri, specifically challenging them to explain how the firm's own policies and procedures were followed before those final recommendations were ultimately taken to the NSE Board for its approval of the profit allocation.

Bearing in mind the objective of improving audit quality, the 'red/yellow card' concept (discussed later in this Report) is a good one. Receiving a yellow card clearly indicates to the partner concerned that quality is not where it should be, but also allows them the opportunity to improve.

We made some suggestions around where we felt the policy and procedures can be tightened in preparation for next year, which the firm will be taking forward. However, overall, we are satisfied processes were in place during the year to ensure audit quality was taken into account in determining audit partner remuneration, based on the framework established for FY20.

Independent Non-Executives³



Almira Delibegovic-Broome QC

(appointed March 2020)



Shirley Garrood

(appointed May 2020)



Baroness Ford

(appointed after year-end, in August 2020)

³ Lord Grimstone and Ruth Markland also served as Deloitte INEs during the year, stepping down from those roles in March and May 2020, respectively.



What are your views on the audit reforms being proposed?

The direction of travel makes sense and is the right thing for audit. Doing nothing is not an option, but it is critical the reforms enhance audit quality rather than compromise it. We provided input to the firm's responses to each of the audit reform consultations and our views and suggestions were reflected in the firm's final submissions.

We are delighted to see Deloitte taking a leading role in the debate and we fully support Stephen Griggs' view, expressed in The Telegraph in June, that "COVID-19 must be a catalyst for pushing on with, not waiting for, much needed audit reform."

As announced in its September 2020 press release on audit governance changes, the firm has already taken steps to enhance its governance structure and our oversight of the audit partner remuneration process this year is a great example of that. Shirley's recruitment as an INE who only oversees our External Audit work clearly signals the way Deloitte's governance is heading in preparation for operational separation.

We are closely monitoring the firm's progress on its plans for operational separation and have confidence in Deloitte's ability to ensure an operationally and financially resilient Audit & Assurance practice that retains access to the specialists that are so critical to audit quality.

Is audit quality high enough?

Clearly, the results of the various internal and external reviews undertaken during the year indicate it is still not high enough. However, that is not to say audit quality is not already good or that it is not improving.

As I said before, audit quality is a primary focus for us as INEs. We see the significant investment, both financially and in terms of time and resources that Deloitte has made, and continues to make, in improving audit quality and how seriously it takes any negative quality event. Lessons are learned from cases such as Autonomy and the firm's procedures have evolved since that work was performed (between 2009 and 2011).

Of course, the COVID-19 pandemic brings new challenges for entities and, consequently, for audit quality.

In conclusion, we are confident Deloitte's culture and commitment to quality, its robust governance and its willingness to adapt put it in a strong place to deal with the economic and regulatory challenges that lie ahead... and the inevitable scrutiny those challenges will bring.

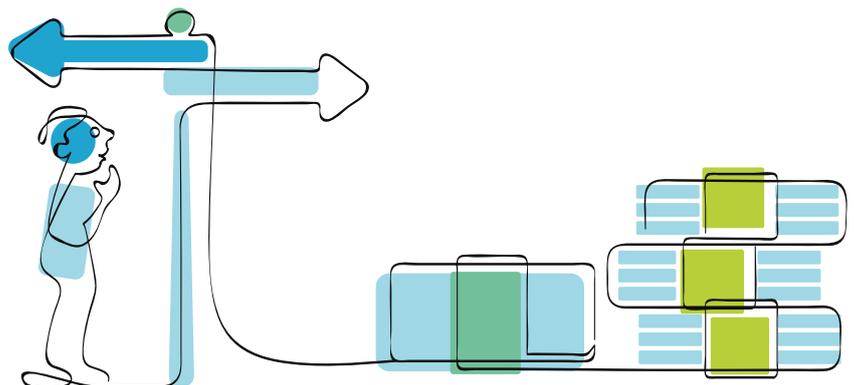
Communicating with Deloitte's stakeholders is a key part of our role and we are delighted to receive any feedback. If you would like to contact us, please do so at:

independentnon-execs@deloitte.co.uk

Almira Delibegovic-Broome QC Independent Non-Executive

"Having joined Deloitte's INE team just three weeks before the lockdown started, I have been impressed with the way the firm transitioned, so efficiently, its large workforce to home working; how it kept the INEs informed of the actions the Executive was taking; and how it took on board constructively our comments on the Executive's proposed courses of action.

"As INEs, we have a busy agenda ahead of us in FY21 and beyond, in particular overseeing the further development and implementation of the firm's operational separation plan. However, the experience of those initial 'COVID-months' of my tenure provide me with reassurance that the work required will be done professionally, bearing in mind the right values."



Message from Stephen Griggs, UK Managing Partner⁴

When I was thinking about what to write this year, the word that immediately came to mind was 'challenge'. It has certainly been a challenging year for everyone – our people, the businesses we audit and society as a whole. Now, more than ever, we need to rise to that challenge and push ahead with audit reform and restoring public trust.

How is Deloitte's Audit & Assurance practice responding to the challenging business environment?

Firstly, I would like to thank our people for their outstanding efforts throughout the year and particularly over the last six months.

Within the space of a few days, our entire UK Audit & Assurance practice had to adjust to operating remotely - away from each other and the entities they audit. The dedication of our people was vital in ensuring we maintained audit quality.

In the frequently asked questions on audit quality later in this report, we talk about the detailed steps we took to adapt and strengthen some of our processes and controls during the lockdown.

The wellbeing of our people continues to be a priority. We have a strong culture of collaboration and consultation within the Audit & Assurance practice, so we also took steps to ensure partners and teams continued to be supported, engaged and connected with each other.

The economic impact of the pandemic and the increased risks of working remotely also place a greater onus on businesses to make sure their controls and processes are robust. A number of audit opinions were delayed until we were fully satisfied we had gathered sufficient evidence to support sign-off. I know that put even more pressure on some businesses, however, companies have had to accept COVID-19 has created material uncertainties that they need to be transparent about.

Is now a good time to be reforming the corporate reporting ecosystem?

In short, yes. It is the right thing to do and we must push on.

As we have consistently said, we fully support a package of measures - reforming audit regulation and the audit product, and improving choice and resilience in the audit market - but we recognise some reforms will require legislation and government priorities are currently elsewhere.

The COVID-19 pandemic has brought companies, regulators and auditors together to navigate corporate reporting in an increasingly challenging environment. One where future viability is often unclear, where there is a heightened risk of fraud and where businesses have to demonstrate their impact on society like never before. We must use this momentum to drive longer-term change – creating an audit product of the future that is valued by all stakeholders.



Stephen Griggs
UK Managing Partner

“We fully support a package of measures - reforming audit regulation and the audit product, and improving choice and resilience in the audit market.”

⁴ Stephen was Managing Partner Audit & Assurance during FY20 and until September 2020, when he was succeeded by Paul Stephenson.



Companies must also play their part by investing in their processes and controls, including monitoring whether those processes and controls are working effectively. We support a form of Sarbanes-Oxley in the UK where directors or boards of directors, management and auditors are required to report publicly on the internal controls over financial reporting.

There is an increasing expectation that corporate reporting provides a richer, more forward-looking and complete view of performance, including in non-financial areas such as managing climate risks or the treatment of supply chains and employees. Access to reliable and meaningful data on a real-time basis is now more important than ever in distinguishing well-governed companies and their ability to cope with disruption. It is absolutely right that society should have confidence in the completeness and accuracy of corporate reporting, and we recognise that we, as auditors, also have a critical role to play in that regard.

We have already started taking important steps by enhancing our own governance (which Steve Williams sets out in his report on the work of the UKOB) and we are working with the FRC to implement its principles for operational separation from 1 June 2021.

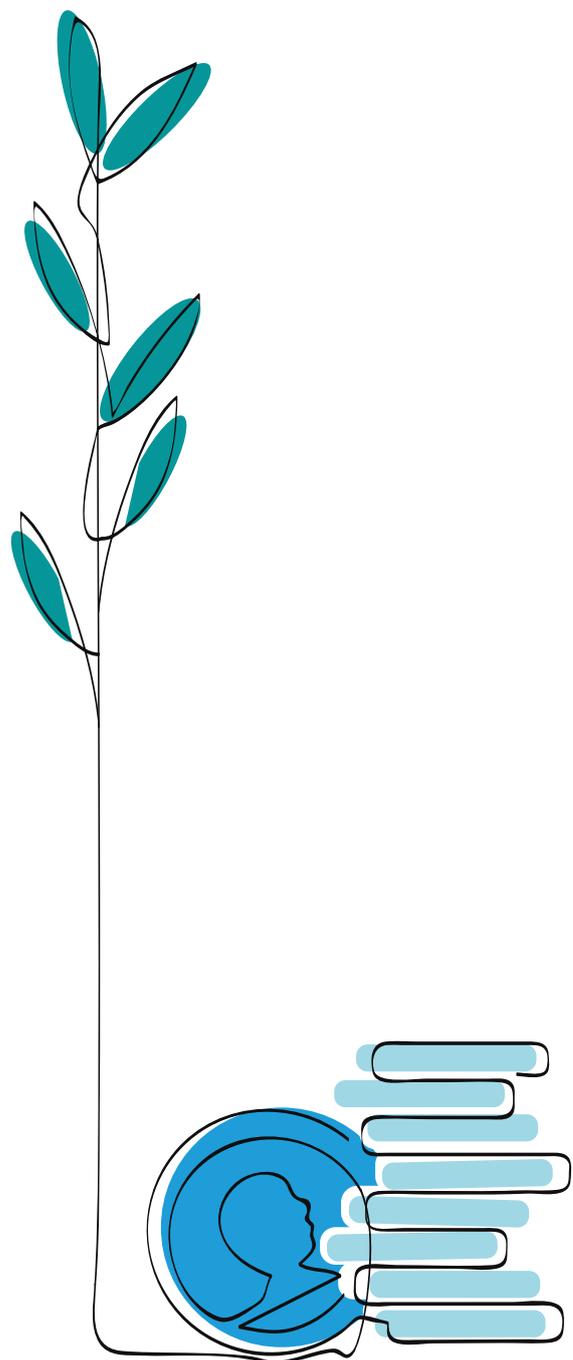
How do you satisfy yourself that audit quality is always the number one priority?

I have trust in my team, in the policies and procedures we have built and in our people's commitment to delivering audits of the highest quality. However, I do recognise it is not always easy and we have more to do. Unfortunately, there are times when we do not meet the standards expected of us; we are very focused on learning from these situations and on taking steps to continually improve the quality of our audits.

I take the findings of the FRC Tribunal regarding our work on Autonomy very seriously. While our procedures have evolved significantly since this work was performed in 2009 to 2011, we must continue to transform our audit business to further improve audit quality and respond to an increasingly complex corporate landscape. The outcome of the root cause analysis that we have agreed to undertake on Autonomy will feed into that process.

I value the insight provided by the FRC's annual audit quality inspection and am pleased with our 2019/20 results. However, we know there are areas where we need to do better and we have already taken action to address the FRC's findings. Coupled with the other external regulatory review results and the results of our own internal review activities, these findings provide a focus to our quality programmes and improvement activities.

I see for myself every day the absolute commitment of our people to delivering the very highest standards of audit quality and know how much we, as a firm, invest in continuous improvement. That said, I understand the public concerns around audit and recognise there is even more we need to do to restore trust. This is a critical objective for our audit business and for our wider firm. There is a lot at stake and we are committed to playing a leading role in reforming audit in the public interest.



Our purpose and commitment - instilling trust and confidence



Message from Jack Kelly, former UK Audit & Assurance Head of Quality & Risk⁵

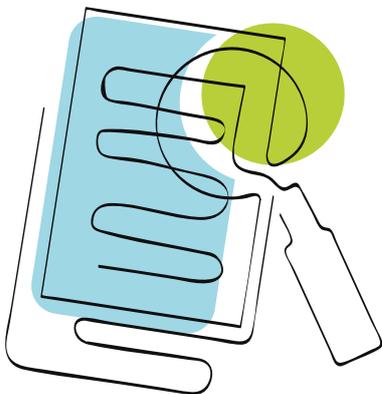
Consistent with my message in our last two Transparency Reports, I see how the overall quality of our audits has improved. However, the results of the external practice reviews are still not good enough as some of those audits inspected have not reached the required standard.

This year we were also inspected by the PCAOB. They conduct an inspection every three years, typically looking at three audits (one in conjunction with the AQR) and review a number of aspects of our System of Quality Control (SQC). Whilst their results are not yet finalised, as we talked to them about our SQC areas I was struck by the extent of positive change since their last review; it is easier to demonstrate change across a period of years as opposed to annually. If I pulled one aspect out which I believe showed a marked difference, it would be in the attitude to quality and serving the public interest from all our people across everything we do.

Similarly consistent with my last two reports I remain proud, perhaps more so this year because of the COVID-19 pandemic, of the significant efforts audit partners and their teams put in to protect the public interest. Different to prior years I hope investors are beginning to hear more stories about specific audits - not just because our audit reports are more detailed, but because of the level of challenge experienced by the company and change required. And if investors are not hearing that, from the companies, they should ask the question.

The pandemic has presented many challenges and the audit is no exception. A number of the most critical judgements, particularly around the carrying value of assets and the short and long-term viability of the company, rely on forward-looking forecasts. Now more than ever the past does not provide strong evidence of the potential future and hence the level of judgement that management needs to apply, and challenge the auditor needs to provide, increases. Most companies, but not all, have responded well. However, as a result of audit challenge, there remain too many adjustments made, too many disclosures significantly enhanced, too much overly-positive narrative edited, and too many companies where the internal control environment and corporate governance require strengthening. These conversations are difficult at the best of times - they are obviously made more difficult when the audit team is working from home.

Returning to our inspection results, we need to continue to improve and those improvements must be more evident within our audit files and hence to the AQR. Alan Chaudhuri, my successor as Audit & Assurance Head of Quality & Risk will take you through some of the areas where he is looking for change.



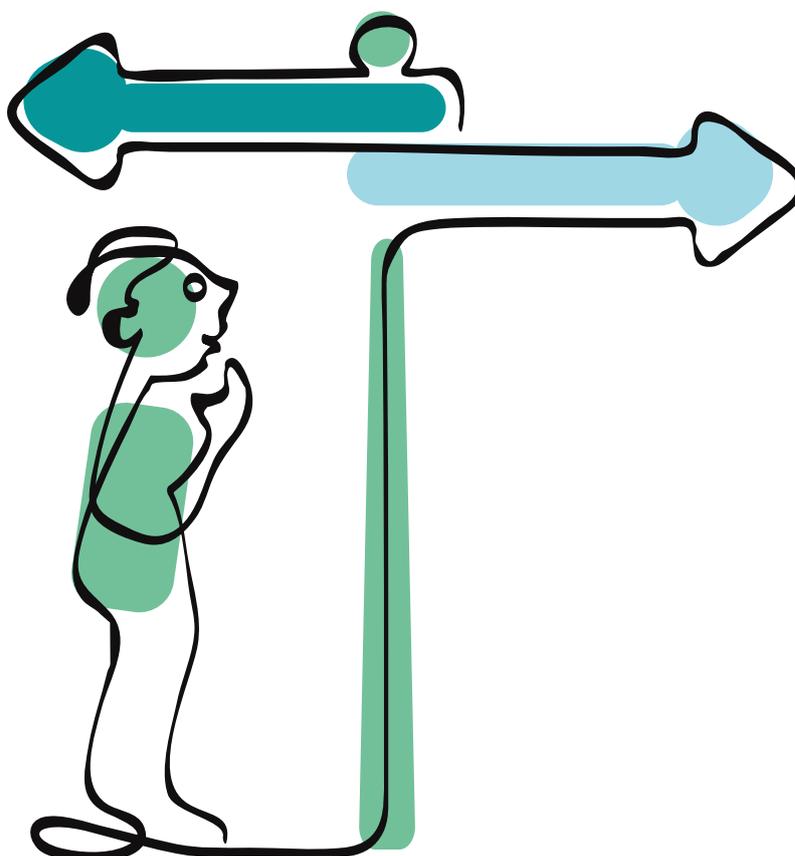
Jack Kelly
Former UK Audit & Assurance Head of Quality & Risk

“If I pulled out one aspect which I believe showed a marked difference, it would be in the attitude to quality and serving the public interest from all our people across everything we do.”

⁵ Jack is currently Audit & Assurance Head of Quality & Risk for Deloitte NSE.

Before that, recalling a question an investor once asked me, which I never felt I adequately answered, of “How can we help you improve audit quality?”, I wanted to end on a few areas where I believe different stakeholders can play an active role:

- Management openness and transparency:** The best management teams, and hence the best companies, are those where management is the most open and transparent. This strength comes through their whole narrative on their results, balance sheet position, and as importantly the risks and challenges they face. Obviously it is easier to audit companies with this culture, but it can also provide confidence to other stakeholders and commentators.
- Board’s challenge and scepticism:** We, and the profession as a whole, need to enhance the level of challenge and scepticism in an audit and we are committed to doing what is required. However, we audit the numbers presented to us by management, often already approved by the Board of Directors, hence if a judgement is being ‘justified’ to us as opposed to being ‘supported by evidence’ then it is one we presume the company as a whole stands behind. If it does not stand up to scrutiny then management’s and the Board’s review processes may well have failed.
- Investor insight:** Auditors serve investors and the public interest. When any service is provided in any industry, support from the recipient of the service is critical. That does not mean the service provider should not be held to account, far from it, but if there is a concern with some aspect of the business being audited then it is surely easier to tell the service provider than wait to see if they pick it up. There should be increased dialogue with investors. We are doing so much more than we were in the area of risk sensing, but the investor community can help further if this is done in an appropriate manner.
- Balanced and consistent regulators:** Regulators in the UK and globally have done an incredible job supporting the profession over the period of the pandemic and should be congratulated for the work they have done. Auditors do need to be held to account, but that should be done in a balanced and consistent manner. Finally, regulators need to provide us with the tools to make it easier to produce a quality service and that, in my opinion, undoubtedly requires a UK version of Sarbanes-Oxley.





Message from Alan Chaudhuri, UK Audit & Assurance Head of Quality & Risk

Audit quality is of the utmost importance to us. We strive for the highest quality, as reflected in the tone set from the top of the firm, starting with Richard Houston.

We have made enormous strides in audit quality over the past five years through Jack Kelly's tenure, and greatly improved our inspection results. But that does not mean we get it right all the time. In order to take our audit quality to the next level, I need our audits to improve further so that 100% are of the highest quality and consistently delivered.

We are committed to doing that through more investment in our tools, training and guidance and, even more importantly, through instilling in our auditors the importance of their role. We need them to be acutely aware of the challenge they need to bring to protect the public interest, through the recognition and reward of good behaviour and a zero tolerance for underperformance.

As Richard mentioned, we need to embrace operational separation of the Audit & Assurance practice. We should use it to redefine the public perception of auditors, demonstrating that we always act in the public interest, and show the true value of good auditing. Through the current audit cycle, I have seen countless examples of challenge, whether that is raising significant adjustments to be made to a company's numbers, causing a CFO or Audit Committee to reconsider their financial reporting process, or requiring a company to disclose a difficult matter in more detail than they wished because it gives investors important information. It is all vital to the public interest, but often this challenge is not visible to the wider public.

As Jack commented, our AQR inspection results have stayed strong: while our overall percentage has declined slightly, the AQR has been focussing on riskier and more complex audits; so what does that tell us? Firstly, we do the vast majority of these risky and complex audits to a very high standard. Many of the audits inspected received good results, calling out the actions of the partner in challenging management and boards. There were a small number of audits where that was not the case, including those where challenge and scepticism were applied by the audit team but where that challenge was not well evidenced on the audit file and not well communicated. This tells me that while we are capable of delivering high levels of scepticism and challenge, we are not yet executing it in a wholly consistent manner.

Our partners are doing it because it is the right thing to do, which is very important, but this approach needs to be a natural and pervasive part of every audit process. To address this, I need to make sure this mindset is fully embedded and our audit partners and people have the tools they need to execute a high quality audit every time. All our audit tools, guidance and training that are discussed later in this report support them in this, but I'd like to call out specifically the work done by specialists, particularly on complex areas like management estimates. Also, our transformation of certain areas of the audit using the Deloitte Way Workflows and Audit Blueprint, which frees up time for the team to identify and concentrate on the areas of more significant risk.

Hand-in-hand with the work we are doing internally to improve how we challenge management and boards, we must also shift the mindset of the companies we audit so they better understand the role we play. It is not appropriate for an Audit Committee Chair to complain because we have challenged the judgement of the board, nor is it right for management or the board to rely on the audit to uncover errors because their own financial systems are weak or their finance function is not well resourced. We have work to do, both at Deloitte and as a broader auditing profession, to improve how those outside audit firms approach the role of the auditor and the purpose of audit within the financial reporting ecosystem.

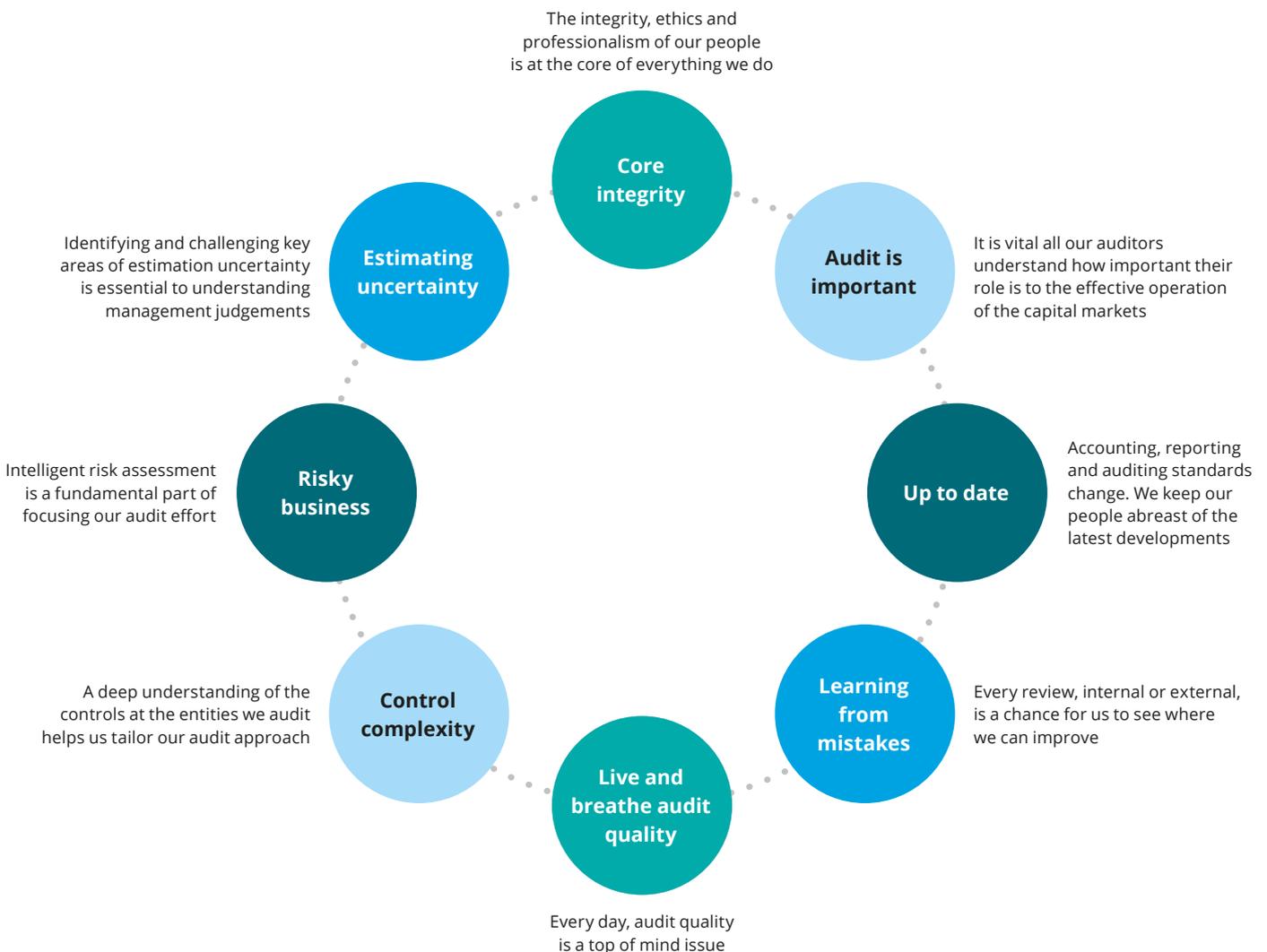


Alan Chaudhuri
UK Audit & Assurance Head
of Quality & Risk

"In order to take our audit quality to the next level, I need our audits to improve further so that 100% of Deloitte audits are of the highest quality and consistently delivered."

Delivering quality audits

In this section, we summarise the key areas we believe those reading this report will be most interested in – the areas that are pervasive in delivering high quality audit work, along with the particular areas of focus which present auditors with the most challenge. Our focus on continual improvement and learning from our mistakes is vital. Appendix 4 goes into more detail about how our culture, people and processes, together with our monitoring programme, support audit quality.





Core integrity

The integrity, skills and professionalism of our people is at the core of everything we do.



Strong foundations

We have an Ethics Code of Conduct which sets out the non-negotiable expectations that we have of our people across the Deloitte network. We look for integrity in recruiting auditors, and it is a baseline for all appraisal discussions.

[Read FAQ](#)
1, 2, 27, 28

Current year developments

We run mandatory ethics training for all our people. With the FRC's revised Ethical Standards effective from 15 March 2020, we organised focused sessions as part of our monthly technical update for qualified staff, as well as issuing regular email reminders on the new rules.

Looking to the future

The importance of integrity, ethics and professionalism will continue to be a focus of communications with our people, as we look to build a culture of challenge. COVID-19 has had an impact on the timing of our recruitment and reward discussions for 2020, but our focus on the integrity of our people remains the same.

Audit is important

It is vital all our auditors understand how important their role is to the effective operation of the capital markets.



Strong foundations

Our Purpose & Values Working Group actively promotes the purpose of audit, reinforcing our core values and acknowledging the behaviours we wish to encourage and reward throughout the firm.

[Read FAQ](#)
3, 11

During our annual Engagement Team Based Learning sessions, partners are encouraged to share their knowledge and bring to life practical examples of where audit has made an impact on our stakeholders.

Current year developments

The role of auditors has never been more important or as under scrutiny as it is today. We've engaged our people and encouraged them to learn more this vital topic through intranet articles and email and video messages from audit leadership. In addition, our partners and directors have had the opportunity to discuss what we do and how we do it with audit leadership via video calls and meetings.

Looking to the future

We are responding proactively to the recommendations on evolving the role of the auditor. In the coming year, we will be developing our plans for operational separation of our audit business. We are also continuing to develop the audit product and its role within the corporate reporting landscape to demonstrably act in the public interest. This includes setting out a clear route to implementation of some of Sir Donald Brydon's recommendations, focusing on business model risks.

Up to date

Accounting, reporting and auditing standards change. We keep our people abreast of the latest developments.



Strong foundations

All our people have a tailored learning experience specific to their role, including regular audit, accounting and industry-specific training to allow them to fulfil their potential and to deliver high quality audits. Each of our qualified audit professionals completes our year-round, blended learning programme 'TechEx', and compliance is monitored and reported to audit leadership.

[Read
FAQ](#)
7, 8

Current year developments

Over the past few years, and continuing in the current year, we have trained our people on the latest changes to accounting standards, including financial instruments, revenue and leases. In FY20, TechEx focused on critical areas of our audits including:

- internal controls
- accounting estimates and professional scepticism
- climate change
- data analytics
- project management
- risk assessment
- respect and inclusion.

The delivery of all of these modules was led by experienced partners and subject matter experts, to ensure the highest quality, consistency and the greatest impact.

Looking to the future

COVID-19 has provided a valuable opportunity for us to consider alternative delivery mechanisms for our learning programmes and demonstrated our ability to respond in an agile manner to the changes around risks and audit approach as a result of the pandemic. We are continuing to further adapt our digital learning and virtual classroom offerings to provide an impactful range of channels for delivery of technical learning. For FY21, we have completely revamped our annual TechEx course to be entirely digital.

Learning from mistakes

Every review, internal or external, is a chance for us to see where we can improve.



Strong foundations

We have an extensive internal practice review programme, alongside the external reviews conducted by our regulators. Findings on each engagement that falls below our high standards undergo a causal factor analysis to work out what went wrong, and define the actions required to improve.

[Read
FAQ](#)
29, 30, 31

Current year developments

We strive for all our audits to reach the highest quality standard, and have a detailed audit quality plan with focus on each of the areas identified by the FRC's review, for example management estimates. These are included in training and technical updates for our people.

Looking to the future

We already use Audit Quality Indicators to monitor how we are doing against our own high quality targets. We are planning to develop these further and extend the suite of metrics that we monitor, focussing on leading as well as retrospective indicators.



Live and breathe audit quality

Every day, audit quality is a top of mind issue.



Strong foundations

In order to drive the right behaviours, audit quality is fundamental to our appraisal and reward system and is the key element in all promotion decisions, including for directors and partners. We recognise exceptional contributions to high quality audits through our audit quality awards.

[Read
FAQ](#)

29, 30, 31

Current year developments

This year we gave 69 individual and 14 team audit quality awards, for upholding professional standards, assisting on challenging matters, agility to lead change, and sharing knowledge with others.

Looking to the future

The future of audit includes many different skills, some of which, like data analysis and project management, are not traditionally the province of finance professionals. We will work to ensure that all our colleagues, whether professionally qualified or not, place the same high value on delivering audit quality day in, day out.

Control complexity

A deep understanding of the controls at the entities we audit helps us tailor our audit approach.



Strong foundations

As part of our audit risk assessment process, we consider the entity's system of internal control, and test and rely on controls where they are sufficiently robust and well-documented to support our audit approach.

[Read
FAQ](#)

15, 25

Current year developments

Over the last few years, we have developed our process for reporting to Audit Committees and independent non-executives where we identify significant weaknesses in controls. We now request a formalised action plan from management and actively monitor progress. We see this programme as an important part of our public interest role.

Looking to the future

We support a move towards a UK version of Sarbanes-Oxley where management take more explicit responsibility for internal controls focused on areas of key business model risk. This will drive responsible behaviours and meaningful reporting to provide stakeholders with better transparency of the integrity of the control environment.

Risky business

Intelligent risk assessment is a fundamental part of focusing our audit effort.



Strong foundations

The core of our audit methodology is a robust, fact-based risk assessment, with an audit response based on the level of assessed risk.

We publicly report the most significant areas of our audits as key audit matters, in our audit reports for listed companies and EU public interest entities, and privately to those charged with governance for other entities.

Current year developments

Our new 'Deloitte Way Workflows' include a Guided Risk Assessment for each area of the audit. They are used consistently across our Global network, allowing us to work effectively within the UK and with our overseas colleagues on international group audits. We build climate risk into our risk assessment, for example looking at impacts on supply chain and asset valuation that could affect our audit.

Looking to the future

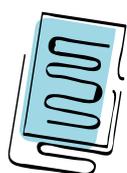
Looking forward, we are developing our audit product to ensure that we embed specialists into our risk assessment approach where there is a heightened risk area, such as fraud, cyber and viability. We continue to challenge how we can – within existing ISA requirements – ensure that our enhanced audit reports are informative and respond to matters of public interest.

[Read
FAQ](#)

13, 25

Estimating uncertainty

Identifying and challenging key areas of estimation uncertainty is essential to understanding management judgements.



Strong foundations

Auditing management judgements and estimates is challenging, and where we have had review feedback both from internal and external reviewers that we have to improve. For example, we've developed a team of specialists for audit teams to consult with – they see a wide variety of management judgements and are able to apply specialist knowledge to help the core audit team deliver a robust audit challenge.

Current year developments

This was an area of focus in our 2019 and 2020 TechEx learning. We are developing using specialists in more areas of audit judgement, such as our Debt and Capital advisory specialists. Several of these areas of audit judgement are deeply affected by COVID-19, and we have increased our use of specialists where appropriate.

Looking to the future

As we move to standardising more normal-risk areas of the audit using our Deloitte Way Workflows, we are freeing up time for our core audit teams to work on delivering a robust challenge of management judgements in the significant areas that require most thought, tailoring and knowledge.

We are also developing audit analytics to widen the use of benchmarks to help audit teams assess where judgements fall on a wider scale, and continue to assess how this range of outcomes can be communicated in a meaningful, clear and consistent way to stakeholders.

[Read
FAQ](#)

29, 30, 31



Frequently asked questions on audit quality

As we say throughout this report, audit quality is of the utmost importance to us. In this section we go through the main areas that support audit quality:

Our culture – directly impacts everything we do

Our people – whose skills, experience and mindset are essential to the quality audit

Our processes – enable our people to do the right thing

Audit quality monitoring and measurement – tracks our performance and identifies ways to continually improve

This section sets out the detail of our procedures around audit quality in each of these areas. It may be read in full, or with reference to the areas highlighted in the summary at the start of the Delivering quality audits section.



Our culture

Our culture drives the behaviours of all of our people and is a fundamental contributor to audit quality.

1. How do you set the right tone from the top?

We keep it simple - the tone from the top is honest, consistent and clear. We cascade it down and engage our people through firm-wide communication and audit-specific activities.

We strive to create a culture of openness where our people feel empowered to challenge and discuss issues without constraint, and to always “do the right thing”. We know that promoting the right culture is an essential part of building confidence and trust in our profession and we continue to speak to our colleagues about our culture and address anything that we feel we aren't getting quite right.

We reinforce our culture in lots of different ways. Topics such as pride in our profession, innovation supporting audit quality, celebrating when our people go above and beyond to deliver audit quality, and maintaining professional scepticism regularly feature on our intranet, in leadership questions and answers online, at our annual TechEx training and at audit business ‘town hall’ meetings.

We mandate respect & inclusion eLearning for all partners and staff which clearly sets expectations around what a positive and thriving workplace environment and culture look like for our people. All leaders are assessed on how they create an inclusive culture, and one of the questions we ask all partners to prepare for in their year end reviews is “What have you done to create a more inclusive working environment?”.

Our people are recognised and rewarded for exceptional contributions to quality, which is described further below.

Return back to [Delivering quality audits](#) section.

Culture is an essential part of our business in engendering and preserving trust and we continue to define our culture and to build confidence and trust in our profession

2. What do you expect of your people?

The [Ethics Code of Conduct](#) sets out the core expectations that stakeholders can have of people across the Deloitte network, our shared values and the Global Principles of Business Conduct:

Shared values:

- Lead the way
- Serve with integrity
- Take care of each other
- Foster inclusion
- Collaborate for measurable impact

Read more about Deloitte's approach to ethics in Feargus Mitchell's message.

Return back to [Delivering quality audits](#) section.

3. How do you promote the value of audit to wider society?

We engage on the role and value of audit in a number of ways and fora, including:

- Through participation in professional forums, committees and roundtables, as well as via speaking engagements
- By publishing points of view on our corporate governance library, as well as in the press
- Through active participation in advisory boards and working groups across the profession to listen to and share perspectives on tangible steps to reform
- Through engaging on an ongoing basis with government departments, regulators, Parliamentary Select Committees and the media to inform the broader debate about the audit market and to share our points of view on potential measures for reform
- As set out in the investor liaison metric in Appendix 4, we hold at least one major stakeholder event per year, which brings together Deloitte leadership with investors, audit committee chairs, regulators, government, academics and other stakeholders to discuss the role of audit in the wider corporate reporting ecosystem and other topical matters of public interest
- The Deloitte Academy runs a programme of events for, primarily, independent non-executives, many of which focus on corporate governance and reporting, to help inform and provide guests with an opportunity to engage with Deloitte and external experts on key matters relevant to their roles, including in relation to audit.

Return back to [Delivering quality audits](#) section.



- Our Purpose & Values Working Group (renamed from the Audit Culture Working Group during the year) has representation from across our Audit & Assurance business. It is committed to actively promoting the purpose of Audit & Assurance, reinforcing our core values and acknowledging the behaviours we wish to encourage and reward throughout the firm.

The Group's key activities since inception have been to promote and embed Deloitte's five shared values in a range of ways including how we communicate internally, how we recognise positive individual contributions and how we communicate with the companies that we audit.

Partner-led discussion on the purpose of audit forms part of the Engagement Team Based Learning support materials. This places greater emphasis on sharing knowledge and bringing to life practical examples of where audit has made an impact to our stakeholders.

4. How do you know what your people think about your culture?

We run staff surveys every quarter covering over 4,000 of our staff each time, sharing anonymised responses with leaders to improve our future planning and to focus action in our audit business. They inform and shape our work around culture by actively listening to what our people are saying and obtaining continuous feedback on many topics. Recently there has been a focus on wellbeing and how we are responding to the COVID-19 crisis. The results of the surveys feed directly into our actions in these areas (see 6. for more information). On a firm-wide level we have also had a focus on BLM and our resulting Black Action Plan, which is discussed further in our Annual Report.

Our people

The professionals working on our audit engagements have the right knowledge, experience and competence to deliver work of the highest quality and are properly directed by skilled partners and managers.

5. How do you recruit and retain the best people?

During the year ended 31 May 2020 we recruited 539 people into our Audit & Assurance graduate and school leaver programmes. We have also recruited experienced hires, including audit practitioners from other Deloitte network firms, and we maintain the high calibre of the people within our Audit & Assurance practice through a rigorous recruitment process, including skills assessments and competency-based interviews.

During the year we completed the first cycle of a redesigned graduate hiring approach, which enabled us to measure and benchmark all applicants together, allowing us to progress with the top performers and finalise hiring decisions quickly and efficiently. This led to increased candidate engagement and enhanced candidate experience and also improved the gender and people from an ethnic minority background mix of graduate and school leaver entrants. For the coming year, due to the impact of COVID-19 on our business, audit work and training schedules, we have deferred the start date for approximately 60% of our new joiner intake to January 2021 and are in the process of redesigning our training and development activities for that cohort to ensure that the training and skills development remains robust.

6. How do you look after your people?

Employee wellbeing is at the heart of our people and purpose strategy and we are focused on offering an environment that supports both the mental and physical wellbeing of our people. We believe that a greater awareness is crucial and we have programmes to support this across the firm.

During the COVID-19 pandemic our working practices changed, with all our people working from home. This posed new wellbeing challenges, which we sought to address at senior level through regular videos, webinars and emails from leadership. At a more granular level, we also encouraged virtual team catch-ups, a firm-wide wellbeing project including virtual exercise classes and webinars - such as awareness of mental health issues - and a coffee club and buddy scheme designed to help those people feeling isolated. Our intranet frequently features the mental health resources available to support our people.

Continuing education of statutory auditors

In accordance with Article 13.2 (h) of the EU Audit Regulation, we confirm that staff working on statutory audits receive suitable training through the learning programmes detailed in this Report in order to maintain their theoretical knowledge, professional skills and values.

Entity-facing staff (and some others involved in preparing or presenting training material for entity-facing staff) are required to complete a Continuing Professional Development Annual Summary detailing what they have done throughout the year to acquire, develop and keep up to date the necessary professional competence to enable them to fulfil their roles.

7. How do you keep your people up to date on audit and accounting matters?

Continuing professional development is an area of focus that is integral to the growth and progression of our practitioners. Everyone receives a tailored learning experience specific to their role, including regular audit, accounting and industry-specific training to allow them to fulfil their potential and to deliver high quality audits.

Each of our qualified audit professionals completes our year-round, blended learning programme 'TechEx'. TechEx is delivered through a multi-faceted mechanism consisting of local, targeted workshops (TechEx on Tour - Spring), a live residential, experiential learning event (TechEx Live), further local workshops (TechEx on Tour - Autumn) and the opportunity to embed their experiences and learning onto their Audit engagements (TechEx Teams).

In FY20 TechEx Live focused on the critical areas of our audits including internal controls, accounting estimates and professional scepticism, climate change, respect and inclusion, data analytics, project management and risk assessment. The delivery of all of these modules was led by experienced partners and subject matter experts, to ensure the highest quality, consistency and the greatest impact.

We have a mandatory global audit learning curriculum for all grade levels which promotes consistency with other Deloitte member firms and incorporates parallel curricula designed for our practitioners working on PCAOB and ISA engagements. We supplement these courses with UK-specific learning topics and courses, as required, to best meet the needs of our business and markets, taking into account changes in methodology, accounting and reporting standards and internal and external reviews. Sector-specific courses are provided to particular audit specialisms, for example on financial instruments, client assets and loan loss provisions. For our charity auditors and Public Sector auditors there are annual training updates specific to these subject areas.

We have introduced 'milestone' courses as part of our five-year Early Career Development Programme where we recognise our professionals and the progress they have made over the past 12 months. These milestone courses provide the technical, professional and leadership competencies our practitioners require to continue to develop, flourish and embed quality on the audits they work on.

COVID-19 has provided an opportunity for us to consider alternative delivery mechanisms to our learning, in particular adapting our classroom offerings to either digital learning or virtual classroom delivery. It has been vital to respond in an agile manner to the changes around risks and audit approach as a result of the pandemic. We have completely revamped our annual TechEx course to be entirely digital, and are continuing to further adapt our digital learning and virtual classroom offerings to provide an impactful range of channels for delivery of technical learning.

All of our partners and staff are also supported in their legal, ethical and quality responsibilities by appropriate learning programmes, including regulatory/policy compliance, ethics, personal independence, data privacy and protection, GDPR, insider dealing, 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.

All of our practicing auditors are expected to complete their assigned mandatory curriculum and compliance is monitored. Any individual who has not completed their full curriculum within the designated timeframe is required to adjust their work responsibilities and audit quality objectives accordingly.

Return back to [Delivering quality audits](#) section.

8. What learning do our people have outside the structured training programme?

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

In the autumn of each year we run partner-led Engagement Team Based Learning (TechEx Teams), designed to help our people integrate their learnings from TechEx Live, and other training courses, into their work on audit engagements. In autumn 2019 this covered topics including internal controls; accounting estimates; transformation; and fraud and intercompany balance and transactions..

Return back to [Delivering quality audits](#) section.

9. How do we measure and reward audit quality performance?

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

The four main pillars against which audit partners and staff are assessed are

- 1. Team leadership**
- 2. Audit quality**
- 3. Audit transformation**
- 4. Building the business.**

Audit quality is an integral pillar in our promotion and remuneration decisions and we create an environment where high quality is valued, measured and rewarded.



For all our people

Regular check-in meetings encourage discussions around quality. Feedback is received via ‘snapshots’ for work on engagements and projects and from team leaders throughout the year, and the process is designed to ensure that audit quality is at the core of the appraisal discussion. Individuals are also able to request written feedback to support the discussions. Reward decision-makers review a graph of results for snapshot feedback, quality dashboard results and an individual’s self-assessment review of their quality objectives that have been addressed in their year-end performance discussions as part of the annual reward review process, to gauge a rounded view of individuals’ performance and development needs.

We are committed to furthering our culture of quality and excellence, which expects all our professionals to strive to demonstrate an exceptional contribution to quality. Partners and staff are not evaluated or remunerated on the selling of other services to the entities they audit.

For staff, we use the annual bonus scheme to recognise the demonstration of exceptional audit quality. The Audit & Assurance Quality Award scheme, described below, further rewards exceptional contributions to the above positive audit quality behaviours on a quarterly basis.

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

For managers, directors and partners

Managers and above are required to set Audit Quality objectives at the beginning of the appraisal year and to carry out a self-assessment exercise at year-end to review progress, which are considered as part of annual performance review discussions.

Each audit partner, director and manager receives a quarterly quality dashboard recording a variety of audit quality metrics covering matters such as positive contributions to audit quality, including:

- Findings from internal and external audit reviews, and corporate reporting reviews
- Timely completion of appraisal documentation and audit compliance (updates of personal independence and continuing professional development, timely archiving of audit engagement files, and timely completion of essential professional updates and other mandatory audit learning)
- For Responsible Individuals (audit partners and signing directors) any independence breaches and other procedural breaches
- Additional partner review role(s) they may fulfil

- Individuals’ own commentary (if relevant) on positive contributions to audit quality on a quarterly basis

Certain key metrics, such as the results of quality inspections of their audit engagements, are given an increased weighting in formulating an overall audit quality performance score and a Harvey Ball graphic, together with an indication of movement from the previous year, is included. Any failings in certain key quality metrics will apply a limit to the overall score, regardless of other performance indicators.

The audit quality dashboard is a key input into the appraisal and remuneration process for staff at manager level and above.

For Responsible Individuals and audit partners

In addition to their audit quality dashboard, each Responsible Individual receives an Audit Responsibility Rating, reflecting their roles on audit engagements. This is a key driver in their reward and promotion and recognises the level of risk, complexity and public scrutiny they shoulder in their roles, including any Engagement Quality Control Reviewer roles on audit engagements.

Partners have an annual goal setting process. A balanced scorecard is used to set objectives across the whole of a partner’s contribution and at the year-end process they are assessed on actual contribution against those objectives. Quality is one of the areas included in the balanced scorecard and partners ensure they pick up any remediation from quality dashboard scores in their quality objectives.

The Peering Regime provides a robust series of peering conversations applied to all recommendations to ensure partners are treated equitably, which includes responses to quality events.

If there are adverse findings from a quality review, we take various responses for the engagement partner. The overriding aim of the responses is to improve audit quality and may include:

1. **Inclusion in the Audit Quality Measurement and Monitoring programme (AQMM)**
2. **Additional coaching and learning for the partner(s) or Director Responsible Individual (RI)**
3. **Financial penalties in the form of bonus or unit reduction**
4. **Removing the individual from our group of Responsible Individuals.**

These responses may extend to other partners on the engagement, for example the Engagement Quality Control Review (EQCR) partner, the National Risk Partner (an independent partner assigned to our highest risk audits) or other key audit partners. Involvement of other partners is defined by the causal factor analysis.

The penalty scheme for negative quality events is based on a 'Yellow/Red card' system. Should there be a negative quality event, a partner may receive a yellow card from the Audit Quality Remuneration Committee (AQRC). The individual has one year to reverse the situation by making a positive quality contribution and if, as we hope, that contribution is meaningful the yellow card will be removed. If the situation is not reversed a financial penalty will arise. When a negative quality event is of such significance or represents a recurring quality failure, a financial penalty may be recommended without yellow card suspension.

The AQRC comprises a small group of experienced partners, independent of the Audit & Assurance Executive, who are respected for their own quality contribution. The AQRC uses the audit quality dashboards and audit responsibility ratings as key tools in their evaluation of partners, and its recommendations are used by the Audit & Assurance Executive to make final decisions on audit partner reward and promotion, which are then reviewed by the firm's overall Executive.

10. How do we recognise and reward exceptional contributions to high quality audits?

We are committed to recognising and celebrating our people who reinforce a culture of wellbeing, personal growth and development and to rewarding exceptional contributions to quality.

We have developed specific categories around culture and positive behaviours we want to recognise and to provide practical examples of how to acknowledge exceptional contributions to quality based on everyday scenarios.

Individuals from all grades across our business are actively encouraged to nominate their colleagues where they have seen exceptional contributions to quality by way of:

1. **Courageous actions to protect the public interest by upholding our professional standards**
2. **Voluntarily assisting in difficult and challenging matters that arise locally, nationally or globally in order to protect the Deloitte brand**
3. **Agility and capacity to lead change by applying an adaptive mindset and anticipating stakeholder needs to innovate**
4. **A drive to learn and share knowledge and thought leadership through teaching and instilling the knowledge in others**

Our recognition and reward scheme for exceptional contributions to quality is open to all Audit & Assurance staff. For this year we have awarded 69 individual and 14 team awards, and we continue to listen, acknowledge and reward our people throughout the year.

11. How do we develop the auditor of the future?

As we transform the nature of the audit to a more analytical, data-driven audit, so the nature and skills of the people we have auditing need to evolve and develop.

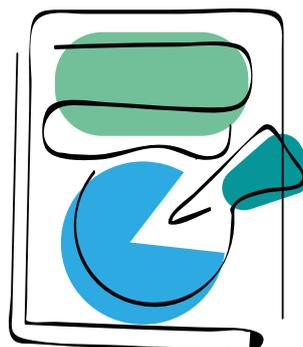
This starts from the moment they join us from school or university via our Early Career Development Programme (ECDP). ECDP provides our people with the building blocks to become both auditors and leaders of the future. The audit product is continuing to evolve and reform to respond to increased complexity and risks within the corporate landscape, and the changing needs of the stakeholders of an audit. As a result the auditor skill set needs to also adapt.

We are enhancing our technical learning curriculum to reflect the nature of work that our people will be doing in the future, focusing on the use of areas such as data analytics and IT to deliver an enhanced higher quality audit.

In addition we are working closely with specialists, embedding them into our audit to support our risk assessment approach where there is a heightened risk area, such as fraud, cyber and viability and to ensure that our auditors continue to expand their skillsets in these critical areas.

We are also directly recruiting and developing different types of skills to the traditional accountancy and auditing skills, including deep subject matter expertise in data science and advanced project management.

Return back to [Delivering quality audits](#) section.





Our processes

Our processes form the backbone of our audits. They are integrated into the work we do every day, to support our people in doing good audit work.

12. How do your systems and methodologies support high quality audits?

The Deloitte Audit Approach Methodologies are designed centrally by our global team (to which all Deloitte member firms contribute) and are 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.

The core of our methodology is a robust, fact-based risk assessment, with an audit response based on that risk assessment. We continue to enhance our audit methodologies across all the member firms in our network. This year we continued our global, multi-year programme to develop 'Deloitte Way Workflows' for each area of the audit, to promote greater global consistency in the execution of our methodology. Each of these workflows includes a Guided Risk Assessment, prescribed tasks and templates, embedded use of analytics and audit delivery centres along with associated guidance and support. These workflows allow us to perform audit work consistently across our global network, and ensure errors are spotted and escalated more readily, to maintain continuous quality improvement.

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 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.

13. How do you determine the most significant areas of our audit?

We determine the most significant areas of our audits through risk assessment. These include the most significant assessed risks of material misstatement (whether or not due to fraud). These areas include those which have the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

We report these, as key audit matters, in our audit reports for listed companies and EU PIEs.

Return back to [Delivering quality audits](#) section.

Audit and climate change

Climate and ESG (environment, social and corporate governance) information is crucial for the healthy operation of the world's capital markets. Investors, employees, suppliers, policy makers and other stakeholders need to have access to transparent data to distinguish well-governed companies and their ability to mitigate disruption and to provide a better understanding of the resilience of business models to withstand potential global shocks.

"The accounting profession has a leading role to play in tackling climate change. We're integrating climate change related risks into the core of our audit approach," said Veronica Poole, Partner, Global IFRS Leader and Head of Accounting and Corporate Reporting. In practice, this means challenging not only the narrative included in disclosures of strategies and governance of climate-related risks, but also the recognition and measurement impacts of these risks in financial statements.

Our people are being equipped to embed climate challenge into audits and advice. So last year, we put around 2,000 auditors – from partners to new joiners – through training on the impacts of climate change on business and implications of these for our audits. We developed a range of tools and resources to help our auditors integrate climate risks into the core of our audit approach.

We also developed learning modules focused on broader ESG matters, reinforcing why they are important as drivers of business value and risk, and how they should be embedded in the governance, strategy and performance management of companies. This learning aligns with new mandatory reporting requirements for directors to report on how they complied with their legal duty to have regard to the needs of stakeholders and other matters in promoting the long-term success of their companies.

14. How do you determine what level of error or misstatement we are worried about?

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work, via our assessment of performance materiality (see below) and in evaluating the results of our work.

Performance materiality is the level of materiality that we use to plan and complete our detailed audit work. We set this at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. In determining performance materiality, we consider our risk assessment, including the entity's control environment, and our cumulative knowledge of the entity, including corrected and uncorrected misstatements in prior periods. We have been reporting performance materiality in our recent audit reports, though this does not become mandatory for auditors until our reports on December 2020 year-end financial statements.

We agree with those charged with governance, such as the Audit Committee, a size of audit difference that we will report to them; we also report differences below that threshold that, in our view, warrant reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters we identify when assessing the overall presentation of the financial statements.

We scope our audits by obtaining an understanding of the entity and/or group and their environment, including internal control, and assessing the risks of material misstatement.

15. How do the entity's controls affect your audit work?

As part of our risk assessment we consider the entity's system of internal control. We expect audited entities to have internal controls to ensure that they can prepare financial statements that are free from material misstatement, whether due to fraud or error. We plan to test and rely on the entity's internal controls where they are robust and well-documented enough to support our audit approach.

We also consider the IT systems, applications and tools used to support business processes and for reporting. We perform an independent risk assessment to determine the most relevant, then test the general IT controls of these systems. This typically covers controls surrounding user access management, change management and interfaces with other systems, as well as controls over key reports generated from the IT systems and their supporting infrastructure (database and operating system).

We walk through the procedures of the key controls, then test them over the audit period.

Some of the hardest audits we do are those of companies where we identify concerns regarding control environments or governance and where we consider management or the board may not be doing enough to respond to those issues. We have established a robust process for reporting to the Audit Committee and independent non-executives where we identify significant weaknesses in a company's financial reporting environment including around controls or governance. We request those companies produce a formalised action plan to address our concerns and actively monitor the company's progress against this plan and request regular and verifiable updates. We see this programme as an important part of our public interest role and in bringing challenge to management through our audits. We will continue to raise this as part of the audit reform consultation process, as this regulatory reform is a key enabler to audit firms being able to provide more transparency to broader stakeholders in this regard.

Return back to [Delivering quality audits](#) section.



Testing and reporting on internal control environments is a developing and increasingly important issue. How do you challenge clients and assess their financial reporting controls?



We run automated controls testing tools to test IT controls, such as segregation of duties. Using this test we can assess whether any users can perform conflicting duties, for example raise a purchase order and pay a supplier, whilst also confirming that approvals recorded are compliant with relevant approval matrices. This tool supports our assessment of determining whether we can take a controls reliant approach, whilst also identifying instances where the controls had failed.



Having planned to take a controls reliant approach, we ran our automated control tools early and were able to communicate with management upfront where issues were identified and the implications for our audit. Management remediated the issues enabling us to rely on the control environment going forward.



16. How do you ensure the same high quality audit is done globally?

We have already described the learning that our people complete. The global audit learning curriculum is mandatory, promoting consistency across the Deloitte global network.

We serve many global businesses and focus on providing consistent, quality audits across the whole of our international network. We work closely with our 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. We are guided and assisted by a range of Deloitte Global bodies to which we contribute and from which a number of our audit quality initiatives stem, including committees that oversee audit quality and AQMM globally, and the Global Centre of Excellence for Audit Quality and Global IFRS Leadership Team.

During recent years, certain issues were identified in a small number of Deloitte Global member firms. To address this we have detailed Global guidance on how group auditors should evaluate and supervise the work of Deloitte component auditors. In certain instances, consultation is required to determine that there has been adequate supervision from the group auditors. This seeks to ensure that audits fully comply with applicable auditing standards throughout a wider group, wherever the other auditor is based, and whether or not it is part of the Deloitte network.

17. How do you integrate the audit work done at components into your group audit?

Where our audit is of a group, our approach focuses on the key audit matters identified within each business unit. We perform appropriate procedures on the rest of those business units' financial information, noting their financial significance in the context of the group as a whole.

The work performed by the component audit teams at each business unit is guided by the group audit team and is executed at levels of materiality applicable to each individual entity which are lower than group materiality. The group audit team is directly involved in the audit work performed by component auditors, such as through global planning issues meetings, the provision of referral instructions, review and challenge of related component inter-office reporting and of findings from their work, attendance at component audit closing conference calls and regular interaction on any related audit and accounting matters which arose.

The Senior Statutory Auditor and/or a senior member of the Group audit team visits the principal location of each significant business unit in person as and when assessed appropriate. Where this has been impossible recently due to COVID-19, the group audit team has increased their oversight of principle subsidiary business units by alternative means such as video calls and virtual shared screens.

18. How do you involve specialists to add their expertise to your audits?

The use of specialists is vital in our delivery of quality audits. The firm has over 2,000 practitioners (including tax, IT, real estate, actuarial and valuations specialists, as well as our centres of excellence for impairment and pensions) who act as specialists on audits. They share the same culture of delivering audit quality as our audit practitioners, are trained on audit specific matters, and work as integrated members of our engagement teams. During 2020 we introduced a formal accreditation programme for specialists involved in audits, with further consultation required if specialists have not completed their audit-specific learning.

All of our FTSE 350 audits required the use of specialists from outside the Audit & Assurance practice and over 55% of the reported key audit matters – the most significant audit risks including tax, pensions and other judgements and estimates - require the use of specialists.

The use of technical experts in our audits is also key to our ability to deliver audit quality. Our consultation system enables us to record when - and in what form – consultation on audit and accounting technical matters with our team of technical experts has taken place. This helps us ensure consistency in response and the ability to identify any trends where further guidance and training may be needed.

As our audits evolve, with operational separation of the audit practice, we will work to define which services will sit within and outside the audit business. A broad range of specialist skills from across the firm will continue to support audits and this will be increasingly important as the audit product itself evolves. This will ensure we can continue to realise the benefits of being a multidisciplinary firm to support audit quality.

 Given the importance of management judgments, how do you obtain assurance when they are based on inherently uncertain future events e.g. the impact of climate change?

 We use our Deloitte Sustainability specialists to develop independent models of the macroeconomic forecasts behind the Paris 2 degree goals, to effectively challenge management's own estimates, which underpin key asset valuations.

 We were able to raise specific and meaningful comments on asset measurements and associated annual report disclosures and demonstrate to the Audit Committee that we had independently challenged management's asset valuations.

 When significant or unusual commercial transactions are identified, how do you respond in your audit approach?

 When auditing business acquisitions, we deploy our Fair Value specialists to support us, particularly in assessing purchased goodwill and intangible assets. They are able to develop independent valuation models to ensure they work effectively, whilst also assessing judgmental inputs which drive the underlying calculation.

 Through consultation our specialist teams were able to identify discrepancies in calculations within management's models, which led to a significant error in the initial recognition of goodwill and intangible assets on an acquisition. We were able to raise these with management, ensuring that they were corrected prior to reporting.

19. How does your independent engagement quality control review work?

For public interest entity audits, higher risk audit engagements and certain other specified engagements, an independent EQCR partner has responsibility for the whole of an engagement's EQCR process, supported by Professional Standards Review (PSR), together with other specialist support as deemed necessary. This further specialist support may include dedicated technical specialists in our Quality Corporate Reporting Centre of Excellence.

PSR supports our high standards of professional scepticism and audit quality by providing independent challenge as appropriate, across our portfolio, focusing on significant accounting, auditing and financial reporting matters, appropriate audit documentation and disclosure areas. We regularly refine this process to reflect evolving audit and professional risks.

The PSR Centre of Excellence provides a dedicated central professional standards review team for many of our engagements, focusing on providing a consistent and knowledgeable approach to their reviews.

The independent EQCR partner role is performed by appropriately skilled and experienced audit partners who would, in other circumstances, be eligible to act as audit engagement partner on the relevant audit engagement. EQCR partners are involved in our public interest entities and higher risk engagements, together with other entities as appropriate. For other engagements, the independent challenge process is undertaken by the PSR team. Neither the EQCR partner nor PSR is part of the entity-facing team; they are 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.

We introduced an independent COVID-19 review partner for listed and large private engagements and certain other entities, who reviews COVID-19 specific matters around accounting, auditing or financial reporting, such as going concern and impairment.

 How do you challenge and support audit teams on higher profile public interest entity audit engagements?

 inFlight reviews are our most immediately effective monitoring tool, enabling audit teams to improve audit quality in real time before opinions are signed. The inFlight review team, which is made up of experienced senior professionals who have recently undergone external regulatory reviews, provides challenge and support to engagement teams at critical points throughout the engagement.

 Utilising our suite of inFlight monitoring options we are able to spot any issues before an opinion is signed, such as where audit file documentation needs to be improved, as well as identify common thematic findings early to better equip all our engagement teams.



20. How do you use Delivery Centres?

As part of Audit & Assurance Transformation, a key part of enhancing our talent model and the quality of our audits is through the use of Delivery Centres. Audit & Assurance Delivery Centres have been set up to support engagements in performing both technical audit work and also offering essential non-technical support enabling greater focus for our audit professionals. Our Delivery Centres also provide specialist services to ensure we continue to drive forward the quality of our audits.

Our primary Delivery Centres include teams in Delhi and Bangalore who execute audit procedures as integrated members of the overall engagement team. We also have Delivery Centre teams in Poland and Romania who complete the delivery of routine audit tasks with oversight and review responsibilities for this work remaining with the entity-facing team.

We also provide support to engagement teams through Delivery Centres based in the UK. Our centre in Cardiff provides non-technical administrative and project management support to engagement teams. Our centre in Newcastle provides technical support for the completion of statutory accounts.

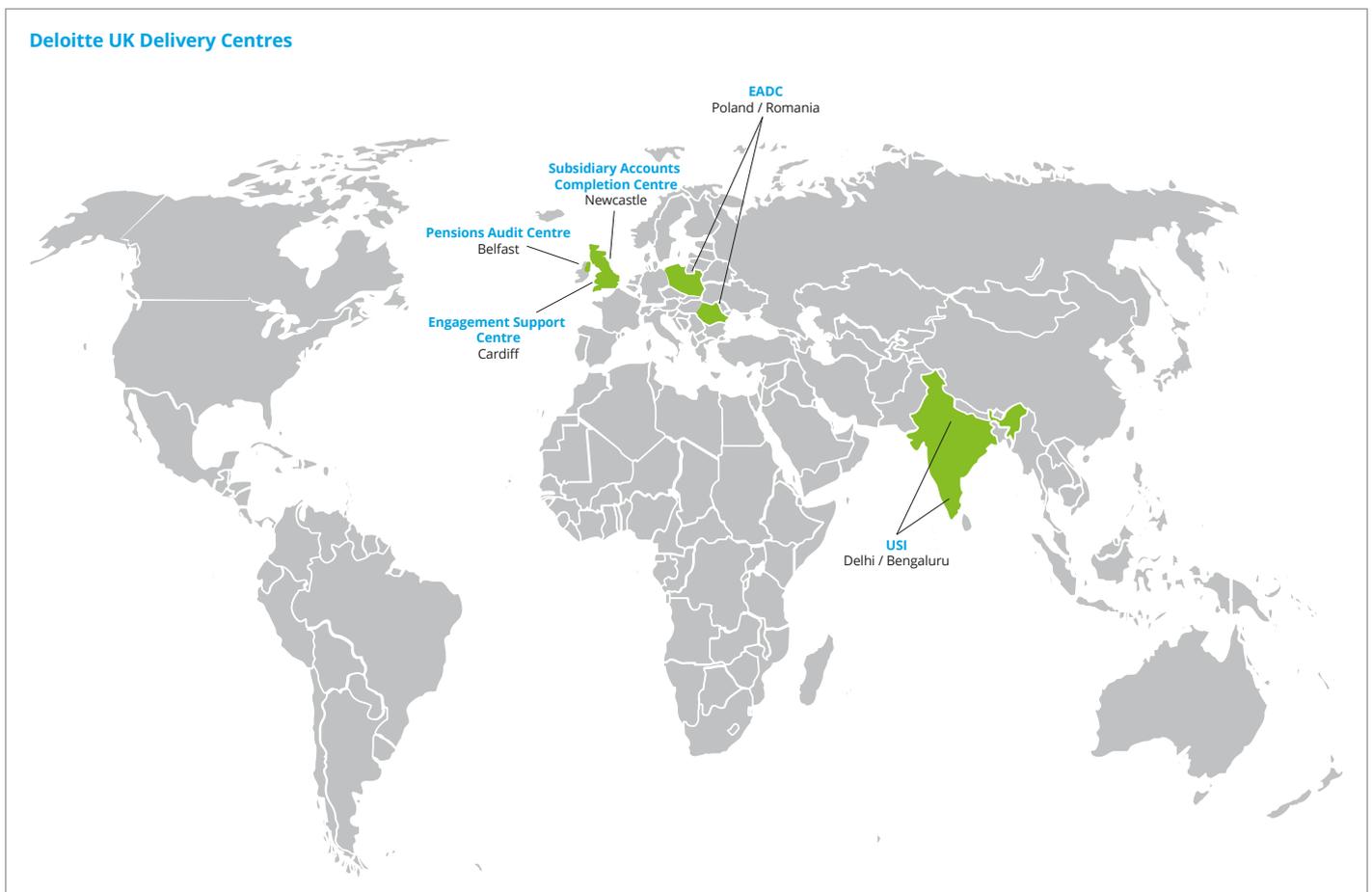
Also within the UK are two centres which are staffed by specialists in engagement quality control reviews and remote audits which have been established to drive quality in these areas. There is also a centre based in Belfast who specialise in the audits of pensions and funds.

Our use of Delivery Centres means we are able to have the right people performing the right work. This means our entity-facing teams are able to spend more time on the areas of the audit that require the most interaction with management.

21 How do you work together across North and South Europe (NSE)?

Quality remains our focus within the Audit & Assurance practice and this is reflected by the leadership structure, with an oversight of consistent quality throughout NSE. Our NSE Head of Audit & Assurance Quality & Risk leads the audit quality programme, working closely with Deloitte Global's Audit Quality Board, the GCoE, the Global IFRS Leadership Team and all the country quality teams.

As part of NSE, we not only develop and share best practices, but also drive a consistent approach to audit quality, non-negotiable behaviours, and effectiveness across NSE.



Project management

22. How do you plan to do quality audits?

We use bespoke project management software to help deliver our audits as efficiently and effectively as possible. Audit quality is embedded throughout, such as with our Audit Blueprint, launched in spring 2020, which guides teams to the key headline matters they need to consider as they go through each stage of the audit. These tools allow teams to collaborate effectively and resolve issues quickly. Many tools now use daily stand-up meetings as a related “agile” project management technique that keeps audits on track, and give individuals a structure for their support and development.

23. How do you know if your audits are on track?

Our audit milestones programme guides teams to complete key activities by certain deadlines based on the entity's year end and audit engagement profile. 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.

 You deal with many large, complex engagements. How do you effectively plan audit engagements to minimise the risk of surprises before key deadlines?

 We have introduced advanced project management tools alongside our mandatory milestone programme that ensures that audit work is carried out at the right time throughout the year, rather than being left until near the reporting deadline.

 We were able to front-load our approach, understanding, challenging and concluding on key audit judgments prior to year-end and reducing the crunch at the deadline. When unexpected issues arose late in the process, the increased capacity available in the team ensured we were better positioned to address these robustly to maintain a quality audit whilst meeting key deadlines.

Technology and innovation

24. Why and how do you use audit analytics?

We use audit analytics because it gives us greater assurance, as whole populations of transactions and balances are audited rather than a sample; it's more efficient, reducing the level of manual testing; and it gives us greater insight into the data trends and possible anomalies. We are continuing to invest in new forms of technology and analytics to continue to drive improvements in quality.

 What statistical tools do you use to support your risk assessment as part of your planning approach?

 We use data analytics including visualisations to compare historical data to current year performance as well as analyse movements and trends in account balances as part of our risk assessment process. This means we can identify unusual trends and use this understanding to inform our risk assessment.

 This analysis enabled us to better evidence our risk assessment, provide more direct challenge to management on unusual items and support our conclusions on specific areas of greater risk. We were able to focus our audit approach in a more effective manner, whilst also communicating trends in performance to management they had previously not identified.

 How do you know authorisation controls over large populations of transactions are working effectively throughout the year?

 Our analytics tools automatically check whether all transactions throughout the period have been approved in line with predetermined authority levels. We can identify transactions that are either not compliant with approval levels or have circumvented the approval process entirely.

 We used this technology to test purchase order approval controls. We focused our audit testing on the outliers identified and reported the root cause of the problem to the Audit Committee so that management could investigate further and remediate the necessary controls.



?	How do you obtain assurance over large volumes of sales transactions across the year?
💡	We develop tailored analytic tests which automatically match sales transactions to cash or receivables, providing assurance over the majority of the reported revenue. Any remaining unmatched sales are investigated using detailed substantive testing.
🔍	Using analytics we highlighted net settled commodity trades otherwise “invisible” in internal reporting, leading management to revise their approach to monitoring. We also identified large volumes of credit notes issued to correct pricing errors, which resulted in management strengthening internal controls around pricing data.

25. How are you developing the audit of the future?

Over the past couple of years, there have been various reviews into the UK audit market and Deloitte has welcomed and engaged in these reviews and consultations.

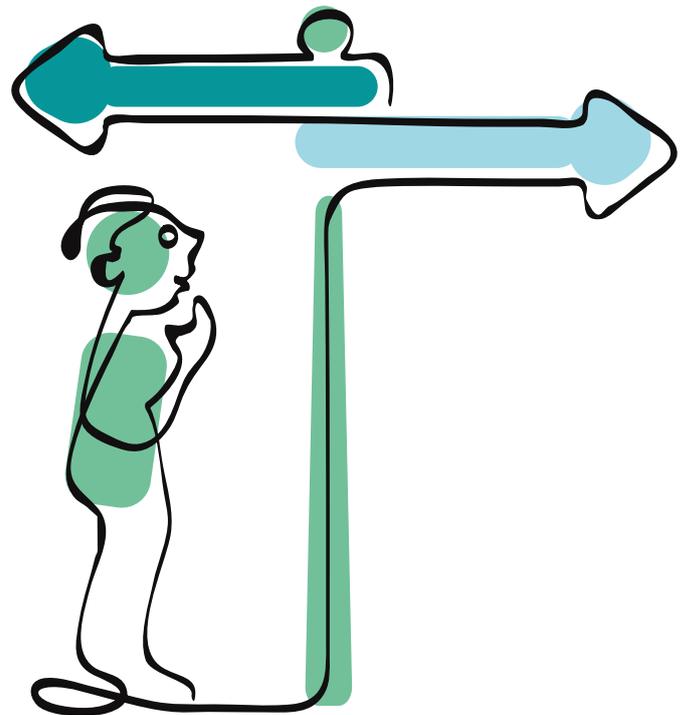
We have been challenging ourselves as to how we can enhance and evolve our audit product to reflect the changing needs of investors, businesses and society. This has included improving the clarity and detail of narrative reporting, to give stakeholders more relevant and meaningful information around key judgements and risks, and how these have been challenged as part of the audit process. Annual reports have undergone significant change in recent years and now contain much more information about how the entity creates sustainable value, on its business model, its viability, and on key risks and how these are managed. We are actively looking at how we should expand the scope of our work to match this shift in reporting landscape, moving beyond that required under current auditing standards, where it is in the public interest to do so.

High-quality, insightful audit reporting must be carefully tailored to the entity's business model risks and to the requirements of its stakeholders, and be 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 changes as a result of legislation, to help audit engagement teams give further perspective in their 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. Our Quality Corporate Reporting Centre of Excellence assists our people in dealing with increasing complexity around financial reporting by undertaking enhanced pre-issuance reviews on those audited entities that exhibit risk factors related to corporate reporting; performing thematic reviews in targeted corporate reporting areas; and by publishing both internal and external guidance.

We are focused on driving positive change to the corporate reporting and auditor narrative, setting out tangible steps towards the “informative” corporate reporting vision that Sir Donald Brydon set out in his report published earlier this year. All of these activities seek to contribute to more meaningful and responsible corporate reporting, and we recognise the important role that audit plays in driving change across the whole reporting ecosystem.

Return back to [Delivering quality audits](#) section.



Quality control and monitoring

We are always looking to improve our audits. We use the findings of internal and external reviews to enhance our system of quality control.

26. What governance do you have around audit quality?

Audit Quality Board (AQB)

We established our AQB in 2014, comprising partners and directors from across our Audit & Assurance practice. Jim Coyle, Independent Non-Executive, attended an AQB meeting during the year. AQB's remit is to:

- Develop and govern activities that will achieve sustainable improvements in audit quality
- Implement these improvements across the Audit & Assurance 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 and internal monitoring programmes
- Strategic responses to the underlying causes of inspection findings, including recurring underlying causes from year to year
- Further enhancement of the content and delivery of our learning curriculum
- Enhancements of our policies for engagement review, Engagement Quality Control and Practice Review
- Including some large private companies within our public interest entity policies
- Discussion of future plans for audit reporting
- Updates from the Global AQB to discuss a UK specific response
- Identifying priorities and creating a formal Audit Quality Plan for 2020

Audit Quality Forum

The AQB established an Audit Quality Forum in 2015, comprising staff from associate to manager grades, to give a voice to people at different stages of their careers and further improve audit quality. The forum meets three or four times a year. Matters discussed in the current year included the future of the audit product, methodology, the form and content of audit learning, performance management, and working with the wider engagement team such as specialists. A representative from the Forum sits on the AQB to feed back results for further action, as necessary.

Ruth Markland, Jim Coyle, Almira Delibegovic-Broome QC and Shirley Garrod, Independent Non-Executives, each attended a meeting of the AQF to give their perspectives on audit quality and to hear from the members of the Forum on their current concerns.

Emerging Issues Group (EIG)

Our EIG was established during 2015 and includes partners from across the audit business, including industry specialists and those from our central technical team. Leveraging this wide range of experience, along with partnering with industry groups, the EIG's objective is to identify significant emerging industry, political/economic, technology and regulatory/inspection related issues that could have a significant impact on audit quality in the future.

Some recent areas where the EIG has focused attention include COVID-19, Brexit, climate change, cryptocurrency and certain industry sectors. We have issued guidance to the Audit & Assurance practice on how to incorporate emerging issues into their risk assessment.

The EIG drives the development of actions to address these matters, working with industry groups, central technical team and partners across the audit business. The EIG reports directly to the Audit & Assurance Executive.



Many businesses are facing an uncertain future. How do you robustly challenge and conclude on liquidity and going concern?



We have an Emerging Issues Group which assesses a variety of market factors across the firm's audit portfolio to identify areas of heightened risk. From short-selling trends to variances in the probability of credit default, they identify outliers in the market and alert engagement teams to potential areas of enhanced risk.



Our engagement teams are better equipped to challenge management assumptions and overcome potential unconscious bias. Further, the depth of our conversations with Audit Committees and management is increased through our understanding of the broader market perspectives on those entities we audit and the industry they operate within.



Message from the Audit Quality Forum

The Audit Quality Forum (AQF) is a space in which all sectors and grades, especially those in the early years of their career, meet to share insights, ideas and ask questions in an open and collaborative environment. We have so many incredible opportunities to further our knowledge, and our participation in the Global Young Audit Forum (GYAF) is just one example of this in action. Several members of the UK forum have been part of the GYAF Internal Controls Project over the past nine months, giving us a chance to share and develop our knowledge about an area that we are passionate about making more accessible to those in their early careers.

The monthly newsletters we produce give us a chance to cover issues relevant to our peer groups – areas that we have found tricky or are hot topics. We really value the deep expertise of the National Audit and Advisory specialists who work with us to ensure technical rigour in what we produce, but allow us to shape the articles to ensure they engage our colleagues and are tailored to the early part of our careers. We believe a key part of audit quality lies in innovation, and in continually reassessing how we audit. As a forum, we value the chance to learn about new tools, data driven approaches and analytics. We are proud to be able to champion their adoption on the audits we work on. We know the world our clients operate in is changing fast, as is the public expectation of us. We are committed to being part of the conversation around the audit product of the future and more immediate changes we experienced, including the impact of the current COVID-19 pandemic.

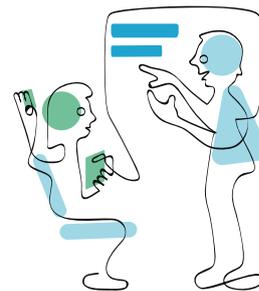
To say the last few months have been different would be an understatement. We have all had to become accustomed to new ways of working and adapt to working from home. This has seen us face significant challenges, from finding a work space, adjusting to a new routine and at times missing loved ones. There are those of us with children as well, who suddenly find ourselves overnight educators, trying to fit in teaching around a full day's work. Through all of this, our firm has remained incredibly supportive. We have the benefits of videoconferencing software, which allows us to have daily stand-up meetings with our teams, all being able to see each other even though we cannot be in the same room. We have also introduced collaborative software allowing all team members to have a platform to share ideas, ask questions and check in on each other. Deloitte's commitment to agile working allows us to flex our hours around our other responsibilities and make time for what matters most to us, be this childcare arrangements, taking time for a midday exercise routine or altering work hours to give us time off when we need it most.

Through all this we have been able to continue working as close to "normal" as possible. Audit quality is still our main focus being at the forefront of everything we do. In this regard we have not seen our leaders waver, with all communications appropriately focusing on how we can continue to improve on the quality of our audits, while navigating these unusual circumstances. We have seen many positives coming out of this, with our leaders more accessible and proactively joining many of our video calls, allowing us to discuss matters with them in real time more often. Many people are remarking this has even allowed us to feel closer and more connected to our leadership group. The guidance we receive from them on a daily basis cannot be underestimated with this knowledge sharing being something we are all benefiting from immensely. We have also included our quality control reviewers in some meetings. We have seen the exchange of ideas, challenging of reviews and discussions around outcomes of testing come up in these conversations, and discussion of our approach to analytics and testing to discuss how this can be done in the best way possible.

Over the year, we have also engaged in discussion with various stakeholders. We invited the UK regulator, the FRC, to our September 2019 meeting partly because we wanted to hear what they had to say on various audit quality topics, and partly so they could ask any questions they had of us. The main points we discussed were management estimates, Engagement Quality Control Reviews and controls. It was interesting to hear their view of Deloitte, and how we have changed over the last few years – for example on impairments, where we have now got a Centre of Excellence. We invited our INEs to our June 2020 meeting to discuss a range of topics from our views of Deloitte's leadership to the future of audit. We are engaged in this discussion and are kept informed by our leaders.

"We understand the audit product is changing and, as the AQF, we are excited to be a part of creating this future and consistently improving the quality of every audit we perform."

Audit Quality Forum



Enhanced Auditor Reporting Panel

High quality, insightful audit reporting must be carefully tailored to the entity and to the requirements of its stakeholders, and be 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 changes as a result of EU legislation, to help audit engagement teams give further perspective in their audit reports.

Quality Corporate Reporting Centre of Excellence

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. Our Quality Corporate Reporting Centre of Excellence assists our people in dealing with increasing complexity around financial reporting by undertaking enhanced pre-issuance reviews on those audited entities that exhibit risk factors related to corporate reporting; performing thematic reviews in targeted corporate reporting areas; and by publishing both internal and external guidance to contribute to improving the production of insightful and accurate financial information by the entities we audit.

Audit Governance Board

As mentioned in Steve Williams' report on the work from the UK Oversight Board, during 2021 we will be setting up a separate Audit Governance Board, to be chaired by one of our INEs. In line with the principles for operational separation defined by the FRC, the Audit Governance Board will be responsible for providing independent oversight of the audit practice, with a focus on the procedures for improving audit quality by ensuring that people in the audit practice are focused above all on delivery of high-quality audits in the public interest.

27. How do you track and report how you're doing on culture?

We are currently rolling out a 'Do the Right Thing' dashboard, for use by the UK Executive and for reporting to the UKOB. This dashboard provides enhanced oversight on culture, providing the information to assess and challenge how we are performing against our core values of integrity, quality and respect at the heart of everything we do.

The dashboard covers firm-wide metrics on Ethics, Quality and Risk, People, Stakeholders and Societal Impact. It includes commentary on key trends and areas of strength, areas for improvement and specific areas of focus. Key actions and trends will reside with Audit & Assurance Executive members to prioritise and ensure the right interventions are embedding culture and improvements in desired outcomes. Dependent on the results, planning will usually direct management focus on areas that are already being targeted, but which require more emphasis.

The 'Do the Right Thing' dashboard is being rolled out across NSE as part of a proposed NSE-level Partnership Culture framework.

Return back to [Delivering quality audits](#) section.

28. How does your oversight board hold leadership to account on culture?

It is paramount that the firm's leadership takes an active responsibility for promoting and establishing our culture, underpinned by the fundamental audit principles of integrity, objectivity and independence.

During the year, the Audit & Assurance People & Purpose Leader reported to the UKOB on the plans to ensure purpose and shared values are central to the Audit & Assurance practice. This will be followed up with the UKOB during the current year.

There is a direct reporting line between the INEs and the UK Ethics Partner and they engage regularly to discuss matters of particular public interest. The UK Ethics Partner also presented to the INE Oversight Committee during the year on the firm's procedures for ensuring ethical conduct and the adequacy of the firm's whistleblowing procedures.

Return back to [Delivering quality audits](#) section.



Internal reviews	
Review of...	By...
Live files	InFlight review
Archived files	Engagement review
Policies and procedures	SoQC review

External reviews	
Review of...	By...
Policies and procedures	FRC's AQR – annual inspection
Listed and major public interest engagements	PCAOB triennial inspection (relevant engagements)
Policies and procedures in specific areas	FRC's AQR – thematic reviews
Other engagements	QAD, PCAOB and others

Causal factor analysis

Remediation

29. How do you monitor and measure audit quality?

A continued focus on audit quality is of key importance to us at Deloitte. It is critical that a Deloitte audit is consistently executed and of high quality, wherever in the world it is performed.

The primary focus of the Global Audit Quality Monitoring & Measurement (AQMM) programme is to deliver the highest quality, providing robust challenge to hold ourselves to account. The objectives of the programme are to:

- Transform the way audit quality is monitored and measured and audit deficiencies are resolved
- Enhance the internal system of quality control which all Deloitte network firms follow.

The AQMM programme is focused on driving:

- Continuous, consistent, and robust monitoring of completed and in-flight engagements
- Fundamental understanding of deficiencies and timely execution of corrective actions by all member firms consistently
- Greater transparency and consistency in reporting key measures of audit quality.

Our AQMM programme comprises our internal reviews (including in-flight monitoring of live engagements, engagement reviews and system of quality control), external inspections from various bodies, and causal factor analysis and remediation across findings from the above.

Return back to [Delivering quality audits](#) section.

30. What measures do you use to track audit quality?

In 2014 the six largest audit firms worked together, through the Policy and Reputation Group (PRG), to identify the key factors contributing to audit quality. We have been tracking and reporting 11 metrics in our Audit Transparency Reports since 2014, measuring activity across a number of important areas. As set out in Appendix 4, we have endeavoured to include all of the information suggested by the PRG. 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. We have chosen to include two new additional metrics this year, in addition to those reported last year, showing our investment in national office resources and involvement in audits by grade. These form part of the suite of metrics that we review internally to monitor any impact they may have on audit quality.

As we progress towards the adoption and implementation of International Standard on Quality Management 1, we are looking at how our AQIs meet the requirements set forth in the new standard. With the exposure draft of the standard placing significant focus on the public interest, we are reconsidering the suite of AQIs to identify those which align to our strategic vision and outcomes and support the execution of our strategy, management of the business and reporting to and monitoring by key external and internal stakeholders.

We recognise the findings of the FRC's recently published AQI thematic review report to continue improving how we measure our AQIs, specifically moving towards further use of leading AQIs.

Our AQIs are included in Appendix 4.

Return back to [Delivering quality audits](#) section.

31. How are you responding to the FRC findings?

Where any external or internal inspection indicates that an audit has fallen short of our quality standards, we perform a robust causal factor analysis to understand the deficiencies and consider what remediation is required. The scope of causal factor analysis includes:

- 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 other selected examples of good practice
- Others including a selection of first year audits and prior period adjustments

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 the Audit & Assurance Executive, Audit Quality Board, Emerging Issues Group (EIG) and the UK Oversight Board. Recurring themes, common pitfalls, good practice observations and causal factors are communicated on a regular basis to audit practitioners. The key themes arising have been discussed in our response to the AQR report, in Appendix 4.

We have made further investment in our causal factor process to increase the dedicated resource in the central team to ensure that, on files where improvement is required, causal factor analysis is performed within 60 days of the findings being identified or the inspection result being notified. We have also formalised the annual plan of work for causal factor analysis in response to a recommendation made in the FRC's thematic review.

Return back to [Delivering quality audits](#) section.

32. How will your audit quality monitoring process change in the future?

We continue to innovate our approach to quality monitoring to lead and align in a world where the economy, political landscape and stakeholders' expectations evolve over time and in line with our ambition to be recognised as the standard of excellence. A new, more demanding standard on quality control is being issued to respond to the changes in audit delivery, underlying supporting processes, and public and regulatory expectations. The International Standard on Quality Management 1 (ISQM 1) places an emphasis on the public interest perspective, such that the firm's strategic decisions and actions, including financial and operational priorities, demonstrate a commitment to quality and to the firm's role in serving the public interest, by consistently performing quality engagements. We support the aim and structure of the new standard and successful implementation is a key focus for leadership.



Governance, legal structure and Deloitte network

Report on the work of the UK Oversight Board (UKOB) from Steve Williams, Chair

Audit firm governance has been in the spotlight recently as one of the key pillars of the FRC's principles for operational separation. Deloitte has long recognised the benefits of strong governance, having as it does a clear separation between management and governance structures as a way of providing appropriate challenge and oversight of the Executive.

We also voluntarily first appointed INEs as members of our main Board in the UK in 2011 and, subsequently, to the UKOB when it was established in 2017. Having INEs as members of the UKOB brings additional rigour and insight, as well as an external perspective, to our discussions.

In the present COVID-19 environment, the UKOB has been closely involved in overseeing the resilience and reputation of the UK practice, as well as in providing guidance and support to the Executive in respect of its response to the pandemic. It is clear that strong, agile governance is more important than ever and, in that context, I am delighted to present our report on the work of the UKOB.

What does the UKOB do?

Fundamentally, the UKOB's objective is to oversee how the firm meets its regulatory and legal requirements in the UK. This includes the requirements of the Audit Firm Governance Code (the Code), which focuses UKOB's remit on promoting audit quality, assisting the firm to secure its reputation more broadly and reducing the risk of firm failure.

Our UK business is part of a wider North and South Europe (NSE) firm so the UKOB works in conjunction with the NSE Audit and Risk Committee, which I also chair, to act as an Audit Committee for the UK practice. In addition, to ensure appropriate alignment with the broader governance framework across Deloitte NSE, during the year I have been in regular contact with the Chair of the NSE Board.

The UKOB normally meets five times a year, although this year there was one additional meeting focusing on the impact of COVID-19 on the firm's liquidity⁶, making six formal meetings in total during the year plus various additional ad hoc virtual meetings as necessary to oversee Executive actions in response to the pandemic.

There have been a few changes to the composition of the UKOB during the year: Feargus Mitchell stepped down to focus on his role as UK Ethics Partner and Kalvinder Dhillon took his place. Like Feargus, Kalvinder is also a UK non-Audit partner on the NSE Board and brings similarly invaluable insight and challenge to the UKOB membership.

As Jim Coyle has already mentioned, two new INEs – Almira Delibegovic-Broome QC and Shirley Garrood - joined the firm this year and I would like to personally welcome them both. They join at an important time for audit firm governance. I would also like to add my thanks to Lord Grimstone and Ruth Markland for their immense contributions to our governance over many years.



Steve Williams
Chair of the UK Oversight Board

“While the current UKOB already prioritises audit quality, we recognise that oversight of audit management by a separate audit governance board that is even more independent of the day-to-day running of the firm is important for accountability and restoring trust.”

⁶ There have been two additional formal UKOB meetings in total as a result of COVID-19, one just before and one after year-end.



How is the governance changing?

The FRC has now published its principles for operational separation, including its aims for audit practice governance that “prioritises audit quality and protects auditors from influences from the rest of the firm that could divert their focus away from audit quality.”

While the current UKOB already prioritises audit quality, we recognise that oversight of audit management by a separate audit governance board that is even more independent of the day-to-day running of the firm is important for accountability and restoring trust. In line with the principles for operational separation defined by the FRC, the audit governance board will be responsible for providing independent oversight of the audit practice, with a focus on the procedures for improving audit quality by ensuring that people in the audit practice are focused above all on delivery of high-quality audits in the public interest.

We have recruited an additional INE, Baroness Ford, who will work alongside Jim, Almira and Shirley on the UKOB and who will ultimately chair our audit governance board once it has been established later in FY21.

I am part of the project team Richard mentioned in his message that is working to get us ready for operational separation. A key part of that work is defining the future structure of our UK governance to ensure the required focus on audit quality as well as sufficient oversight of the resilience and reputation of the rest of the firm, and other legal and regulatory requirements.

In last year’s report, I mentioned we were establishing a Workforce Advisory Panel, similar to that prescribed by the Corporate Governance Code. Plans for that were deferred due to lockdown and we now aim to have it up and running later in the current financial year.

What has the UKOB done this year?

During the year, the key areas of focus for the UKOB were:

Strategy

At each UKOB meeting, the Senior Partner and Chief Executive provides an update on his strategic priorities for the UK practice that are relevant to the objectives of the UKOB. This year, the updates have included matters such as financial performance; scenario planning in respect of Brexit; updates on significant claims and investigations; and, more recently, the firm’s response to the COVID-19 pandemic.

The Managing Partner Audit & Assurance also provides an update on the Audit strategy, including the financial performance of the Audit & Assurance practice; the status of Audit tenders, rotations and resignations; talent matters; procedures for ensuring the delivery of high quality audits; and, again more recently, the impact of the COVID-19 pandemic in all these areas and the actions being taken to mitigate the risks.

Audit reform

The UKOB has closely monitored management’s response to the reforms and, in particular this year, its plans for operational separation and for addressing the findings of Sir Donald Brydon’s report on the quality and effectiveness of audit.

The partner with responsibility for leading the firm’s response to the reforms provided regular updates to the UKOB, and the UKOB members reviewed and provided input to the firm’s responses to the various consultations.

Audit quality

Audit quality is a key focus of the UKOB’s oversight and, in addition to the Audit strategy updates, the Audit & Assurance Head of Quality & Risk regularly updates the UKOB on progress on internal and external audit quality reviews and other audit quality indicators.

A particular focus this year were the procedures for ensuring the delivery of high quality audits during lockdown.

Resilience

During the year, the UKOB received an update on the firm’s contingency plans. These plans are also shared with the FRC. The operational and financial resilience of the firm in light of the challenges and uncertainties created by the COVID-19 pandemic was the primary focus of three UKOB meetings (the scheduled meeting in April 2020 and two extra meetings convened in May and June).

The Senior Partner and Chief Executive updated the UKOB on actions being taken to address the impact on people, clients and the firm’s infrastructure.

The Chief Financial Officer reported to the UKOB on the firm’s financing and liquidity position.

The Managing Partner Quality, Risk and Security reported to the UKOB on the risk and governance framework developed for the COVID-19-related engagements proposed and undertaken by the firm and on the plans for returning to the office post-lockdown.

Reputation and public interest

The firm’s public interest responsibilities extend across a wide range of areas: the services we provide; our role in the capital markets; and our wider role in society. The UKOB provides oversight of the work of the Public Interest Review Group which considers whether or not certain proposed engagements are pursued on public interest grounds. As mentioned in Jim Coyle’s report on the work of the INEs, the INEs each observed meetings of the Public Interest Review Group during the year.

During the year, the Public Policy Leader reported to the UKOB on the management of reputational risks to the UK practice.

Ethics and culture

The Audit & Assurance People & Purpose Leader reported to the UKOB on the plans to ensure purpose and shared values are central to the Audit & Assurance practice.

There is a direct reporting line between the INEs and the UK Ethics Partner and they have met during the year to discuss the adequacy of the firm's whistleblowing procedures.

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.

The firm conducts an annual review of the ongoing effectiveness of the firm's system of internal control, including financial, operational and compliance controls and risk management systems as well as the promotion of an appropriate culture underpinned by sound values and behaviour within the firm. This system of internal control, which is the responsibility of the firm's Executive, is designed to mitigate and manage, but not eliminate, risk, and therefore provides reasonable rather than absolute assurance against the firm not achieving its strategic goals, material loss or misstatement, or non-compliance with laws, regulations and professional standards.

The Executive monitors the effectiveness of the firm's internal controls on an ongoing basis. Evidence of that effectiveness and details of any necessary remediation is obtained from a variety of internal and external sources, including internal audit. Matters of significance are escalated for debate and decision by the Executive where necessary. In addition, the Executive regularly considers and commissions enhancements to the firm's policies, procedures and controls in response to regulatory and legislative change, market developments and the operational needs of the business.

The Executive's ongoing monitoring of the system of internal control is complemented by oversight from the UKOB. Evidence considered by the UKOB during FY20 was presented in accordance with the annual plan approved in November 2019. This plan, developed on a risk basis, set out those areas the UKOB wished to focus on in discharging its oversight responsibilities under the Code, including the outputs of monitoring activities from across the firm.

Additionally, and to provide transparency of the firm's control environment to the UKOB, the principal controls in place for each of the firm's principal risks, finance and culture are documented and refreshed annually to evidence: the scope of the controls framework in each area; how, and how often, these controls are refreshed and monitored; and the independent assurance in place over each of them.

The FY20 review of the system of internal control has specifically considered the impact of COVID-19 on the design and operating effectiveness of the firm's internal controls. The pandemic has provided a significant test of policies, procedures, systems, processes and controls, and the firm's overall resilience. The firm has followed a 'Respond, Recover, Thrive' approach to dealing with COVID-19 across three pillars: clients and client service quality; liquidity, operations and infrastructure; and people. Key actions taken to date have been for the purpose of adapting working practices; enhancing controls; protecting, reassuring and motivating partners and staff; managing revenue, profitability and liquidity; and maintaining quality – all while preserving jobs. This response was developed and led by the Executive, using the firm's established crisis management and resilience frameworks, with close oversight provided by the UKOB, including the INEs. To date, the response has proven to be effective and no significant or systemic deficiencies in the firm's systems, processes and controls have arisen.

Based upon this evidence, the Executive and UKOB have considered, utilising the agreed definition of 'significant control failing or weakness', whether any control failing or weakness or combination of these, having regard to both qualitative and quantitative measures, could seriously affect the performance, future prospects or reputation of the firm. This included whether any control failings or weaknesses reported during the year could threaten the firm's business model (including regulatory issues and challenges to the firm's strategic objectives), future performance, solvency or liquidity.

Although actions have arisen from the principal risks and uncertainties, management monitoring activities and internal audit reports, they are not judged to be of such significance that they individually or collectively undermine the system of internal control; rather they represent actions that will help to further strengthen our system of internal control.

Based on discussions and the evidence provided, the Executive and UKOB have concluded that no significant failings or weaknesses exist which require disclosure and that the firm's system of internal control has operated satisfactorily throughout the period under review.



Other matters

In addition to the matters detailed above, the UKOB considered the following during the year:

- The results of the FY20 isolated working review, carried out to identify any partners, directors or business units working alone and potentially posing a risk to the firm’s reputation.
- A report on the regulatory and claims landscape facing the UK practice, and the current claims in progress.
- The UK practice’s FY20 indicative ratings for compliance with relevant DTTL Member Firm Standards, which are the Deloitte network’s quality standards.
- Consideration of the UK practice’s approach to partner nomination, remuneration and people management, focusing on the procedures within the UK practice for ensuring appropriate training (including on ethical standards), an appropriate culture, and for ensuring that remuneration policies for partners and staff do not incentivise inappropriate behaviour.
- Reports from the UK Internal Audit Leader and the Central Monitoring Group (CMG), including consideration of the firm’s audit/monitoring plans and the reports issued.

- Oversight of UK external reporting, with particular emphasis on our public interest obligations, the needs of stakeholders and the disclosures required under the Code. This included reports from the firm’s external auditor.
- A report on the procedures in place for safeguarding quality and reputation within the Financial Advisory business.
- A report on the work done in the firm’s FCA regulated businesses to implement the necessary changes to comply with the new requirements under the Senior Managers & Certification Regime.

In addition to various other presentations and discussions relevant to the remit of the INE Oversight Committee, as highlighted by Jim in the report on the work of the INEs, the following matters were presented to the INE Oversight Committee to ensure the firm’s regulatory obligations could be met during the year:

- A report from the Money Laundering Reporting Officer setting out the money laundering risks facing the UK practice and the operation and effectiveness of its money laundering detection and prevention systems and controls. The report also included an update on financial crime compliance, including anti-bribery and corruption, and sanctions.
- A report on the key matters relating to independence and conflicts during the year.

How do you monitor the effectiveness of the firm’s governance?

The following indicators are used to report on the performance of our governance:

KPI	Performance during FY20
<p>UKOB structure and composition</p> <p>1. The UKOB has an appropriate ratio of INE members to partner members (both executive and non-executive)</p> <p>2. Relative to the responsibilities of the UKOB, the members bring the right combination of skills, expertise and knowledge</p>	<p>During the year, the UKOB composition (3 INEs, 2 executive partners, 2 non-executive partners) complied with the requirements for a quorum prescribed in the Partnership Agreement and is in accordance with the requirements of the Code.</p> <p>The partner and INE UKOB members have a broad range of skills, expertise and knowledge from their roles across the UK Practice, and as former professionals and current Board members in other organisations respectively.</p> <p>The majority of voting rights on the UKOB are held by members who have an appropriate audit qualification.</p>
<p>Meeting attendance</p> <p>3. Each UKOB member should attend at least 75% of meetings during the year</p>	<p>Meeting attendance is reported in Appendix 1 to this Report.</p> <p>There were six formal UKOB meetings during the year and each member attended at least 75% of the meetings that they were eligible to attend. Other ad hoc calls were arranged, as necessary.</p>

UKOB Meetings

4. The duration of the UKOB meetings is appropriate, with key issues and decisions being given sufficient time for discussion
5. UKOB meetings are effective in enabling the UKOB to fulfil its roles and responsibilities in relation to meeting the Code requirements and other responsibilities as set out in the terms of reference
6. UKOB meeting agendas are appropriate to effectively address the roles and responsibilities of the UKOB
7. Actions arising from meetings are effectively compiled and responded to

Each UKOB meeting lasts four hours, with a subsequent INE Oversight Committee meeting lasting an additional two hours.

UKOB agendas are drafted at the beginning of the year to align with the requirements of the Code and the anticipated needs of the business and may be flexed as necessary.

Detailed agendas and pre-UKOB briefing meetings/calls with presenters ensure the timings are sufficient to cover the scheduled content in enough detail to enable the UKOB to meet its responsibilities under the Code and its other responsibilities as set out in the terms of reference.

The UKOB Secretary takes minutes of the meetings and compiles an action plan, which are distributed to the UKOB members and relevant action owners.

Information flows

8. Information flows in sufficient time to UKOB members both for meetings and in between meetings, including all the areas required related to the Code, Audit quality, ethics, public interest and other reputational and regulatory areas as defined in the terms of reference
9. There is appropriate quality and content of UKOB papers and presentation of management information
10. There is an appropriate flow of information to and from the NSE ARC

UKOB agendas and pre-read information are uploaded onto an electronic board portal in advance of the UKOB meetings, with a view to them being available to members during week before the meeting and at least 24 hours in advance.

The UKOB Chair has a discussion with each of the presenters in advance of the UKOB meetings to ensure the content of the presentation and any materials are appropriate and sufficient to meet its objectives.

The current UKOB Chair also chairs the NSE ARC and ensures an appropriate flow of information between the two governance bodies.

Monitoring UKOB effectiveness

11. A review is undertaken into the effectiveness of the UKOB on at least a three yearly basis

As part of our plans for operational separation, an internal review was undertaken into the future roles and authorities of the UKOB and how it will work alongside the Audit Governance Board, once established.



Deloitte UK: Governance and legal structure

Strong governance is the foundation of our firm: determining our purpose and strategy; setting the tone for ethical and responsible decision-making throughout the firm; and ensuring transparency and accountability to external stakeholders and to our people.

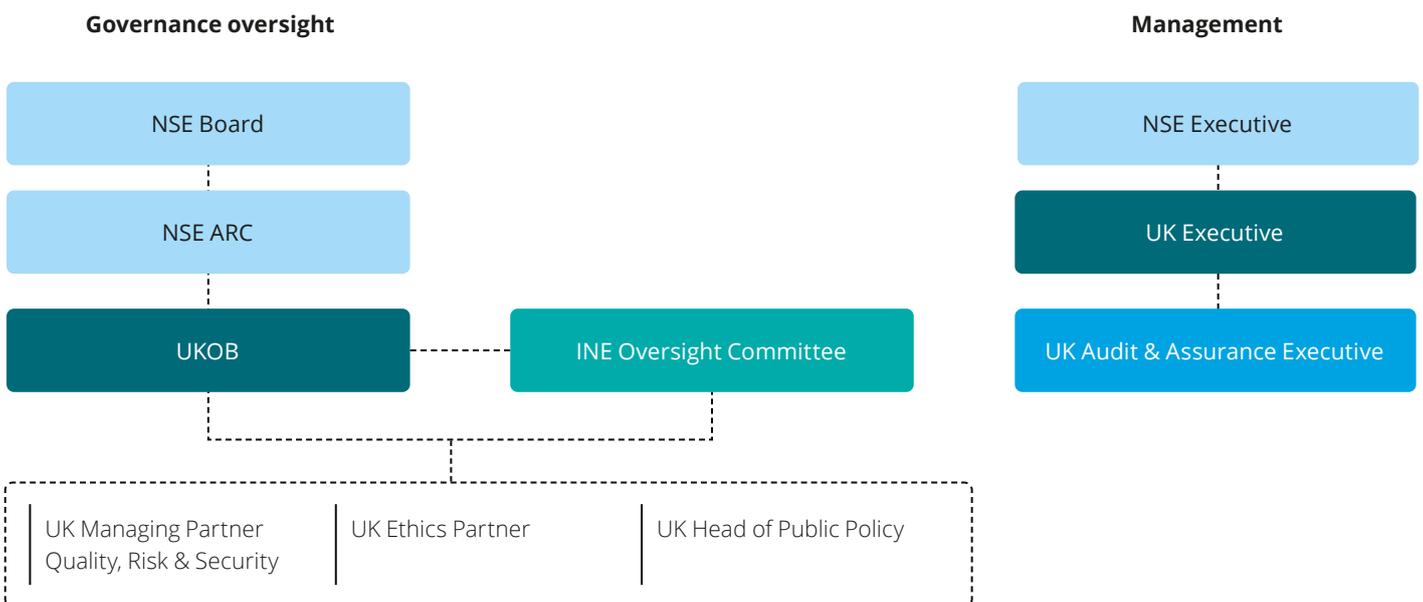
How is Deloitte structured in the UK?

Deloitte LLP is a limited liability partnership, incorporated under the Limited Liability Partnerships Act 2000 and is wholly owned by its members (the UK and Swiss equity partners and Deloitte NSE LLP). The firm provides audit and assurance, risk advisory, tax and legal, consulting and financial advisory services in the UK, Channel Islands and Isle of Man and through its subsidiaries in Switzerland and Gibraltar.

Deloitte LLP is the UK affiliate of Deloitte NSE LLP, a member firm of the Deloitte network, and its governance arrangements are set out below. With effect from 1 June 2020, Deloitte’s practices in the Middle East and Cyprus joined Deloitte NSE.

Financial Advisory and Consulting services in the Middle East are provided through joint venture entities in which Deloitte LLP has an interest. Services in the Commonwealth of Independent States (CIS) are provided by the local Deloitte member firm, in which Deloitte LLP has an indirect holding⁷.

How does the governance structure operate?



⁷ The Deloitte LLP group also has interests in India, Romania and Spain that do not provide services to clients

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

	Role and responsibilities	Membership
UK Oversight Board	<p>Operates in conjunction with the NSE Audit & Risk Committee (NSE ARC) to provide oversight of how the material risks facing the UK business are managed and controlled and how Deloitte UK meets its public interest responsibilities</p> <p>The UKOB is also responsible for overseeing relevant UK regulatory and financial reporting matters</p> <p>Meets at least five times per annum</p>	<p>Two elected UK partners who are NSE Board members (one of whom is the UKOB Chair)</p> <p>UK Senior Partner and Chief Executive</p> <p>UK Managing Partner Audit & Assurance</p> <p>The INEs</p>
Executive Group	<p>Assists the Senior Partner and Chief Executive in managing the UK practice</p> <p>Has responsibility for the UK practice's operating functions and for planning its future development</p> <p>Has authority for managing the day-to-day operations of the UK practice</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 UK practice</p> <p>The Executive members are also actively engaged with clients</p>
Audit & Assurance Executive	<p>Operates to deliver Deloitte's business objectives within the UK Audit & Assurance service line</p>	<p>Appointed by the Managing Partner Audit & Assurance with oversight from the Executive Group</p>

Biographical details of members of the firm's governance structure and management team, along with details of their meeting attendance, are provided in Appendix 1.



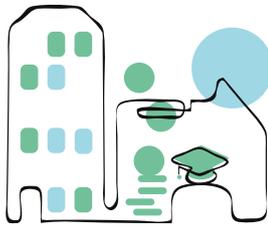
What is the role of the Senior Partner and Chief Executive?

The UK Senior Partner and Chief Executive is appointed by the NSE Senior Partner and Chief Executive, subject to confirmation by a resolution of the UK equity partners, for a term not exceeding four years.

Richard Houston began his first term as UK Senior Partner and Chief Executive on 1 June 2019 and has full executive authority for the management of the UK practice. He is also Senior Partner and Chief Executive of Deloitte NSE. In keeping with our client service focus, he continues to spend a significant proportion of his time actively engaging with a broad cross-section of clients.

Richard communicates regularly with the partner group, and with all our people, in person and through a series of webcasts, voicemails and email alerts. Regular communication from Richard has been particularly important while our people have been working remotely and we are delighted with the positive feedback we have received.

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 compliance with all regulations



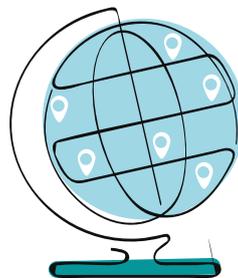
The development of policies and strategic direction



Financial performance



Partners, including the development and management of our talent goals



International, representing Deloitte NSE within Deloitte Global

Independent Non-Executives

INEs' duties

The regulatory requirements in respect of the INEs' duties are set out in the Code, with a view to enhancing the firm's performance in promoting audit quality; securing its reputation more broadly, including in its non-audit businesses; and reducing the risk of firm failure.

Over and above the regulatory requirements, Deloitte voluntarily first appointed its INEs as Board members in the UK in 2011 and, subsequently, to the UKOB when it was established in 2017, to provide an external perspective to Board discussions. The INEs participate fully in the activities of the UKOB, as set out in Steve Williams' report.

The INEs also meet privately as the INE Oversight Committee and invite members of the management team to attend, as appropriate, to discuss matters relevant to their remit.

Additionally, the INEs participate in other activities of the firm, consistent with their role and experience, to enable them to fully discharge their duties under the Code and for the purposes of good governance. Shirley Garrood's role is to provide oversight of the UK external audit business only.

Supporting the INEs

To assist the INEs in discharging their role, the firm provides them with:

- A Chief of Staff to assist them in navigating the business and in discharging their duties under the Code
- Any information they require about any aspect of the firm's business (subject to individual client confidentiality and audit independence rules)
- Secretarial support
- Access to independent professional advice at the firm's expense where judged necessary to discharge their duties (having first discussed such request with the UKOB Chair)
- Any other support agreed upon from time to time.

INEs' other directorships and business interests

The INEs have various business interests, other than those of the firm, which help them bring appropriate challenge and different perspectives to the firm by drawing on their diverse external roles and experiences.

As required under provision C.2 of the Code, we confirm that both Jim Coyle and Shirley Garrood's competencies include auditing and accounting through their qualifications as Chartered Accountants and various roles throughout their careers.

The INEs declared their pre-existing assignments (including any appointments, directorships or posts) and any potential conflicts of interest apparent at the time of appointment.

The INEs are required to consult with the Chair of the UKOB and obtain his written consent prior to accepting further assignments with any third party. In the event that an INE becomes aware of any actual or potential conflict of interest or any threat to the firm's independence, the INE is required to disclose it to the UKOB Chair as soon as it becomes apparent.

Independence of INEs

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

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

INEs are not permitted to have a directorship or other leadership role with a restricted entity nor can they be a substantial shareholder of a restricted entity (i.e. any entity audited by a Deloitte network firm, affiliates of entities audited by a Deloitte network firm and other assurance clients for which the firm has to maintain its independence).

With regard to their oversight of the audit partner remuneration process and its linkage to audit quality, which they undertook for the first time this year, additional safeguards are applied including that the INEs recuse themselves from any audit partner remuneration/performance discussions in relation to SEC restricted audited entities (where the listed entity is UK based) in which they hold an investment or other connection.



Appointment of INEs

The INEs are, subject to earlier termination, appointed for an initial period of three years. Unless the appointment is renewed on or prior to the termination date, the INE will cease to be an INE on termination of the appointment.

We are mindful of the Code requirement for Independent Non-Executives to be “appointed for specific terms and any term beyond nine years should be subject to particularly rigorous review and explanation” and will take any necessary action as and when appropriate. Jim Coyle was appointed in 2019 and Alimra Delibegovic-Broome QC, Shirley Garrood and Baroness Ford were all appointed in 2020.

Termination of appointment of INEs

The appointment may be terminated at any time, by either the INE or by the firm, with three months’ written notice. The appointment may also be terminated by the firm with immediate effect should any situation arise which amounts to a professional conflict of interest or breach of independence rules. Lord Grimstone and Ruth Markland stepped down from their roles as Deloitte INEs during the year after nine and five years’ service, respectively.

Remuneration

The INEs are paid a fixed annual fee for their work as members of the UKOB, and for other responsibilities they undertake for the UK practice (such as chairing the INE Oversight Committee and attending the Partnership Council), based on an agreed number of days’ service per annum. In the year to 31 May 2020, this amounted to:

	Months of service during FY20	Total remuneration
Lord Grimstone	10	£62,500
Ruth Markland	12	£75,000
Jim Coyle	12	£150,000*
Almira Delibegovic-Broome QC	3	£25,000
Shirley Garrood	1	£12,500*

* Includes remuneration in respect of other responsibilities for the UK practice, in addition to the fee for work undertaken as a member of the UKOB.

Other matters

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

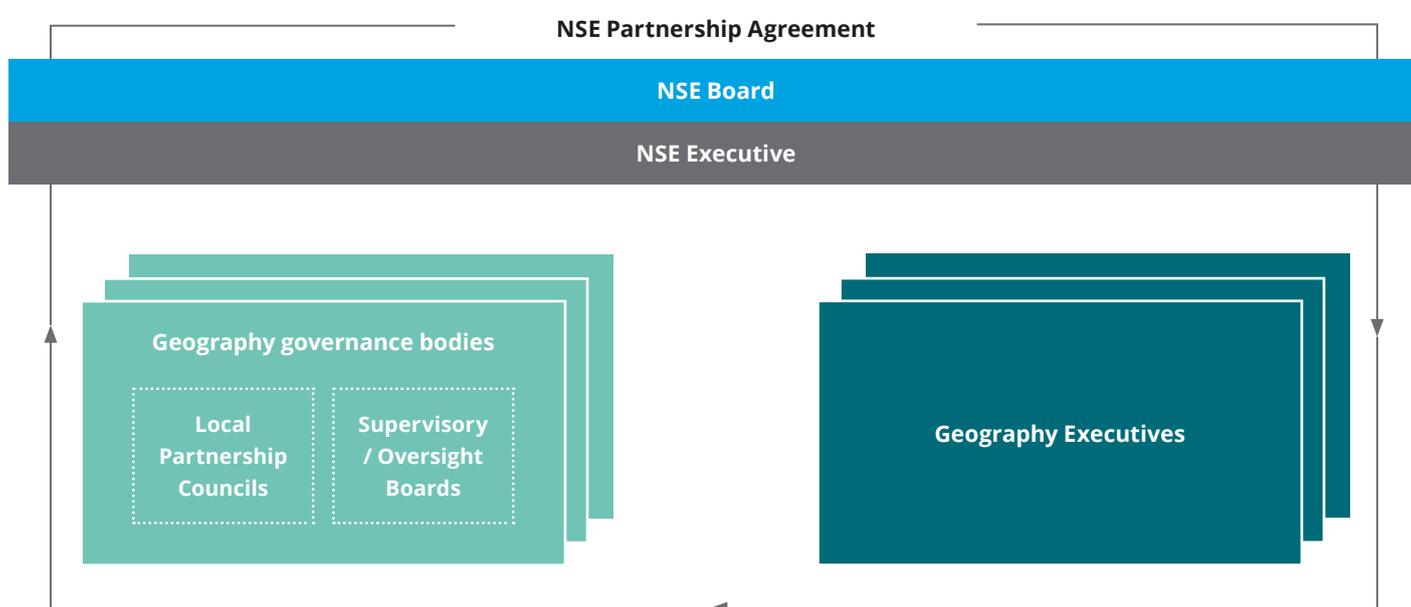
The INEs have a right to report any fundamental disagreement regarding the UK practice (via the UKOB or directly) to the UK Executive and, if that does not bring resolution, to convene a meeting with the NSE CEO and NSE Chair.

The INEs also have the opportunity to discuss any matter with the FRC as part of their normal regular engagement.

NSE governance

The Deloitte NSE governance structure consists of the NSE Board, NSE Executive, Geography governance bodies and Geography Executives, underpinned by the NSE Partnership Agreement.

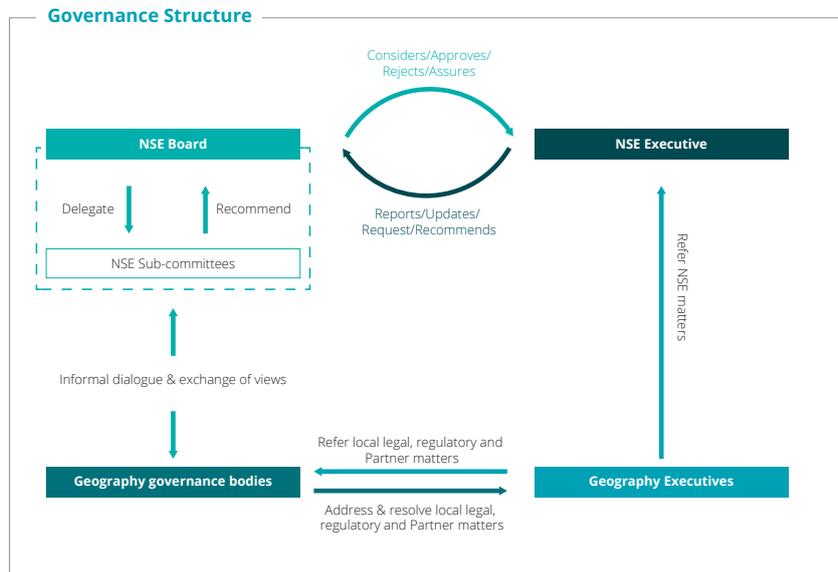
On 1 June 2019, the Deloitte Central Mediterranean member firm (comprising the Deloitte practices in Italy, Greece and Malta) combined with Deloitte NWE to create Deloitte NSE. With effect from 1 June 2020, Deloitte's practices in the Middle East and Cyprus joined Deloitte NSE.



- The **NSE Partnership Agreement** underpins the governance of NSE
- The **NSE Board** is the primary governance body of NSE, responsible for ensuring high quality governance and stewardship of NSE. The NSE Board works with the NSE Executive to set and approve the long-term strategic objectives of NSE and the markets in which it operates. The NSE Board comprises the NSE CEO, NSE Chair and elected members, as well as INEs and a Deloitte Global Representative. The latter do not have voting roles.
- The **NSE Board** oversees the risk appetite in each business area; is responsible for the oversight of the executive function, ensuring alignment with Deloitte Global obligations; and is responsible for the promotion and protection of NSE Equity Partner interests generally
- The **NSE Executive** is responsible for developing strategy, ambition and supporting policies, then leading their implementation and execution across NSE
- **Geography governance bodies** exist where this is required for legal and/or regulatory purposes and to oversee local Partner matters. Examples include the UK Oversight Board and Dutch Supervisory Board
- The **Geography Executives** work with the NSE Executive to reflect the Connected+ Autonomy operating model (balancing local and central requirements), including the development and delivery of approved plans, in line with the NSE strategy, tailored to reflect local market conditions



The NSE governance and leadership structure provides clear paths of communication from a Geography to NSE level:



Deloitte NSE Board sub-committees

Audit & Risk (Standing)

- Oversee the appointment of internal and external auditors to the firm
- Oversee audit quality in accordance with applicable regulations
- Oversee the level of risk acceptable in each business area
- Provide oversight and support to the national practices in the delivery of audit quality and local legal and regulatory compliance

Public Interest Oversight (Standing)

- Oversee public interest matters as they affect NSE

Partner Matters & Fairness (Standing)

- Make recommendations to the Board regarding the admission, suspension, retirement of NSE Equity Partners, and make determinations in relation to any NSE Equity Partner's long term ill health
- Ensure fairness between NSE Equity Partners across all Geographies

People and Purpose (Standing)

- Provide support, and challenge, to the NSE Executive in the development of the NSE People and Purpose agenda
- Support the development of a governance infrastructure to make the NSE People and Purpose agenda a reality

Nomination (Standing)

- Produce a shortlist of potential candidates and recommend to the Board a final list of candidates to stand in Board elections
- Ensure diversity requirements are met in the composition of the Board

Elected Leader (event driven)

- Oversee selection of candidates for NSE Chair and NSE CEO roles
- Run the election process and present proposals for NSE Chair and NSE CEO candidates to the full NSE Board for approval

Governance & Composition (event driven)

- Review the composition and size of the Board whilst both respecting the minimum number of elected Board members representing each Geography and seeking to ensure the firm's diversity requirements are met in the composition of the Board

Remuneration (event driven)

- Seek feedback, conduct appraisals, and make recommendations to the Board with regard to the proposed assignment of Equity Groups and the allocation of NSE Units to the NSE Chair, the NSE CEO and holders of such other senior management positions as the Board may determine

Compensation & Partner Units (event driven)

- Review and discuss with the NSE CEO the processes established and applied for the determination of NSE Units and Equity Groups to NSE Equity Partners (other than the NSE Chair and NSE CEO), to ensure that the principles set out in the Profit Sharing Memorandum proposed to the Board by the NSE CEO are consistently applied and the NSE Unit allocation process results in fairness between NSE Equity Partners and groups of NSE Equity Partners (other than the NSE Chair and NSE CEO) provided that the Committee shall not duplicate the work of the NSE CEO and/or the Remuneration Committee

Transactions & Major Projects (event driven)

- Consider on behalf of the Board and provide recommendations to the Board on proposals from the NSE CEO to borrow money, make investments, give undertakings and enter into contracts on behalf of the firm subject to agreed thresholds
- Oversee major projects as directed by the Board and ensure that the interests of the firm are protected
- Consider, report to the Board on and make recommendations to the Board on major transactions or other significant investments

Deloitte network

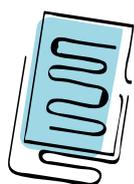
As part of the Deloitte organisation, Deloitte firms benefit from shared values, investments and resources and are able to leverage Deloitte's brand, eminence and intellectual property.



Professional standards



Shared values



Methodologies



Systems of quality control
& risk management



Common technologies / platforms

Deloitte Touche Tohmatsu Limited (DTTL or Deloitte Global)⁸

Deloitte Touche Tohmatsu Limited is a UK private company limited by guarantee incorporated in England and Wales. DTTL serves a coordinating role for its member firms and their affiliates by requiring adherence to policies and protocols with the objective of promoting a consistently high level of quality, professional conduct and service across the Deloitte network. DTTL 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.

Network governance

The Deloitte Global Executive

The Deloitte Global Executive, currently composed of 25 senior leaders from Deloitte Global and select Deloitte firms, is responsible for embedding Deloitte's Purpose and advancing its strategic business priorities. The Executive also sets policies and champions initiatives that help Deloitte make an impact that matters for Deloitte clients, Deloitte people, communities and other stakeholders. The group meets either in person or via video/conference calls at least 10 times during the year.

Deloitte Global Chief Executive Officer Punit Renjen, who began his second four-year term on 1 June 2019, leads the Executive and appoints the members of the Executive, subject to approval by the Governance Committee of the Deloitte Global Board of Directors.

The Deloitte Global Operating Committee

The Deloitte Global Operating Committee provides a vital link between strategy and execution that helps Deloitte perform effectively and efficiently. Deloitte Global Chief Operating Officer Mike Dougherty leads the Operating Committee. Its members include Deloitte Global business operations and enabling area leaders and the largest Deloitte firms' chief operating officers. The group meets either in person or via video conference at least seven times during the year.

The Deloitte Global Board of Directors

The Board of Directors is Deloitte Global's highest governing body and addresses its most important governance issues, including approval of the global strategy, major transactions and the selection of the Deloitte Global CEO. The Board has a number of committees to support its oversight and governance role, including a Risk and Ethics Committee and a Finance and Audit Committee. Board composition is diverse in terms of geography, with a proportionate representation of member firms. Board members are designated by individual member firms that are themselves selected based on size, the number of significant clients they serve and other factors. Gender and business background are considered by member firms as they designate individuals to these positions. On 1 June 2020, the Board had 21 members, six of whom were women.

Deloitte Global Chair Sharon Thorne began her four-year term of office on 1 June 2019.

⁸ "Deloitte" is the brand under which approximately 312,000 dedicated professionals in independent firms throughout the world collaborate to provide audit & assurance, consulting, financial advisory, risk advisory, tax and related services to select clients. These firms are members of DTTL. DTTL, these member firms and each of their respective related entities form the "Deloitte organisation". Each DTTL member firm and/or its related entities provides services in particular geographic areas and is subject to the laws and professional regulations of the particular country or countries in which it operates. Each DTTL member firm is structured in accordance with national laws, regulations, customary practice, and other factors, and may secure the provision of professional services in its respective territories through related entities. Not every DTTL member firm or its related entities provides all services, and certain services may not be available to attest clients under the rules and regulations of public accounting. DTTL, and each DTTL member firm and each of its related entities, are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm, and their respective related entities, are liable only for their own acts and omissions, and not those of each other. The Deloitte organisation is a global network of independent firms and not a partnership or a single firm. DTTL does not provide services to clients.



Conducting business with honesty, integrity and high standards of professional behaviour

Message from Feargus Mitchell, UK Ethics Partner

I have been the UK Ethics Partner for the UK since 1 December 2019, taking over from Oliver Grundy, and would like to start by thanking him for his contribution to our ethics programme. It has been both a fascinating and challenging time to take on this role, given the backdrop of the COVID-19 pandemic and, as others have set out earlier in this Report, the obvious need for Deloitte to adapt accordingly.

The global pandemic has clearly impacted our firm, our people, our clients, and the entities we audit, and shone a light on our wider public responsibility. From my perspective, it has also reemphasised the importance of our Deloitte shared values, set out below, and our **NSE Ethics Code** as important facets of our values and principles. These underpin what we stand for and how we operate in upholding the public interest.

Our Shared Values

1. Lead the way
2. Serve with integrity
3. Take care of each other
4. Foster inclusion
5. Collaborate for measurable impact

In line with the second shared value, serving with integrity, our ethics programme seeks to ensure that we:

- Do the right thing...always
- Speak up and protect our reputation
- Preserve the trust of clients, audited entities, regulators, our people and the public
- Never compromise on quality
- Comply with both the letter and spirit of laws and standards.

This year, the team has continued to focus on dealing with ethics matters that arise; on communicating with partners and staff including through our annual ethics survey; and by supporting and informing colleagues through specific ethics training. Education – and encouraging colleagues to speak up if they have any concerns – is central to embedding ethical behaviours.

I meet and discuss issues with the firm's INEs on a regular basis, both formally, for example at the UKOB, and ad hoc, for example to consult on specific public interest matters. Over the course of the year we have invited the INEs to join some of the Public Interest Review Group meetings which I chair so they can observe how that process works in practice and provide feedback.



Feargus Mitchell
UK Ethics Partner

“We are committed to conducting business with honesty, distinctive quality, and high standards of professional behaviour.”



The Global dimension

We are committed to conducting business with honesty, distinctive quality, and high standards of professional behaviour. Ethics at Deloitte is led by the Deloitte Global Chief Ethics Officer at the global level, and by member firm and country Ethics Officers at the local level. These are experienced partners with direct access to the relevant CEO and governing body. Deloitte Global and member firm ethics leaders work together to continually monitor risk and to reinforce compliance with the **Global Principles of Business Conduct**. This Global Code is embedded into each member firm's Code of Conduct, and defines the commitments all Deloitte professionals make regarding ethical standards, as well as explaining each individual's responsibilities to their clients, colleagues, and society.

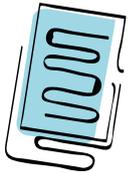
Deloitte's Global ethics programme comprises the following elements:



Global Principles of Business Conduct



Global ethics policies including policies on Non-Retaliation, and Anti-Discrimination and Anti-Harassment



Reporting channels and incident management protocol



Annual ethics survey



Annual assessment and recurring practice-review programme



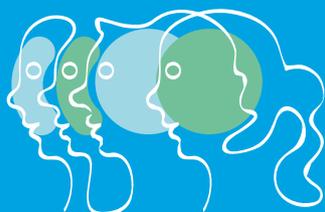
Ethics learning programmes and communications.

How do we deal with reported incidents in the UK?

All incidents referred to the Ethics team, whether directly, via other departments or through our externally-hosted Speak-Up line (which can be done anonymously), are taken at face value. While we strive to maintain confidentiality, if taking a matter forward would potentially identify an individual, we will seek their consent before proceeding. The case management system ensures all cases are monitored through to a conclusion and Deloitte's policy of zero tolerance to retaliation is supported through regular post-case monitoring directly with the person who reported the incident (and/or any witness). Feedback from the monitoring process has been overwhelmingly positive.

Since publication of our last Transparency Report we have seen an increase in reported ethics matters

Total number of reported ethics matters



FY20

223
(1.1 per 100 individuals)

FY19

154
(0.8 per 100 individuals)

Top 5 reasons (in descending order)



FY20

1. Discrimination or harassment *(equal quantity)*
1. Respect and fair treatment*
3. Bribery/fraud**
4. Compliance/conduct***
5. Inquiry/Other

FY19

1. Discrimination or harassment
2. Respect and inclusion matters
3. General inquiries
4. Inappropriate behaviour/bullying****
5. Accuracy of time and expense reporting

Explanatory notes in relation to category nomenclature changes FY19–FY20:

- * Matters categorised as relating to inclusion in FY19 would be part of the 'Respect and fair treatment' category in FY20, i.e. there was a category name change from 'Respect and inclusion matters' to 'Respect and fair treatment'
- ** The majority of 'Bribery/fraud' matters in FY20 relate to expense irregularities (which were included in the 'Accuracy of time and expense reporting' category in FY19)
- *** The 'Compliance/conduct' category was the sixth largest by number of matters reported in FY19, hence not appearing in this table. Matters in this category in FY19/20 include for example conflicts of interest and policy breaches
- **** Matters in this category from FY19 are now included within the FY20 categories of 'Discrimination or harassment' or 'Respect and fair treatment'

As the graphic to the left shows, there was a notable total increase in FY20 since FY19.

While we are confident the FY20 increase reflects greater awareness and comfort in speaking up, increased focus, and better systems to detect matters in certain areas, we will continue to endeavour to understand, learn from and respond to change, in terms of both the quantity and nature of the cases that arise.

In FY20 one of the top two reasons for matters being raised was, again, in relation to discrimination or harassment. The range of issues included alleged discrimination in the workplace on the basis of gender, race and sexuality, including examples of inappropriateness in conduct towards colleagues, persistent unwelcome advances, unacceptable conduct on the basis of race/ culture and some instances of denial of opportunity, work or professional advancement. I talk more about the race aspect of this 'category' of matters – and what Deloitte and the Ethics team are doing in response – below.

The bribery/fraud category mainly concerns matters relating to expenses (previously recorded and shown in the table as 'Accuracy of time and expense reporting'). The increase in reported cases arises from the inception of a dedicated Fraud/Expenses Investigations Team in June 2019, which has enhanced the firm's capacity to investigate issues in this area, plus our offshore expenses hub is now better equipped to identify irregularities. Indeed, the increase in expenses cases has materially contributed to the overall increase in ethics matters this year.

The expenses issues which arose ranged from minor policy breaches to intentional mis-claiming of expenses for personal financial gain. In response, those involved have undertaken training, been issued with formal warnings or, in the most serious cases, had their employment terminated. In addition, a number of matters have been referred to the police with a view to prosecution. All ethics outreach sessions (see next page for more detail) include a section on expenses. Furthermore, the Finance function is conducting a full end-to-end review of the expense process and a new travel and expense policy and process will be released alongside training and communications in FY21.



What do the results of our annual Ethics survey tell us?

All partners and staff receive an annual survey to monitor the perception of ethics at Deloitte. We, alongside Deloitte NSE, thoroughly analyse the results, with oversight from Deloitte Global. While the response rate for FY20 was disappointing, we were able to gather some valuable insights, and are adopting a revised communications approach for the FY21 survey.

The FY20 survey revealed that the vast majority think Deloitte is an ethical place to work. However, where people see misconduct, in some instances they will not necessarily report it. Some people do not believe that the firm will take action, which is categorically not the case, while an assumption that it is 'someone else's problem' can also be a barrier to reporting.

Ongoing ethics training seeks to address these concerns. Furthermore, the UK Ethics team is undertaking an outreach project about its work, focusing on transparency and informing our people about some of the issues that have come to its attention, as well as on concerns around retaliation. It also highlights the work of the Public Interest Review Group. Feedback has been extremely positive and this outreach activity is set to continue.

We have also heard that a fear of retaliation can be a barrier to reporting. The firm is clear that there is zero tolerance in this regard, and indeed action was taken during FY20 against one senior individual following a report they had engaged in retaliatory behaviour. Despite this it is apparent some of our people fear speaking out will result in some form of negative consequence for them, so we have instituted a programme of retaliation monitoring which has been positively received.

Public Interest Review Group

The Public Interest Review Group, which I chair, meets weekly to consider proposed engagements:

- With high public interest characteristics
- Which could potentially impact on the reputation of the firm
- That may be of interest to the public.

The Group also comprises the Managing Partner for Quality Risk and Security, the firm's Money Laundering Reporting Officer (MLRO), the UK Executive member responsible for our People and Purpose agenda and a core of representative partners from across the business. The meetings are also attended by members of the relevant engagement, business and industry team, as appropriate, Business Risk Leader and members of the Public Affairs team.

The Group considers the circumstances and determines the best course of action for specific matters brought for consultation, which might mean: a) proceeding 'as-is'; b) proceeding with additional safeguards; or, in some cases, c) not proceeding at all. During FY20, 84 matters were brought to the Group of which 21% were in category a); 60% were in category b) and 10% were category c), i.e. declined. The remaining 9% includes matters that were not ultimately pursued or did not require a specific decision to be taken.

Additionally, in response to COVID-19, members of the Public Interest Review Group attended and provided input into 40, centrally coordinated, COVID-19 Deal Review Board meetings. The COVID-19 DRB forum was established in March 2020 to provide timely and efficient support, guidance and decision making to – and as part of – the engagement acceptance process in relation to opportunities of high public and national interest linked to COVID-19.

During the course of the year we have also introduced more strategic, forward-looking pipeline discussions with selected account teams and service areas to allow debate on and surfacing of matters of public interest in advance of specific engagements being brought forward.

Finally, in August 2019, the NSE Public Interest Consistency Group was established, focused on increasing awareness of public interest considerations and driving consistency of decision making among NSE geographies with regards to the acceptance of opportunities presenting a high public interest element and cross-border outreach.

Where will we focus our priorities in FY21 and beyond?

A key focus for this year is a review of all ethics processes, particularly with a view to further improvement of investigations into partner behaviours, increasing consistency and experience. There will also be a formal review of the crossover points between Ethics and Employee Relations and Human Resources. Particular consideration will be given to cases where an individual raises concerns about behaviours, but does not wish to be named, pursue a formal grievance or go on the record, which may make it extremely difficult for a matter to be investigated fully.

Consideration of public interest matters will continue to be a key priority, and we will continue to evolve our approach, including via our Public Interest Review Group, to keep pace with the changing environment.

Finally, as Richard Houston has set out, there is of course a significant focus on what the firm can and should do better in response and in relation to the Black Lives Matter movement, and we recently launched our **Black Action Plan**. Deloitte has an ongoing Respect and Inclusion programme which aims to tackle these issues, and this is currently being revised to ensure that it remains fit for purpose given the concerns that have been raised by our people from an ethnic minority background. The Ethics team is also actively engaged with the internal Deloitte Multicultural Network and working to ensure all our people, and particularly our people from an ethnic minority background, have a full understanding of the role of the Ethics function and the confidence to raise concerns about any wrongdoings they experience or observe.

Conflicts of interest

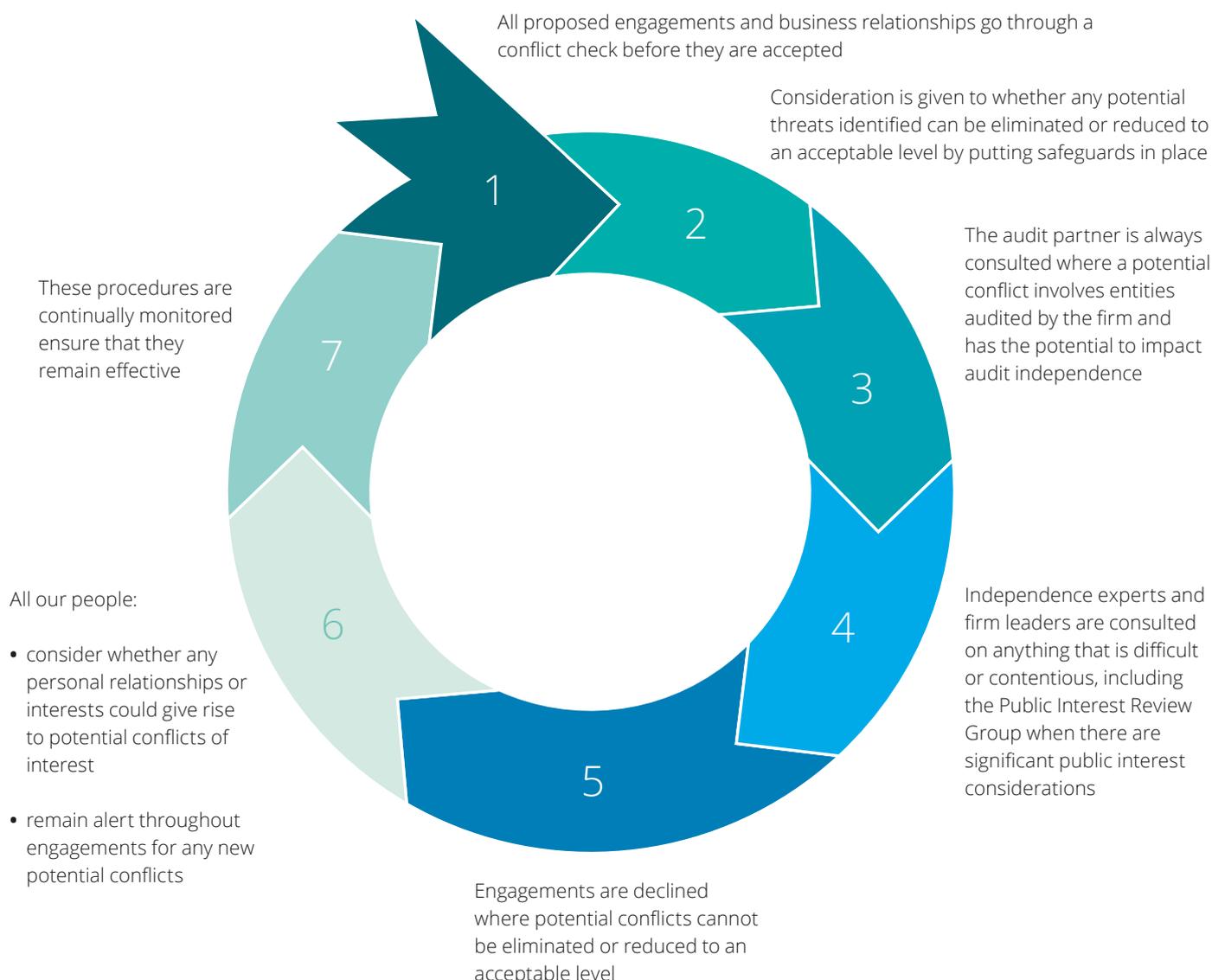
In order to safeguard our independence and objectivity, and retain the trust of our clients and wider stakeholders, including the general public, we need to be free from any actual or perceived conflicts of interest.

How do you address potential conflicts of interest?

We work with a broad range of businesses globally and provide a diverse range of services. From time to time, we have relationships with more than one party involved in a particular transaction or matter, which could potentially give rise to conflicts of interest.

Professional standards and regulations require us to have effective policies and processes in place to identify and address these situations. This is a particular area of focus for audited entities, where our independence and objectivity is critical.

In light of these considerations we ensure:



As well as assessing the regulatory requirements when deciding whether to take on new work, we also consider the spirit of the regulation and whether we think it is the right thing to do in the circumstances.



Independence

Our independence policies are based on the requirements of the International Ethics Standards Board for Accounting (IESBA), US Securities and Exchange Commission (SEC) and the UK Financial Reporting Council (FRC).

Auditor independence continues to be of utmost importance with our dedicated Independence Team committed to advising engagement teams, reinforcing our policies and maintaining effective systems and processes, whilst continuously striving to improve them so we remain independent in fact and appearance.

What have you been focusing on this year?

We have established systems and processes to safeguard the independence and objectivity of the firm, our professionals and our engagement teams, and to avoid conflicts of interest on engagements. We continuously invest in improving these systems and processes to better enable the compliance of our firm and people. We have focused on a number of key areas in FY20:

- Adoption of the new FRC Ethical Standard:** The FRC issued a revised Ethical Standard in December 2019, which further restricted the type of non-audit services that can be provided to audited entities. We ran an extensive communication programme and delivered specific technical training to make sure both audit and non-audit teams fully understood the new rules and the impact on their engagements. The central Independence Team also provided practical advice on how to implement the new rules on a case-by-case basis.
- Access to Independence Support:** In 2019 we launched a consultation platform which enabled the business to consult with the Independence Team more effectively. In 2020 we have continued to improve and widen the use of this platform.
- Built on and expanded our approach to communications and awareness:** We implemented a series of targeted webinars, together with one-to-one consultations and “spot checks” focused on personal independence (independence of financial interests for our partners and staff), providing specific support and guidance on trends identified and initiatives introduced to make it easier for our people to remain compliant with independence requirements.
- Making independence compliance easier:** We have introduced a new initiative to automate and simplify recording of financial interests into our independence monitoring system and make it easier for our partners and staff to maintain their independence compliance in addition to enabling timely and accurate recording of changes in their financial interest.
- Interim confirmation process:** We continued with our six-monthly confirmations process for partners to help them comply with personal independence requirements and extended the coverage of the interim confirmation to directors in a phased approach.
- Deal Review Board:** We have standardised our approach to assessing both audit and assurance opportunities and certain opportunities now require the approval of a Deal Review Board. This is a leadership forum with representatives from the firm’s executive, key senior partners and the Independence and Ethics teams. Before agreeing to propose for the work, the Deal Review Board makes an independent assessment of the proposal, ensuring that we fully understand the risks associated with taking on the engagement and that we have the appropriate skills and resources available to deliver it. During the year, we have had to turn down opportunities where we did not have the right skills available or where adequate safeguards could not be put in place to manage the associated risk effectively.
- COVID-19 impact:** In light of the COVID-19 pandemic, we reviewed our client take on procedures to make sure all aspects of independence are considered when taking on new engagements related to COVID-19. Detailed independence guidance and contact information has been provided to teams via the COVID-19 QRM guidebook. We have also provided specialist Independence Team input to the COVID-19 Deal Review Board and Public Interest Review Group regarding COVID-19-related opportunities. The COVID-19 Deal Review Board is a standing cross-service line leadership forum established to review COVID-19-related opportunities.

Confirmation of internal review of independence practices and compliance

In accordance with Article 13.2(g) of the EU Audit Regulation, we confirm that an internal review of our independence practices has been properly conducted in the year as part of the 2020 practice review.

Our internal and global practice reviews 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 UKOB and to Deloitte Global’s CEO and Board.

What systems and processes do you have in place?

Our main systems and processes of internal quality control related to independence:

Global Independence Monitoring System

Assists Deloitte member firms and their professionals monitor restrictions placed on their personal financial interests

Conflict Checking System

Identifies and manages potential independence conflicts and pre-approval requirements in respect of proposed engagements, business and financial relationships

Restricted Entities Database

Records comprehensive details on every restricted entity, allowing partners and staff to check independence requirements for any type of investment or product before they enter into any financial relationship

Key independence systems and processes

Business Relationships Monitoring System

Records all material business relationships and alliances of the firm

Client Due Diligence System

Part of our client/ engagement take-on process, as required by our anti-money laundering procedures

Inspection and 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

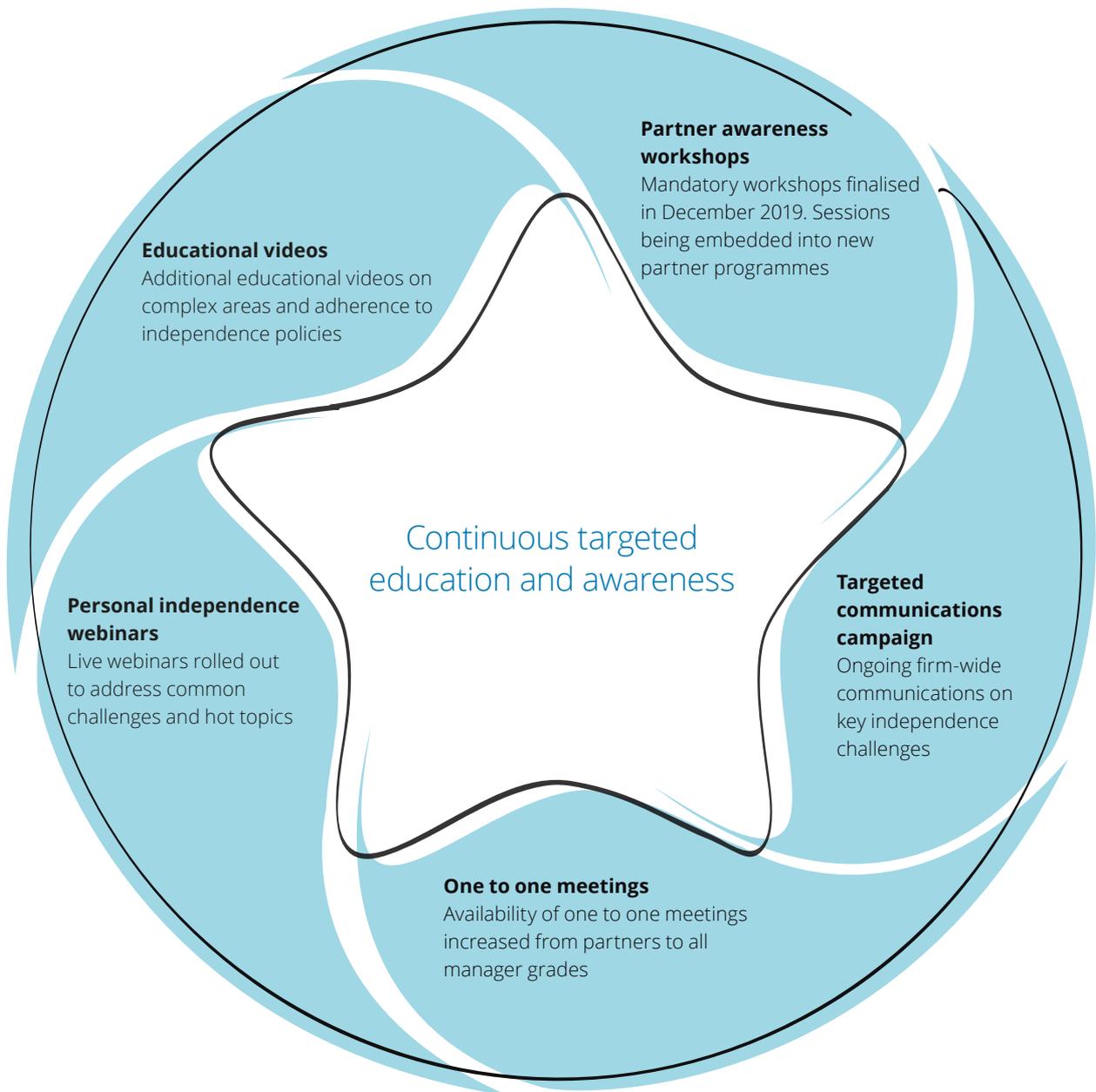
Annual & Interim Confirmations

Confirmation from partners and staff annually that they are aware and compliant with our policies. Additionally, an interim independence confirmation is obtained from partners annually which is also being rolled out to directors throughout 2020



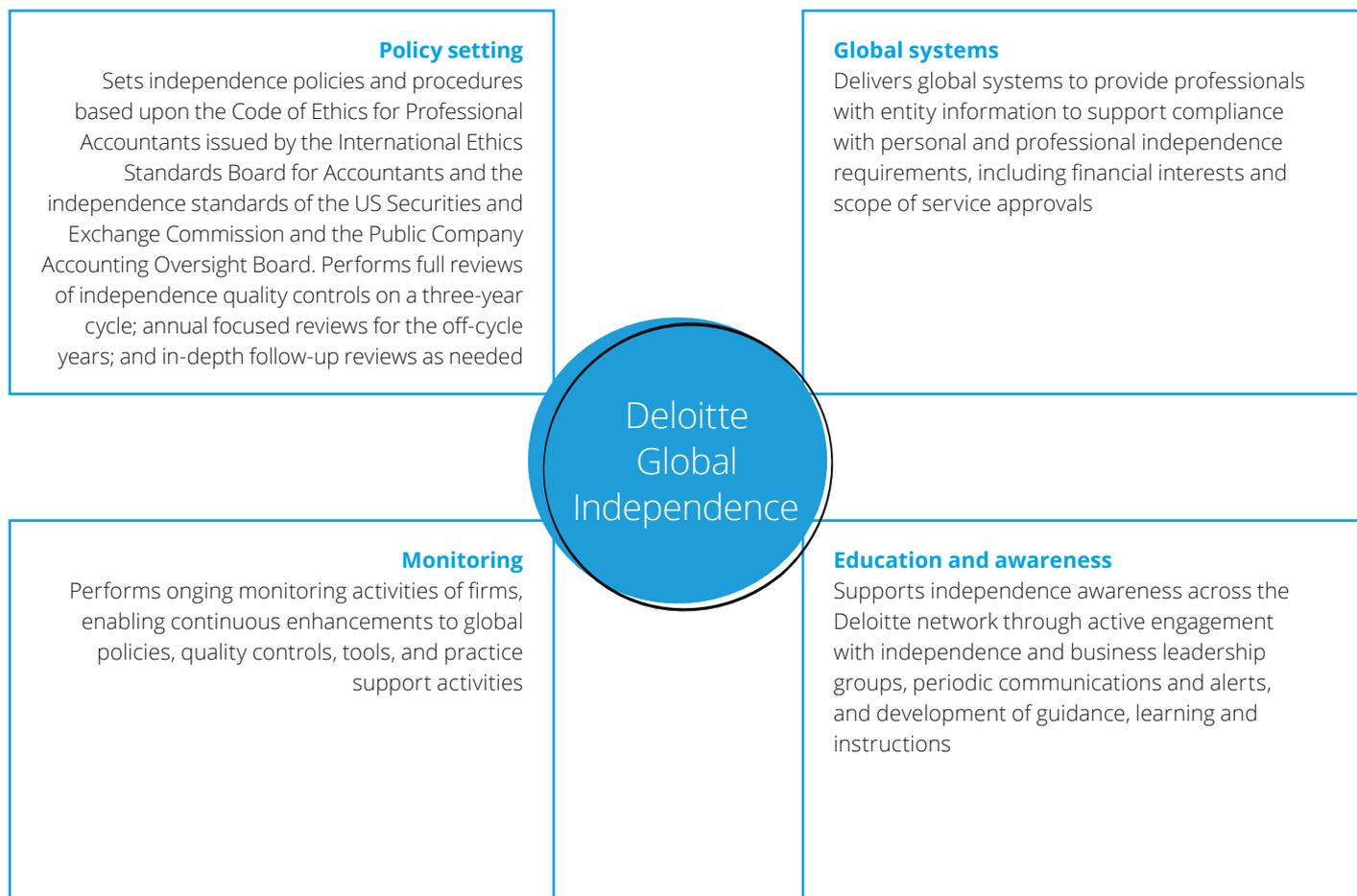
Education and awareness initiatives

We have robust systems and processes in place to help us maintain our independence. The biggest challenge we face is our reliance on our people reporting and capturing the right information at the right time so the processes and controls can operate effectively. That's why education and raising awareness has been our focus over the past couple of years. We have engaged with our partners and staff through various interactive and targeted channels to make sure independence is front of mind and everyone is clear on what their responsibilities are in ensuring we remain free from any conflicts.



Role of Deloitte Global Independence

Independence is a network-wide responsibility so we have a global framework in place:



How do you ensure independence is maintained when partners and key staff work on the same engagements year after year?

We recognise the risk of a threat to independence from prolonged service of partners and key staff on the audit engagement team, and note audit quality can be enhanced by a fresh look at the engagement. We closely monitor the length of time partners and key staff spend on each engagement, including across different roles, and implement succession plans where appropriate. Investment has been made to enable monitoring of key partner roles systematically and further work is being undertaken to enable staff monitoring in the same way.



Principal risks and uncertainties

How are principal risks managed?

Our principal risks and uncertainties, which are set out in Appendix 5, are managed through the Enterprise Risk Framework (ERF). The ERF sets out the Executive's assessment of the risks facing the firm and, specifically, those that could impact on the ability of the firm to meet its strategy and public interest obligations, and those that could impact the reputation of the firm. The UK's framework is aligned to, and managed in a coordinated way with, the NSE ERF.

The Executive refreshed the ERF in FY20 to: identify any new enterprise risks; remove, if appropriate, any existing risks no longer considered significant; validate or update the risk definitions; and consider any changes to risk owners.

There is an ongoing and frequent dialogue between the Central Monitoring Group, who facilitate the operation of the ERF, and risk owner teams to ensure early identification and escalation of any matters requiring consideration by the risk owner or the Managing Partner Quality, Risk & Security. This is complemented by a regular cadence of meetings, particularly for the firm's most significant risks, between the Managing Partner Quality, Risk & Security and each risk owner at which the vulnerability to each risk is assessed, emerging issues are discussed and any necessary mitigating actions are agreed. This process ensures the firm maintains an up-to-date view of the status of its principal risks and is better able to respond to emerging risks. The Managing Partner Quality, Risk & Security formally reports to the Executive on the ERF. Through detailed discussion of the assessment of the firm's principal risks, the Executive satisfied itself the risk profile accurately reflects vulnerabilities and appropriate mitigating actions are in place.

How has COVID-19 impacted the risk profile?

The impact of the COVID-19 pandemic developed rapidly in the last few months of FY20. Prior to the lockdown in March, the profile of the firm's principal risks and uncertainties remained largely in line with the position reported in FY19 recognising the backdrop of continued scrutiny of the profession; audit market reform; increasing awareness of people and purpose matters including the Black Lives Matter campaign; and the external cyber threat environment. At the outset of the pandemic, a full assessment of its impact on the UK's principal risks was undertaken. These 'risk shifts' were considered through the three pillars of: clients and client service quality; liquidity, operations and infrastructure; and people.

Risk drivers were updated for these risk shifts and additional mitigations were implemented where required. While all of the principal risks have been affected, COVID-19 resulted in an increased risk exposure particularly with respect to: the firm's public interest obligations and its role in supporting the national interest COVID-19 response; audit quality, particularly where companies are experiencing financial distress; the heightened cyber threat arising from home working; and the impact on peoples' well-being. The firm has taken measures to protect the health and safety of staff, and has worked with audited entities, clients and suppliers to minimise disruptions and support the community in addressing the challenges. The firm also carefully managed and monitored its liquidity and capital resources, developing performance and liquidity models for a number of scenarios, and implementing certain cost containment and liquidity enhancement measures. The status of the new and incremental risks associated with COVID-19, and the effectiveness of the related mitigations, has been regularly monitored by the UK Executive, with action plans being updated where necessary to adapt to the evolving situation.

How is the impact of Brexit being managed?

The longer-term political and economic effects of the UK leaving the EU remain unclear at the date of this report. The Executive is monitoring the developments in relation to the ongoing negotiations between the EU and the UK, and will continue to evaluate its impact on the business, both in terms of its own activities and those of audited entities and its clients. A senior working group has been established to plan and implement any required changes to business operations, systems and compliance before 31 December 2020.

What governance measures are in place?

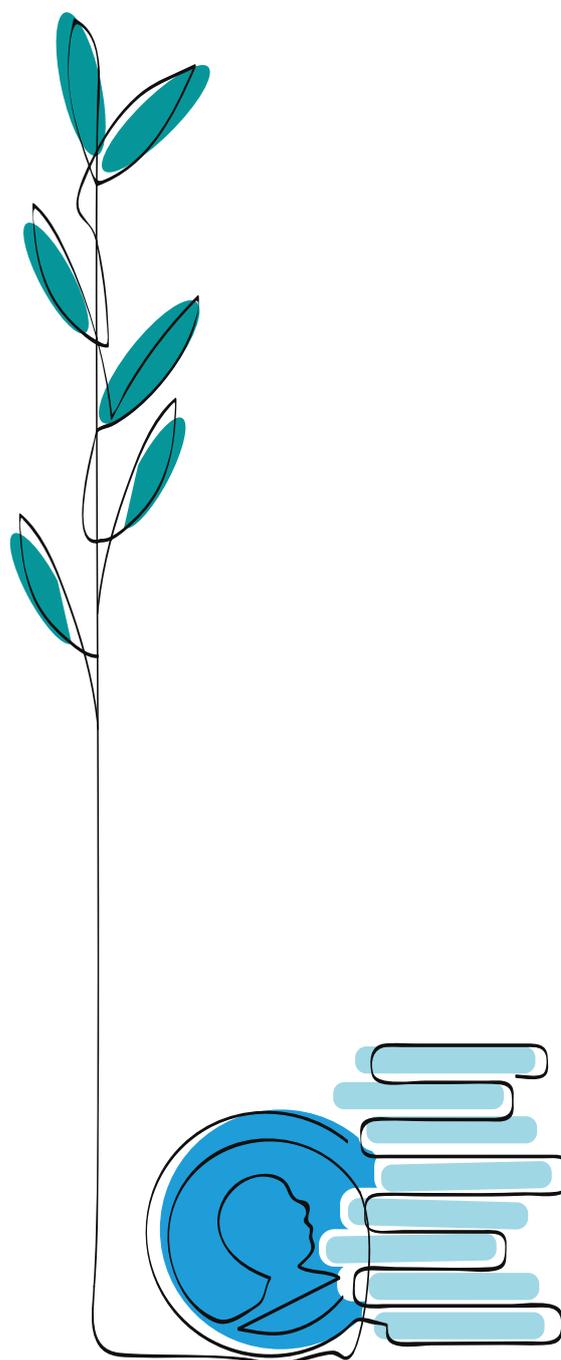
The results of the annual refresh and the ERF updates are discussed with the UKOB, including the INEs, providing a further challenge to the Executive's assessments. The UKOB discussed and challenged the Executive's assessment of the firm's principal risks and uncertainties including residual risk exposure, trending, speed of onset and the status of further actions, if any. In particular, this focused on the risks related to audit quality, independence, the future of audit and the impact of COVID-19, as well as the mitigating controls in respect of these risks..

In considering the risks, specific attention was also paid by both the Executive and UKOB to those risks that could impact the sustainability of the audit practice, in particular audit quality, regulatory compliance and engagement, people and purpose and the attractiveness of the audit profession, operational excellence and financial viability.

What is changing in FY21?

An enterprise risk refresh is being undertaken across NSE for FY21. In addition to considering the principal risks, uncertainties and opportunities arising from the strategic choices made by the firm, particular emphasis is being placed upon assessing the impact of external influences such as the economic and geopolitical environment; ongoing COVID-19 developments; trade negotiations following the UK's withdrawal from the EU; and significantly changing societal expectations of business including business purpose, climate change and Black Lives Matter.

The aim is to ensure principal risks are more forward-looking and actionable, and continue to be increasingly focused on those matters that not only protect the firm and its people, but which also most directly support our public interest obligations.





Security, confidentiality and data protection

Why is security, confidentiality and data protection so important to Deloitte?

We have legal and regulatory obligations to meet and to maintain our clients' trust to keep their information safe. If we lose or misuse confidential client or personal data, we do not just expose ourselves to legal and regulatory repercussions, we lose the trust of our clients and damage our reputation.

That is why protecting confidential and personal data is of paramount importance across all levels of the firm.

How is this managed from the top?

Mark Mullins is our Managing Partner for Quality, Risk and Security. He is a member of the firm's Executive Group and is responsible for security, confidentiality and data protection. He is supported by an oversight board (the UK Security Executive), which comprises lead partners from those functions that manage the front line - including Quality & Risk Management leaders from each of our Businesses, Deloitte Business Security, IT Services, Internal Client Services and the Chief Information Security Officer.

We also bring in expertise from our own Cyber Security consulting practice.

The Security Executive's objectives are to:

- Determine priorities and manage dependencies between each part of the firm
- Assure the effectiveness of our three lines of defence operating model
- Take decisions escalated by the business on security, confidentiality and data protection
- Provide visibility to the Executive on UK, NSE, global and member firm security issues, ensuring alignment to the UK firm's business strategy
- Provide a consistent focus on security, confidentiality and data protection across the firm, to meet the needs of our clients.

How do you keep everyone informed on what they need to do to comply?

All of our people receive information security and data protection training when they join the firm. Every year we have mandatory update training to keep everyone fresh and we also run risk-targeted training sessions for specific departments throughout the year.

We also run educative phishing exercises to help our people identify rogue and malicious emails, an exercise that has been especially relevant following the notable rise in phishing attacks during the COVID-19 pandemic.

Personal data is a real hot topic, how are you managing this risk?

We have an accountability framework and appropriate technical and organisational measures to comply with the EU General Data Protection Regulation (GDPR), the Data Protection Act 2018 and other relevant worldwide data protection laws.

We have appointed a Data Protection Officer (DPO) who acts independently to assure the firm is complying with data protection laws. The DPO provides advice around our data protection obligations on all issues relating to the protection of personal data.

We are registered with the UK Data Protection authority. Our registration can be seen on the [Information Commissioner's Office website](#) under reference Z7267009.

Our privacy notice is publically available at: <https://www2.deloitte.com/uk/en/legal/privacy.html> and our Data Protection Officer can be contacted at: DPO@deloitte.co.uk

What about information security?

Deloitte UK operates an information security management system, which is certified as compliant with the requirements of ISO/IEC 27001:2013 for all client confidential data.

Our policies and procedures aim to:

- Protect information from internal and external threats; maintaining the confidentiality, availability and integrity of that information
- Meet our statutory, regulatory and contractual obligations
- Appropriately handle, monitor and manage the data for which we are responsible.

These aims have been brought into sharp focus by the impact of the pandemic on our working practices. With many of our people working from home we have been presented with new challenges to keep information secure and we have responded with tailored education and awareness for our people and increased focus on securing effective collaboration tools to enable our people to work effectively and securely.

Other controls and measures include but are not limited to:

- All of the firm's laptops, PCs and removable media are encrypted
- We use multi-factor authentication and secure apps for accessing data on mobiles and iPads
- The use of removable media, such as flash drives, is restricted
- Access to client information – both electronic and hard copy files – is restricted to those who need it and we regularly review access to make sure it is still appropriate
- We have strict policies for limiting the amount of data held on laptops
- We operate a clear-desk policy, and have secure and restricted access to our buildings
- Multi-factor authentication is required to access our network
- Data loss protection is in place for the transmission of data outside of the organisation

We have also implemented a data risk review process that explicitly reviews our technology and cyber projects and services, prior to deployment. This assures public sector and other legal, regulatory and contractual obligations around data residency and security are understood so we can deliver security and data protection by design.

Testing takes place across our information security controls and red teaming exercises provide valuable insight to enable us to respond to new and emerging infiltration techniques into our network.

How do you provide information security assurance?

We monitor and assure compliance with our information security policies and standards in three ways:

1. Internal assurance is provided by the timetabled programme of Deloitte UK's internal audit team, which reports directly to the Audit and Risk Committee

2. This is supplemented with live monitoring by Deloitte's Cyber Intelligence Centre and other network monitoring tools

3. External assurance is also provided by our ISO/IEC 27001:2013 certification annual independent assessment, our Cyber Essentials+ certification and directly by client audits.

What has been the impact of COVID-19 on your approach to security, confidentiality and data protection?

We planned very rapidly for all of our people working from home. We implemented our established crisis management framework, including an Executive-level Crisis Management Team, and utilised our Pandemic Contingency Planning measures to provide a rapid and secure response, via the Pandemic Working Group and Incident Response Teams, to the challenges we faced.

Throughout this period we adhered to our security, confidentiality and data protection policies utilising and in many cases enhancing the many control and monitoring solutions we have in place to provide assurance that compliance has been maintained.

There has been a particular focus on securing appropriate collaboration tools to enable our people to continue to work effectively. We have provided training and awareness to help our people understand the steps they themselves need to take and this has included phishing exercises due to the rise in this activity during the pandemic. Guidance on travel risk and keeping our people safe has also been of paramount importance.

This will continue to be a priority as we look to manage our return to the workplace in an appropriate and safe manner.

Finally, what happens if things go wrong?

Our main objective is to identify potential issues early and minimise the impact of any incidents. We have well-developed incident reporting and response procedures to make sure this happens.

When data is identified as at risk or when a possible breach has occurred, we have a rapid escalation process involving Incident Response teams who will diagnose and deal with any issues arising. Where necessary matters are escalated to our Lead Client Service Partners or an Executive-level Crisis Management Team.

In some circumstances an incident will require notifying a client or the Information Commissioner's Office.



Appendices

Appendix 1: Executive Group and UK Oversight Board members, including biography and meeting attendance details⁹

1. Current Deloitte UK Executive

Richard Houston, Senior Partner and Chief Executive *

Richard is the Senior Partner and Chief Executive of Deloitte UK, and Senior Partner and Chief Executive of Deloitte NSE, the second largest member firm in the Deloitte network. Richard leads several key People & Purpose campaigns for Deloitte, on topics including mental health, diversity and inclusion, and homelessness. Richard has over 21 years of experience in Consulting. He joined Deloitte in 2002, having previously worked at Andersen and in the financial services industry.

- Exec meetings: attended 32/32 during FY20

Dimple Agarwal, Managing Partner People and Purpose *

Dimple is the Managing Partner for People & Purpose in the UK and NSE, responsible for our people agenda and the impact we have on our clients and society at large. She is also Deputy CEO in the UK. Dimple joined Deloitte 16 years ago and became a partner in 2009. Dimple supports and drives the inclusion and equality agenda and is a member of the Disability Commission.

- Exec meetings: attended 26/32 during FY20

Dan Barlow, Managing Partner Regions¹⁰

Dan is an indirect tax partner and Practice Senior Partner for Deloitte in the South-East. He has worked at Deloitte for 24 years, 15 of which as a partner. Dan advises clients across many industry sectors, with a particular emphasis on telecoms and technology businesses and the travel sector.

- Exec meetings: n/a – Dan joined the Exec in FY21

Richard Bell, Managing Partner Financial Advisory

Richard has been Managing Partner of UK Financial Advisory (FA) since 2018. Prior to his appointment, Richard was Managing Partner for Regions. He joined Deloitte in 1987 and became a partner in 2001. Richard specialises in transaction services to corporate, private equity and other financial institution clients.

- Exec meetings: attended 31/32 during FY20
-

⁹ To note: * denotes the individual also holds an NSE leadership role

¹⁰ Role effective from 1 October 2020



Pauline Biddle, Managing Partner Client & Industries¹⁰ *

Pauline is a Financial Advisory Transaction Services Partner and the incoming Managing Partner Client & Industries (she was Managing Partner Regions until 30 September 2020). Pauline provides diligence services and transaction support to predominantly FTSE350 companies. She became a partner in 2005 and has been with the firm for 28 years. Pauline is also a Deloitte NSE elected Board member.

- Exec meetings: attended 31/32 during FY20

Emma Cox, Managing Partner Deloitte Private

Emma is Managing Partner of Deloitte Private, overseeing the services we provide supporting privately owned businesses, their founders and investors; she specialises in working with companies owned by private equity. Emma has been with Deloitte since 2002 and previously led the Deloitte Private Audit & Assurance practice.

- Exec meetings: attended 32/32 during FY20

Matt Ellis, Managing Partner Tax & Legal *

Matt is UK Deputy CEO and Managing Partner of Tax & Legal in the UK and NSE. Matt's career in Tax spans over 33 years – 21 of which have been with Deloitte; he became a partner in June 2005. Matt represents the UK Tax practice on the Global Tax & Legal Executive and is a member of the Chartered Institute of Taxation.

- Exec meetings: attended 32/32 during FY20

Dominic Graham, Managing Partner Consumer

As Managing Partner Consumer, Dom coordinates sector specialists across the firm. He also leads Deloitte's UK private equity business, working with international private equity and real estate clients. Dom has been at Deloitte since 1998, becoming a partner in 2008, and has extensive transaction support experience.

- Exec meetings: attended 31/32 during FY20

Stephen Griggs, UK Managing Partner *

Stephen is UK Managing Partner, a new Executive role, and a senior Audit Partner specialising in large public company audits and transaction projects across a broad range of industry sectors. Stephen also has responsibility for public policy and was previously Deputy CEO and Managing Partner of Audit & Assurance in both the UK and NSE and former Deloitte UK CFO. Stephen joined Deloitte 18 years ago.

- Exec meetings: attended 30/32 during FY20

Richard Hammell, Managing Partner Financial Services

Richard has been a partner since 2004, having joined Deloitte in 2000, and became Managing Partner Financial Services in March 2020. Richard has 30 years' experience in the industry and leads a team responsible for providing comprehensive, integrated solutions to the banking, insurance, capital markets, investment & wealth management, real asset and fin tech sectors.

- Exec meetings: attended 26/26 during FY20
-

Simon Kerton-Johnson, Managing Partner Transformation¹⁰

Simon is the incoming Managing Partner Transformation, a new Executive role, and will be responsible for all our major transformation programmes as we seek to establish new ways of working and digitise our business. Simon is a Vice Chair of Deloitte UK and a Consulting Partner; he has been with the firm for 26 years, becoming a partner in 2006.

- Exec meetings: n/a – Simon joined the Exec in FY21

Anne-Marie Malley, Managing Partner Consulting

Anne-Marie joined Deloitte in 1996. She has over 20 years' experience in Consulting working predominantly in the private sector. Prior to her appointment as Managing Partner for Consulting, Anne-Marie was the Human Capital Leader. She has spoken widely about the societal impact of consulting, the importance of purpose, the changing business landscape and the future of work.

- Exec meetings: attended 32/32 during FY20

Andy Morris, Managing Partner Risk Advisory

Andy became Managing Partner UK Risk Advisory last year. He has been at Deloitte since 2002 and a partner since 2005, working with a broad range of FTSE100 organisations with a particular focus on technology and digital risk, and internal controls. Andy previously held a number of leadership roles within Risk Advisory and the Consumer industry group.

- Exec meetings: attended 32/32 during FY20

Mark Mullins, Managing Partner Quality, Risk & Security

Mark has 35 years' professional experience including 24 as an audit partner; he has been at Deloitte since 1989. Until January 2019, he was a member of the UK Audit Executive and COO of the Audit business. Mark has also previously served as the COO of Deloitte CIS, based in Moscow. As an Audit Partner he has worked extensively with UK listed global manufacturing, engineering and services businesses.

- Exec meetings: attended 31/32 during FY20

Paul Stephenson, Managing Partner Audit & Assurance

Paul was appointed Managing Partner UK Audit & Assurance in September 2020. Prior to his appointment, Paul was the Chief Operating Officer of the UK Audit & Assurance business. He has been with Deloitte for 30 years, becoming a partner in 2006. He specialises in delivering audit and assurance services to the insurance sector.

- Exec meetings: n/a – Paul joined the Exec in FY21

Donna Ward, Chief Financial Officer *

Donna became the CFO of Deloitte UK in 2015. She is also now Deloitte NSE CFO. Donna was previously the COO of Risk Advisory in the UK and the leader of Finance & Transactions and of the Global Capital Markets Group. Donna has been with Deloitte since 2001.

- Exec meetings: attended 30/32 during FY20
-



2. Former UK Executive members

The following were members of the UK Executive during FY20; their meeting attendance for the year is shown below:

David Noon

- Exec meetings: attended 30/32 during FY20
-

James O’Riordan

- Exec meetings: attended 3/6 during FY20
-

Nigel Wixcey

- Exec meetings: attended 30/32 during FY20
-

3. Current Deloitte UK Oversight Board

Steve Williams, Chair of the UK Oversight Board *

Steve has been with Deloitte UK for 19 years and a partner since 2003. In total he has spent nearly three decades with Deloitte member firms working in a number of countries. Steve is also a member of the Regions Executive, the Practice Senior Partner for Scotland and Northern Ireland and Chair of the NSE Audit & Risk Committee.

- UKOB meetings: attended 6/6 during FY20

Richard Houston, Senior Partner and CEO *

[See Deloitte UK Executive members]

- UKOB meetings: attended 5/6 during FY20

Stephen Griggs, UK Managing Partner *

[See Deloitte UK Executive members]

- UKOB meetings: attended 6/6 during FY20

Kalvinder Dhillon, Vice Chair Deloitte UK *

Kalvinder has been a Deloitte UK partner since 2007; she was previously a partner with Deloitte in the US. Kalvinder's professional career spans over 30 years during which she has served some of the firm's largest FTSE 100 clients. Kalvinder is Chair of the Deloitte NSE People and Purpose committee and leads the firm's global immigration business. She is an elected member of the UK Oversight Board.

- UKOB meetings: attended 3/3 for which she was eligible during FY20

Maxine Saunders, Vice Chair Deloitte UK *

Maxine has been with Deloitte UK since 1987 and a partner since 1999. She is an M&A partner and has served some of the firm's largest clients. Maxine is currently Chair of the Transaction subcommittee, and a member of a number of other sub-committees of the NSE Board. Maxine is also a Director of Deloitte's Global board and specialises in the media and telecoms sectors.

- Maxine became an elected member of the UK Oversight Board in September 2020
-



Jim Coyle, Independent Non-Executive and Deputy Chair of the UK Oversight Board

Jim was appointed as an INE on the Deloitte UK Oversight Board in January 2019. He also chairs the INE Oversight Committee, which comprises the Deloitte INEs and provides a forum for 'deeper dives' into specific areas of public interest.

After 25 years in financial services, Jim retired as Group Financial Controller/Deputy Finance Director at Lloyds Banking Group in May 2015 and, prior to that, held the position of Divisional Finance Director, Group Operations as well as Group Chief Accountant at the Bank of Scotland. Before joining Lloyds, Jim held senior finance positions at BP for ten years.

Jim is currently on the Board of HSBC UK Bank plc – for which he is also the Chair of the Audit Committee – as well as Marks & Spencer Financial Services plc. He is also Chair of the Audit & Risk committees at Honeycomb Investment Trust Plc and Scottish Water. Jim holds a degree in Law and Accountancy from Glasgow University and qualified as a chartered accountant with KPMG.

- UKOB meetings: attended 6/6 during FY20

Almira Delibegovic-Broome, Independent Non-Executive

Almira was appointed as an INE on the Deloitte UK Oversight Board in March 2020.

She is a senior member of the Bar in Scotland, specialising in company and insolvency law. Almira is also a member of the Business Committee of the General Council of the University of Edinburgh and a non-executive member of the Advisory Board for the Accountant in Bankruptcy¹¹.

Almira completed her undergraduate studies in Edinburgh and obtained her Master of Laws at Harvard Law School. Her previous experience includes time as a Visiting Scholar at Harvard Law School and as a Senior Research Fellow for the Committee on Capital Markets Regulation in the US.

- UKOB meetings: attended 2/2 for which she was eligible during FY20

Shirley Garrod, Independent Non-Executive

Shirley was appointed as an INE on the Deloitte UK Oversight Board in May 2020, providing oversight of the external audit business only.

She was Chief Financial Officer of Henderson Group plc from 2009-2013 and then Senior Independent Director, Deputy Chair and Chair of the Audit Committee at esure Group plc until 2019. She is currently Senior Independent Director and Chair of the Risk Committee at Hargreaves Lansdown plc and Chair of the Audit and Risk Committee at the BBC.

As well as working in financial roles, Shirley was previously Chief Operating Officer at Henderson Group plc and at Morley Fund Management (part of Aviva). She also served as a governor of the Peabody Trust housing association. She graduated in Economics and Accounting from the University of Bristol and is a qualified Chartered Accountant and Corporate Treasurer.

- UKOB meetings: attended 1/1 for which she was eligible during FY20
-

¹¹ The Scottish Government agency responsible for administering the process of personal bankruptcies and recording corporate insolvencies in Scotland

Baroness Ford, Independent Non-Executive

Baroness Ford was appointed as an INE on both the Deloitte UK Oversight Board and the Deloitte NSE Board in August 2020.

She has over 25 years' experience as a non-executive director and chair of private and listed companies, and government bodies. She currently chairs STV plc and NewRiver REIT plc, is a senior adviser to the Lendlease Corporation and chairs the Challenge Board of the building renewal programme at Buckingham Palace. She is also a Trustee of the British Olympic Association, National President of Epilepsy Action and Chair of the STV Children's Appeal.

Previous corporate experience includes chairing Grainger plc, May Gurney Integrated Service plc, and Barchester Healthcare Ltd. In the public sector she chaired English Partnerships (now Homes England) and the Olympic Park Legacy Company. She sits as a crossbench peer but is currently on a leave of absence from the House of Lords.

- Baroness Ford became a member of UKOB in August 2020
-



4. Former UK Oversight Board members

The following were members of the UKOB during FY20; their meeting attendance for the year is shown below:

Feergus Mitchell *

- UKOB meetings: attended 3/3 for which he was eligible during FY20
-

Lord Grimstone, Independent Non-Executive *

- UKOB meetings: attended 4/4 for which he was eligible during FY20
-

Ruth Markland, Independent Non-Executive

- UKOB meetings: attended 6/6 during FY20
-

Appendix 2: Financial information

Disclosure in accordance with Article 13.2 (k) (i)-(iv) of the EU Audit Regulation and the schedule to The Local Auditors (Transparency) Regulations 2020

We have extracted the following financial information from Deloitte's audited financial statements and financial records for the year ended 31 May 2020.

The figures indicate the relative importance of audit work for EU PIEs¹², non-PIEs and local audits, and the levels of non-audit services provided to entities for which Deloitte is – and is not – the auditor. They relate to the UK only.

UK Revenue	FY20		FY19		FY18	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	£m	%	£m	%	£m	%
Statutory audit (PIEs and their subsidiaries)	238	6	187	5	126	4
Statutory audit (non-PIEs and their subsidiaries)	270	7	282	8	291	9
Audit & directly related services	508 ¹³	14 ¹⁵	469	14 ¹⁵	417	13
Non-audit services (audited entities)	224 ¹⁴	6	195	6	186	6
Non-audit services (non-audited entities)	2,967	80	2,763	81	2,488	80
Total (UK only)	3,699	100	3,427	100¹⁵	3,091	100¹⁵

Revenue is recognised for the reportable period on a basis consistent with the firm's audited consolidated financial statements:

- Revenue represents amounts recovered or recoverable from clients and the entities we audited during the year, exclusive of Value Added Tax. Recoverable amounts reflect the fair value of the services provided to those entities based on the stage of completion of each engagement including expenses and disbursements, as at 31 May 2020.
- For FY20, revenue was in line with forecast and has not been materially affected by the COVID-19 pandemic, with staff transitioning well to remote working following the lockdown in the last few months of the financial year.
- We expect audit revenues to continue to grow in FY21 as our PIE audit activity increases. However, COVID-19 is expected to create challenges to the delivery of audits and may increase costs.
- Our Audit & Assurance business will transition to a ringfence during FY21, which will include arrangements for transfer pricing and revenue/cost allocations, but we do not expect this to impact costs or revenues in the year. We do, however, expect it to have impact on costs in subsequent years.
- Our firmwide results and performance are covered in our financial statements.

¹² See definition in Appendix 3

¹³ Of which £1.8m relates to local audit work in FY20 (£0.2m in FY19)

¹⁴ Of which £0.2m relates to local audit work in FY20 (£0.0m in FY19)

¹⁵ Due to roundings



Appendix 3: Public interest entities

Disclosures in accordance with Article 13.2 (f) of the EU Audit Regulation

Regulatory context

The list below has been prepared in accordance with Article 13 of the EU Audit Regulation and is in respect of the year ended 31 May 2020. It contains details of the 272 entities¹⁶ that meet all of the following four conditions:

1. The entity is incorporated/established in the United Kingdom
2. Deloitte LLP signed an audit report on the entity's annual financial statements during the year ended 31 May 2020
3. On the date Deloitte signed that audit report, the entity was an EU public interest entity (PIE)
4. The audit carried out by Deloitte was a statutory audit within the meaning of section 1210 of the Companies Act 2006.

PIE definition

Pursuant to the EU Audit Regulation, the definition of a PIE includes:

1. Companies with transferable securities listed on EU regulated markets (as opposed to all markets in the EU) and governed by the law of an EU member state
2. Credit institutions authorised by EU member state authorities
3. Insurance undertakings authorised by EU member states
4. Other entities a member state may choose to designate as a PIE.

Entity name
A.G. Barr PLC
Aberdeen New Thai Investment Trust PLC
Aberforth Smaller Companies Trust PLC
Aberforth Split Level Income Trust PLC
ADIB (UK) Ltd
Admiral Group PLC
AIB Group (UK) PLC
Airtel Africa PLC
Al Rayan Bank PLC
Aldermore Bank PLC
Aldermore Group PLC
Alfa Financial Software Holdings PLC
Alliance Trust PLC
Alliance Trust Savings Ltd
Alpha Bank London Ltd
Anglian Water (Osprey) Financing PLC

Entity name
Anglo American Capital PLC
Anglo American PLC
Anglo Pacific Group PLC
Arsenal Securities PLC
Ashtead Group PLC
Assura PLC
Assura Properties PLC
Avenell Property PLC
Avon Insurance PLC
Axia Finance PLC
Axia III Finance PLC
Azure Finance No.1 PLC
BA (GI) Ltd
BAE Systems PLC
Bakethin Finance PLC
Bank Mandiri (Europe) Ltd

¹⁶ We have excluded two universities incorporated by Royal Charter (University of Leeds and University of Southampton) as, although they are EU PIEs that we audit (being issuers having debt securities in issue listed on an EEA regulated market), our audit does not constitute a statutory audit within the meaning of section 1210 of the Companies Act 2006.

Market Traded Companies which are companies incorporated in the Crown Dependencies (Jersey, Guernsey, Isle of Man) whose transferable securities are admitted to trading on a regulated market of any Member State have been excluded from the list.

Entity name
Baptist Insurance Company PLC (The)
Barratt Developments PLC
Berkshire Hathaway International Insurance Ltd
Biffa PLC
BlackRock Income and Growth Investment Trust PLC
BlackRock Life Ltd
BMO UK High Income Trust PLC
BP Capital Markets PLC
BP PLC
Brewin Dolphin Holdings PLC
British Gas Insurance Ltd
Bruntwood Investments PLC
BTG Ltd
Cadent Finance PLC
CAF Bank Ltd
Caledonian Environmental Services PLC
Canada Life Ltd
Canary Wharf Finance II PLC
Capital & Regional PLC
Castell 2017-1 PLC
Castell 2018-1 PLC
Centrica PLC
Channel Link Enterprises Finance PLC
Charter Mortgage Funding 2017-1 PLC
Charter Mortgage Funding 2018-1 PLC
Chesnara PLC
Churchill Insurance Company Ltd
CLS Holdings PLC
CNA Insurance Company Ltd
Coats Group PLC
ConvaTec Group PLC
Countrywide Assured PLC
Cumberland Building Society

Entity name
Custodian REIT PLC
Darlington Building Society
Delamare Cards MTN Issuer PLC
Dialog Semiconductor PLC
Direct Line Insurance Group PLC
Dixons Carphone PLC
Drax Group PLC
DS Smith PLC
Dunedin Income Growth Investment Trust PLC
Durham Mortgages A PLC
Durham Mortgages B PLC
DWF Group PLC
Eastern Power Networks PLC
Ecclesiastical Insurance Office PLC
Ecclesiastical Life Ltd
Electra Private Equity PLC
Elementis PLC
Epihiro PLC
Equinox (Eclipse 2006-1) PLC
Estia Mortgage Finance II PLC
Estia Mortgage Finance PLC
EuroMASTR PLC
Eversholt Funding PLC
Ferguson Finance PLC
Financial & Legal Insurance Co. Ltd
Foresight VCT PLC
Foxtons Group PLC
Friary No.2 PLC
Friary No.3 PLC
Friary No.4 PLC
Fundsmith Emerging Equities Trust PLC
Gatehouse Bank PLC
Genus PLC



Entity name
Ghana International Bank PLC
Glaxosmithkline Capital PLC
GlaxoSmithKline PLC
Go-Ahead Group PLC (The)
Gulf Marine Services PLC
Hampden & Co PLC
HBL Bank UK Ltd
Healthcare Support (North Staffs) Finance PLC
Heathrow Finance PLC
Helios Towers PLC
Hercules (Eclipse 2006-4) PLC
High Speed Rail Finance (1) PLC
Hobart Property PLC
Homecare Insurance Ltd
Homeserve PLC
Howden Joinery Group PLC
Hunting PLC
Hyve Group PLC
Ibstock PLC
Inchcape PLC
Independent Order of Odd Fellows Manchester Unity Friendly Society Ltd
Informa PLC
International Finance Facility For Immunisation Company
International Personal Finance PLC
Intu Properties PLC
Irida PLC
John Laing Group PLC
Jordan International Bank PLC
JPMorgan American Investment Trust PLC
Katanalotika PLC
Kelda Finance (No.3) PLC
Kexim Bank (UK) Ltd

Entity name
Kion Mortgage Finance PLC
Kyoei Fire & Marine Insurance Company (U.K.) Ltd
Leeds Building Society
London Power Networks PLC
London Wall Mortgage Capital PLC
Loughborough Building Society
M&G Credit Income Investment Trust PLC
Macfarlane Group PLC
Manchester & London Investment Trust PLC
Marks and Spencer Group PLC
Marks and Spencer PLC
Marshalls PLC
Maven Income and Growth VCT 3 PLC
Maven Income and Growth VCT 4 PLC
Maven Income and Growth VCT 5 PLC
Maven Income and Growth VCT 6 PLC
Maven Income and Growth VCT PLC
Melrose Industries PLC
MGM Advantage Life Ltd
Mitchells & Butlers Finance PLC
Mitchells & Butlers PLC
Morgan Sindall Group PLC
Morgan Stanley & Co. International PLC
Morgan Stanley Bank International Ltd
Motopark Finance PLC
National Bank of Egypt (UK) Ltd
National Express Group PLC
National Farmers Union Mutual Insurance Society Ltd (The)
National Grid Electricity Transmission PLC
National Grid Gas PLC
National House-Building Council
Newbury Building Society
NGG Finance PLC

Entity name
Northern Electric Finance PLC
Northern Electric PLC
Northern Gas Networks Finance PLC
Northern Powergrid (Yorkshire) PLC
Northern Powergrid Holdings Co.
Northumbrian Water Finance PLC
NWEN Finance PLC
Oak No. 2 PLC
Ocado Group PLC
Omnilife Insurance Co. Ltd
OneSavings Bank PLC
Pacific Life Re Ltd
Petropavlovsk PLC
Pharos Energy PLC
Pinnacle Insurance PLC
Pisti 2010-1 PLC
Police Mutual Assurance Society Ltd
Porvair PLC
Praxis I Finance PLC
Praxis II Finance PLC
Precise Mortgage Funding 2014-2 PLC
Precise Mortgage Funding 2015-1 PLC
Precise Mortgage Funding 2015-2B PLC
Precise Mortgage Funding 2015-3R PLC
Precise Mortgage Funding 2017-1B PLC
Precise Mortgage Funding 2018-1B PLC
Precise Mortgage Funding 2018-2B PLC
Primary Health Properties PLC
Principality Building Society
Provident Financial PLC
PRS Finance PLC
Punjab National Bank (International) Ltd
PZ Cussons PLC

Entity name
Quadgas Finance PLC
R.E.A. Holdings PLC
RAC Bond Co PLC
Rathbone Brothers PLC
Rathbone Investment Management Ltd
RDL Realisation PLC
RDLZ Realisation PLC
Rechabite Friendly Society Ltd (The)
Rotork PLC
RPS Group PLC
RSL Finance (No.1) PLC
S & U PLC
Safestore Holdings PLC
Schroder Japan Growth Fund PLC
Scottish Friendly Assurance Society Ltd
Scottish Investment Trust PLC (The)
Secure Trust Bank PLC
Severn Trent PLC
Severn Trent Utilities Finance PLC
Signature Aviation PLC
Smithson Investment Trust PLC
South East Water Ltd
South Eastern Power Networks PLC
South Staffordshire Water PLC
Spectris PLC
Speyside Renewable Energy Finance PLC
Spirax-Sarco Engineering PLC
SSB No. 1 PLC
Student Finance PLC
Sun Life Assurance Company of Canada (U.K.) Ltd
SuperDry PLC
Taylor Wimpey PLC
Teachers' Building Society



Entity name
Templeton Emerging Markets Investment Trust PLC
Tenecom Ltd
Tesco Personal Finance Group PLC
Tesco Personal Finance PLC
Tesco PLC
Tesco Property Finance 1 PLC
Together Asset Backed Securitisation 1 PLC
Together Asset Backed Securitisation 2018 - 1 PLC
Torm PLC
Tower Bridge Funding No.1 PLC
Tower Bridge Funding No.2 PLC
TP ICAP PLC
Transfercom Ltd
Tullow Oil PLC
Turbo Finance 6 PLC
Turbo Finance 7 PLC
Turbo Finance 8 PLC
U K Insurance Ltd
UIA (Insurance) Ltd
Ultra Electronics Holdings PLC
Unite Group PLC (The)
United Trust Bank Ltd
Unity Trust Bank PLC
US Solar Fund PLC
Vanquis Bank Ltd
Vitec Group PLC (The)
Wales & West Utilities Finance PLC
Weatherbys Bank Ltd
Wellcome Trust (The)
Wellcome Trust Finance PLC
Western Power Distribution (East Midlands) PLC
Western Power Distribution (South Wales) PLC
Western Power Distribution (South West) PLC

Entity name
Western Power Distribution (West Midlands) PLC
Western Power Distribution PLC
Western Provident Association Ltd
Whitbread Group PLC
Whitbread PLC
William Hill PLC
WPP Finance 2010
WPP Finance 2016
Yorkshire Water Finance PLC
Yorkshire Water Services Finance Ltd

Appendix 4: Audit quality monitoring, measurement and results

Internal inspection

At its core, our internal practice review programme determines whether we have complied, in all material respects, with the professional standards and the policies contained in the Deloitte Policies Manual (DPM) and Audit Approach Manual (AAM), as well as applicable professional standards and regulatory and legal requirements.

Wider than this however, it provides assurance over the level of quality delivered by a Deloitte audit and drives the culture of continuous improvement. In recognition of the importance of practice review, the firm has made a significant investment during recent years to implement and deliver a transformation programme.

Within the practice review programme there are two elements that work together to meet the overall aims:

- Individual Engagement Reviews (ER) that primarily assesses compliance with the AAM
- System of Quality Control (SQC) review that primarily focuses on the firm's internal processes to comply with the DPM.

Additional rigour and independence is brought through the oversight of an independent partner from another member firm within the Deloitte network, together with independent engagement reviews and the use of SQC subject matter experts from a central global team. Our overall aim is that our internal inspection will have at least the same scrutiny and rigour as that applied by our external regulators.

We continually assess and seek feedback on our internal monitoring process to make further enhancements that continue to drive and support the delivery of audit quality:

- The engagement review process has continued to improve during the year by additional performance of in-flight reviews which were implemented two years ago: reviews of live engagements which focus upon significant risk areas which are subject to high numbers of findings from internal and external inspections, with the aim of improving audit quality before the audit opinion is signed, as well as thematic in-flight reviews across a number of key topic areas. In addition, we have leveraged the capabilities across Deloitte NSE to perform reviews of high risk and/or high profile engagements using reviewers from within the NSE member firm.

- The SQC review continues to focus on testing design, implementation and operational effectiveness for the key risks. Improvements to the process in the year were focussed around the scoping and risk assessment performed to capture the impact of the increased risk in key areas of the SQC posed by changing external environment. In addition, we have looked to the experience and skills within the NSE member firm to strengthen the review, being able to access additional subject matter experts and a centralised moderation panel for key processes within the SQC review.

Delivery of a robust internal inspections process requires carefully managed delivery, most notably regarding:

i) Selection and scoping

A detailed selection process is undertaken each year for both the engagements to be reviewed and the processes in scope for the SQC review.

- Engagement Review: Engagements are selected across our audit business portfolio using a risk based approach, focusing on high risk and/or high profile engagements, and ensure that, as a minimum, each of our partner and director Responsible Individuals are subject to a review every three years. All sectors are covered by this selection process, including Public Sector engagements. Selected files are then subject to independent inspection by professionals from the central inspection team, along with reviewers comprising partners and senior auditors from other UK offices, groups and overseas member firms.
- SQC: A detailed scoping and subsequent risk assessment is performed that sets the depth and focus areas of the review. To achieve this, discussions are held with the key stakeholders (including process owners, UK quality, operational and firm leadership and INEs) to identify processes seen as key to delivery of audit quality and any impact from changes to the internal and/or external environment. The results from these discussions, combined with analysis for guidance from DTTL, external regulators and quality standards, set the scope and risk levels for the review. The risk assessment remains under careful scrutiny throughout the review period and will be adjusted as required to respond to changing conditions.



ii) Experienced reviewers

A critical success factor in achieving our desired level of rigour and scrutiny is the competency of the reviewers. Across both the ER and SQC, we undertake a comprehensive selection process, ensuring the reviewers as a team have the relevant technical experience, quality record, seniority, independence and sufficient time to be able to bring robust independent challenge.

All reviewers are required to attend training sessions led by the leaders in our central team prior to commencing a review. In addition, all engagement reviews are overseen by a National Team Leader who is an experienced practice reviewer.

iii) Consistency of findings

At the end of each ER and SQC 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. For ER we classify engagements as either Compliant, Improvement Required or Non-Compliant. SQC processes are rated as Acceptable, Acceptable with Areas for Enhancement, Needs Improvement and Requires Significant Improvement.

iv) Action and ongoing education

The results of the practice review are communicated to the UK Audit & Assurance Executive, the Managing Partner Quality, Risk & Security, the UK Oversight Board and the INEs via their attendance at the UK Oversight Board. In addition, a member of the Deloitte Global Audit & Assurance Executive attends the UK closing meeting and the results are reported to the Deloitte Global Audit & Assurance Executive and to the Global Risk Advisory Executive Committee. Casual Factor Analysis (CFA) is performed on the findings.

The FY20 practice review took approximately 3,366 days (FY19: 2,704) from experienced professionals, as well as significant senior partner resource from within the UK firm. Approximately 70 days (FY19: 97) were provided by professionals from other member firms within our network to bring an increased level of independence and specialised expertise to our review.

Of the 79 UK engagements that were reviewed as part of the FY20 practice review 9% (FY19: 5%) were assessed as non-compliant.

The review of the system of quality control resulted in:

- 53 [FY19: 53] acceptable or acceptable with opportunities for enhancement processes
- 16 [FY19: 16] needs improvement
- 3 [FY19: 1] requiring significant improvement

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.

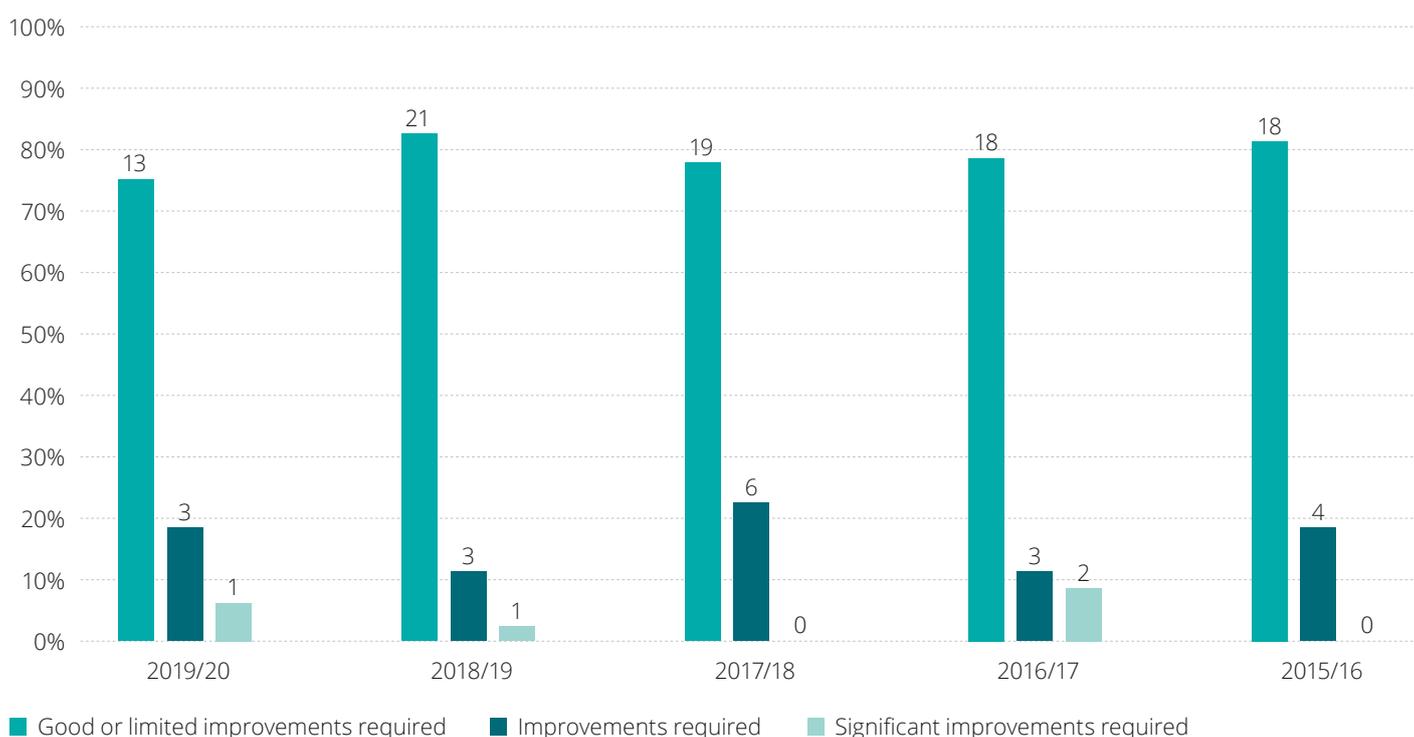
a) 2019/20 UK Audit Quality Inspection Report

The AQR undertakes independent inspections of the overall quality of the auditing function in the UK in relation to listed and other major public interest entities. The AQR published a report on the findings of its 2019/20 inspection of the firm on 14 July 2020. The full report is available on the FRC’s website at the following link: <https://www.frc.org.uk/getattachment/2d161734-b4e1-46ab-9d77-f4901fcc3f34/Deloitte-Audit-Quality-Inspection-Jul-2020.pdf>

The firm’s policies and processes supporting audit quality were reviewed, as were 17 individual audits. In addition, they highlighted the following good practices from their review of firm-wide areas:

- Partner and staff matters: the effective use of a wide range of audit quality measures to assess the performance of partners and staff, incorporation of upward feedback into partner appraisal and promotion processes and robust central processes around the review and monitoring of partner portfolios.
- Acceptance and Continuance procedures: the effective interaction of the firm’s finance and resourcing systems with the acceptance and continuance process to monitoring resourcing needs.
- Audit quality initiatives: a formal milestone programme, with expected dates of phasing of the audit required.
- Root Cause Analysis (RCA) process: timing of reviews, use of dedicated RCA staff and interviewing the whole team together (as well as individual members).

FRC assessment of the quality of Deloitte audits reviewed (2019/20)



Source: FRC, July 2020

We welcome the FRC's increased focus on higher risk audits and their associated complexities. Our quality programmes focus on these audits and we consider our public interest role to be even greater here. We recognise and accept the FRC's findings on the individual inspections. We have performed independent root cause analysis on every finding and have taken action for all findings at the individual audit level as well as action across all our audits where we could experience similar findings.

There were four overall themes from our root cause analysis in the areas of FRC findings on the audits inspected. These were:

1. The need to improve and appropriately evidence the challenge of management in complex judgemental areas.
2. The need to improve project management of the timing of certain audit procedures, including better communication with entity management on how they have prepared for the audit.
3. The audit team's prioritisation of higher risk work meaning lower risk work received less focus.

4. The need to improve our on-the-job coaching so that senior members of the audit team use their skills and knowledge to develop the rest of the audit team.

Embedding a culture of challenge in our audit practice underpins the key pillars of our audit strategy. The FRC selects our highest risk audits for review, which inherently contain the riskiest judgements, and we are committed to delivery of the highest possible quality on these audits, as we are for all of our audits.

In order to address these root causes we have taken significant action over the last year, building on the actions and programmes from prior years. We continue to invest in all these programmes and a summary of our actions is included here.



In order to address the issue of enhancing the challenge of management in complex judgemental areas, our actions (with further details in the full public report) include:

- We are focussing more central oversight on higher risk audits, including expanding our inflight programmes to enhance the quality of the audit before the audit report is signed. Additional central oversight during the audit enables us to bring even more challenge to management, boards and audit committees at these companies.
- We continue to develop and invest in our risk sensing capabilities to gather a range of data sources to identify companies and industries that display certain risk characteristics. This provides data to engagement teams to consider in bringing challenge and provides central insight to companies or industries where we may need to focus additional oversight.
- We have introduced an audit quality award scheme which recognises and rewards the behaviours we value, including bringing challenge to management. We continue to develop ways in which we can embed the recognition of positive behaviours within our annual performance evaluation processes, in particular in relation to challenge.
- As part of our audit transformation strategy we are piloting new ways of reporting on fraud, going concern and internal controls to give readers of audit reports more transparency. These are subject to the limitations of the current audit regulation framework. We will also be rolling out further enhanced audit tools in the form of additional Deloitte Way Workflows on key areas over the coming year again supporting consistency and focused challenge on the right areas.
- We have increased the involvement of specialists in our audits, for example including forensic specialists when certain fraud triggers are met. We have also expanded our use of specialists in impairment, pension balances and our credit centre of excellence. These all enhance the challenge in these complex areas.
- We have implemented enhanced learning, coaching and support programmes covering, for example, tackling cognitive bias, identifying fraud, and even more focus on internal controls. We have employed change management professionals to help us supplement our learning programmes with the emphasis on deeply embedding our programmes, in particular transformation changes, within audit delivery. This aids challenge of management through consistency in applying the learning and new tools, adoption of workflow and enhanced consistency in approach and challenge, and ensuring work happens at the right time so challenge is built into the audit process throughout.

- A simple but important step we are taking is to stop referring to the companies we audit as 'clients' to underscore our role as auditors acting in the public interest.

In order to address the issue of improving project management, our actions include:

- As part of our audit transformation strategy, we have recently launched the Audit Blueprint, an interactive project management tool that will enable audit teams to more consistently raise timing issues with company management and the audit committee.
- We continue to enhance our programme of audit milestones which require audit teams to have performed certain tasks by certain dates in an audit cycle.
- We have recruited change management and project management experts to ensure we can embed our audit transformation tools deeply within audit delivery teams.

In order to address the issue of the prioritisation of higher risk work over lower risk work (meaning the lower risk work does not receive adequate focus), we maintain that we want our audit teams to focus on the highest risk areas of an audit but we recognise that lower risk areas of work also need sufficient attention. In order to address these issues we are taking the following action:

- We continue to roll out our enhanced audit tools, the Deloitte Way Workflows, to additional areas of the audit. These support a consistent testing approach, based on a guided risk assessment tool. When these workflows are fully implemented they will ensure that all audit teams perform the same level of work on balances classified at the same risk level and that the work is evidenced and reviewed in a consistent way.
- We are further developing our response to the use of substantive analytical review to audit lower risk areas of an audit.
- The Audit Blueprint will support teams to focus on actions required at each stage in the cycle of an audit, ensuring that all areas of the audit receive sufficient attention.

In order to address the need to improve our on-the-job coaching by senior members of the audit team, we are taking the following actions:

- Within our business units we are creating small communities who can explore auditing issues in smaller groups in a developmental way. These are led by our business unit quality partners.

- We developed TechEx On Tour last year as a supplement to our mandatory TechEx programme. TechEx On Tour focusses on small group learning ensuring that the audit and accounting technical learning from the summer programme is embedded across our audit practice. This programme will be further enhanced this year to ensure that on-the-job coaching is a key feature.
- As described above, our audit quality reward programmes recognise exceptional performance when our auditors 'drive to learn and share knowledge'. We will use this rewards programme to further underscore the value we place on senior auditors spending time coaching other members of the audit team.

We have taken swift action to address issues during the inspection cycle, rather than waiting until the end of the inspection cycle. We have continued to develop our processes that allow us to quickly identify issues as they are emerging, brief individual audit teams or groups who might be affected by the issue and develop guidance to the practice. This allows us to impact the quality of ongoing audits as well as the next reporting cycle. We also welcome the FRC annually to talk through their findings with our audit practice in our compulsory online learning sessions. We will continue to develop further actions to address the RCA findings.

Looking forward, the COVID-19 pandemic presents challenges that have a significant impact on the entities we audit and consequently our audits. We are delivering a comprehensive global response which has a significant focus on enhancing audit quality. We have introduced further independent review and challenge into areas of the audit process, across our full audit portfolio. We have made enhanced tools and guidance available to all our auditors and the guidance issued by the FRC in particular around going concern, alternative performance measures and the COVID-19 related moratorium on company reporting has been helpful and we have taken account of these in our guidance. For public interest entities this includes an additional independent partner review of the response to COVID-19 and the audit opinion and increased senior audit partner involvement on all public interest entity audits. We are subjecting our response to challenge by our own System of Quality Control experts in order to continuously improve and respond to the external environment in which we find ourselves. At each stage of our COVID-19 response we have updated the FRC so that they are aware of the actions being taken by the firm, and to ensure we are considering as many areas as possible and adapting our response where needed.

All our audit quality initiatives are captured in our audit quality plan. This encompasses our key objectives and action plans for all aspects of audit quality from monitoring, learning, people, transformation, methodology to business unit quality teams and internal controls. Each of these streams has actions within them which are underpinned by the theme of a culture of challenge. We capture key actions to address root causes, but also emerging issues such as our COVID-19 response. These include actions being taken in response to inspection findings from the FRC. We are further enhancing our plan to have a higher level summary with clear tracking status of key initiatives which will be used for regular reporting to our UK Oversight Board together with our established Audit Quality Indicators. We also highlight that the FRC meet to discuss this report with the INEs after publication, and the INEs reviewed the response to this report in detail and will continue to monitor progress on the actions arising.

The FRC's key individual review findings related principally to the following:

- Improve the extent of challenge over cash flow forecasts in relation to the impairment of goodwill and other assets.
- Enhance the effectiveness of substantive analytical review and other testing for revenue.
- Improve the assessment and extent of challenge of management's estimates, in particular for model testing.

Our responses are set out on the following page.

b) 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 the FRC's 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 thematic reports on audit quality indicators and a follow up review on the use of technology in audits. We find these thematic reviews valuable as the benchmarking style provides insight to audit firms and other interested parties, and it provides a focus on best practice which we use to inform our actions in related areas.

The FRC is currently undertaking a thematic review on climate change which will be published during the course of 2020/21.



c) 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 2016 inspection report was published on 30 October 2017. Further details are provided within the metrics on audit quality reviews below. Their latest inspection took place during 2019, and the report will be available later in 2020.
- **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.
- **Gibraltar:** Deloitte Limited and its individual statutory auditors are regulated by the Gibraltar Financial Services Commission ("GFSC"). The most recent quality assurance review by the GFSC was carried out in February 2019.
- **Others, namely Canada, Japan, Ireland and South Africa:** in each case the relevant regulators have jurisdiction over the firm's Audit & Assurance practice in respect of the audit of entities listed in the above geographies and, in the case of Ireland, also those incorporated there.

FRC audit quality inspection – our actions

The following text reflects the firm's actions in response to the FRC's key individual review findings, following its 2019/20 inspection of the firm, carried out by the Audit Quality Review team, and as reflected in its [public report](#).

Improve the extent of challenge over cash flow forecasts in relation to the impairment of goodwill and other assets

Impairment is a critical area for us and we have been focused on continuous improvement as a result of the inspection findings in recent cycles and have continued to see findings become more granular and entity specific. In our summer 2019 residential TechEx training, aware of the findings from the 2018/19 review, we challenged all auditors to increase their scepticism by training them on the different areas and forms of cognitive bias (further detail is included on page 13). We also focused on how to enhance how we evidence the scepticism we bring to our audits. These actions will have had an impact on September 2019 year ends onwards.

In all audits assessed in this area as needing more than limited improvements, we identified through our root cause analysis that while the senior members of the audit team spent significant time challenging management to ensure that a sufficiently robust assessment had been completed, they did not sufficiently evidence this challenge within the audit working papers. In some audits we also identified that there was insufficient challenge in some areas as a result of project management weaknesses or prioritisation of areas of perceived higher risk or importance over perceived lower risk areas. The evidence of the audit challenge was clearer in circumstances where the company's original underlying assessment was of a high quality.

- In response to the root causes identified we have made, or are making, further enhancements as follows:
- We expanded the scope of our impairment centre of excellence consultation requirement to include material intangible assets and property, plant and equipment balances where the valuation is supported by a value-in-use calculation, for FTSE 350 entities or other PIEs where there is a significant risk.
- We have also expanded the requirements when certain criteria are met, such as the engagement being considered higher risk, to include a further consultation and review by the specialist of the conclusions and how planned actions have been addressed. This also ensures that appropriate prioritisation has taken place.
- The Audit Blueprint will also support audit teams to be able to more consistently flag issues with management, Boards and Audit Committees when it is clear that the company's information is not ready for audit in accordance with the agreed audit timetable.
- In addition, we have taken, or are taking, the following supporting actions:
- We have updated our consultation template to reflect the most recent inspection findings.
- We held training sessions in late 2019 for all the impairment specialists who perform the consultations, one of which was attended by the FRC, to share updates on recent inspection findings and areas to consider ahead of the December year-end consultations.
- We communicated the FRC findings to the wider audit practice via our monthly compulsory professional update in October 2019, which we record and distribute online and attendance is monitored. This included a presentation from the FRC inspection team.

- We discussed these enhanced requirements in a training session in January 2020 with all partners and practitioners who perform a quality review role, including those formally acting as Engagement Quality Control Reviewers.
- To address the causal factor of assumed knowledge, where teams assume certain facts and conclusions are self-evident and therefore do not evidence them sufficiently, we are developing a series of small group workshops within our quality communities with a focus on 'telling the story' in the audit file.

We are disappointed that issues found in this area led to one of our audits requiring significant improvement. As with all audits falling short of our required quality standards, we have completed extensive root cause analysis and have put in place a range of actions both within the individual audit and at a firm-wide level as detailed above.

In the current COVID-19 environment impairment challenges will be more pronounced and faced by more companies with greater uncertainty. We are enhancing and expanding the support for our engagement teams through our centre of excellence, focusing in particular on the way we audit cash flow forecasts which often underpins the audit work on a number of areas of management estimates. We are also expanding the scope of our training in this area to include reviewing of case studies of areas where we have received findings together with good practice examples.

Enhance the effectiveness of substantive analytical review and other testing for revenue

Revenue is a key audit area and through risk assessment we focus our procedures on the areas where they may be a significant risk of material misstatement.

As a firm, we consider the use of substantive analytical reviews, particularly when in conjunction with data analytics, to be powerful tools in the audit of revenue. Data analytics allow us to gain a deeper understanding of where the risks lie, where to better focus our procedures and consequently lead to the performance of robust substantive analytical review. This allows us to test an entire population, and we will continue to encourage teams to use substantive analytical review procedures, particularly as we develop more statistical tools to be able to interrogate data and identify outliers. We acknowledge that in the inspections referenced the design of some of our substantive analytical review work could have been improved.

The primary root causes identified were firstly senior level team members not providing sufficient in-depth coaching of other members of the team designing tests of substantive analytical review, and secondly a tendency of teams not to properly evidence their rationale for taking a particular approach to the testing. There was also a root cause of the prioritisation of higher risk areas of work, such as the significant risk aspect of the revenue testing, meaning that less focus was placed on lower risk areas where substantive analytical review was used.

To address this, we have done, or plan, the following:

- Included the approach to the audit of revenue as one of our Engagement Team Based Learning 'on the job' coaching sessions for the 2020 programme. These programmes tackle live audit matters and also gather teams after an audit to perform a learning debrief. Our intention is that focusing on the overall approach together as a team will ensure our teams understand transaction flows and together challenge the overall approach to ensure that tests are designed appropriately.
- We communicated in our monthly compulsory professional update in November 2019 the areas of challenge, and the FRC inspection team also presented their observations.
- In early 2020 we issued an updated practice aid for performing substantive analytical reviews, providing more guidance to those completing this work. This practice aid highlights the pitfalls identified in 2019/20 external inspections.
- We plan to do a deep dive session as part of our monthly professional update on substantive analytical reviews in the summer, ahead of December year-end planning work. This will ensure that teams focus at the planning stage on whether substantive analytical review is appropriate, the independence of data sources and the overall body of evidence on revenue considering all elements of testing.

Importantly, given the widespread impact that COVID-19 will have, particularly on year-on-year trends, we are also developing guidance for audit teams to ensure that they challenge their approach and consider what information would be required from management to assess whether it is possible to develop a sufficiently precise independent expectation to use in a substantive analytical review.



Improve the assessment and extent of challenge of management’s estimates, particularly for model testing

The audit of management estimates is one of the most challenging and complex parts of any audit, as often the estimates that have been formed by management cover a very large variety of areas, are many multiples of materiality and use complex models, data from multiple sources and highly judgmental assumptions. Given this, we invest significant time and effort in providing training for audit teams, guidance materials, tools and templates and we will continue to do so. This will remain an area that is challenging for auditors, particularly given the increasing complexity of many of the estimates. Over the last four years we have significantly increased the number of specialists in the audit of management estimates to further assist the audit teams in providing high quality challenge; we expect to add additional specialists in the future.

Our root cause analysis identified challenges in project management (both auditor and audited entity related) and assumed knowledge as being the most prevalent in the findings of the FRC. With the implementation of revised ISA 540 “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures”, we have already taken a number of different actions over the last year and have a programme of further activities planned to assist our audit teams in this area. This includes further guided risk assessment and Deloitte Way Workflow tools which we believe will contribute significantly to helping address both project management assumed knowledge challenges.

We are developing a guide which can be shared with audited entities to set out clear expectations of what is required from management in preparation for the audit of management estimates, and this is linked to our overall Audit Blueprint.

We are introducing a pilot of an additional document to capture in one place the partner-led challenge on management estimates at the end of the audit process, in advance of the implementation of ISA 540 revised which has a “step back” challenge.

In relation to the specific points noted by the FRC, we also highlight the following actions we have taken:

1. Given this was the first year of implementation of IFRS 9 and given the complexity of the expected credit loss estimates required under that standard, we were very pleased that the FRC considered the model audit programme that we developed to be of a high standard. We have continued to develop our audit approach to reflect the lessons we learned from our first year auditing expected credit losses including ensuring the findings raised by the FRC were addressed.
2. We have enhanced the audit training given to all specialists used in audits such as valuations, property, forensic accounting, insolvency, IT, pensions, tax and valuations in order to continually enhance those specialists knowledge of audit quality issues so that their specialist input is targeted accordingly and brings further challenge to the audit process.
3. We have increased the focus given to assessing the risks of material misstatement in the actuarial models used by life insurance companies and ensuring that the response to those risks is appropriate, whether performed by actuarial specialists or the core audit team.
4. We have provided additional guidance to teams on how to use independently developed ranges to assess the reasonableness of the estimates made by management.

The actions we have taken, in particular to enhance scepticism and challenge, will be ever more relevant as the impacts of COVID-19 further heighten the levels of estimation uncertainty which we have to address in audits.

Audit quality indicators

i. Metrics on external investigations related to audit

AQI definition	Deloitte metric FY20 (FY19)	Deloitte commentary
Number of cases in which the FRC's Conduct Committee has found against the firm or one of its members	1 (1)	<p>During the year to 31 May 2020, there was a further settlement with the FRC's Conduct Committee by a member of the firm (the engagement partner) in relation to the firm's audit of the 2012 financial statements of a subsidiary of Serco Group plc (fine: £78,000 (after discount) and a severe reprimand), the firm having reached a settlement in relation to that audit in the previous year.</p> <p>As at 31 May there were three ongoing matters which had been announced by the FRC relating to the audit work of the firm, one of which concluded in September 2020 and two of which are yet to be concluded. All three are therefore excluded from the FY20 total for cases concluded:</p> <p>An investigation in relation to the firm's audit work on Autonomy Corporation Plc's 2009-2011 financial reporting in relation to which the FRC served a formal complaint in 2018, a tribunal heard the complaint in late 2019 and announced its findings and associated sanctions in September 2020 (firm sanctions: fine £15m plus payment of the FRC's costs, severe reprimand and requirement to complete a root cause analysis; first engagement partner sanctions: fine £500,000 and a recommended 5 year exclusion from ICAEW; and second engagement partner sanctions fine £250,000 and severe reprimand).</p> <p>One ongoing investigation in relation to Mitie Group plc which commenced in July 2017 and now concerns the firm's audit work on Mitie Group's 2016 consolidated financial statements.</p> <p>One ongoing investigation which commenced in June 2018 concerning the firm's audit work on SIG plc's 2015 and 2016 financial statements.</p> <p>A further investigation which had not previously been announced by the FRC in relation to the firm's audit work on the 2015 financial statements of a small listed company was also settled in September 2020, the outcome of which has yet to be published by the FRC.</p>
Number of cases in which the disciplinary committee of any other regulatory body has found against the firm or one of its members	0 (1)	No such cases occurred during the year to 31 May 2020.



ii. Metrics on external investigations related to other matters

AQI definition	Deloitte metric FY20 (FY19)	Deloitte commentary
Number of cases in which the FRC's Conduct Committee has found against the firm or one of its members	0 (0)	No such cases occurred during the year to 31 May 2020.
Number of cases in which the disciplinary committee of any other regulatory body has found against the firm or one of its members	1 (0)	During the year there was the agreement of a Consent Order with the ICAEW's Disciplinary Committee in relation to failings in the firm's procedures relating to the administration of Comet in 2012 (fine £925,000 and severe reprimand for the firm plus the ICAEW's costs, fine £50,000 and severe reprimand for one administrator and fine £25,000 and reprimand for a second administrator).

iii. Metrics on audit quality reviews (internal and external)

Results of the firm's internal audit quality reviews

Number of Audit engagements reviewed: FY20: 79, FY19: 100, FY18: 101

Results	FY20	FY19	FY18
Compliant	70%	78%	89%
Improvement required	21%	17%	6%
Non-compliant	9%	5%	5%

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

FY20: 31%, FY19: 40%, FY18: 41%

System of Quality Control review

Results	FY20	FY19	FY18
Fully implemented	-	-	324
Partially implemented	-	-	14
Not implemented	-	-	3
Process is acceptable / with opportunities for enhancement	51	51 ¹⁷	-
Process needs Improvement (NI)	16	16 ¹⁸	-
Process requires significant Improvement (SI)	3	1	-
Processes rated as NI or SI in two consecutive years	11	5	2

¹⁷ Reported as 40% in the 2018 Transparency Report due to a rounding error.

¹⁸ During 2019 some processes were further disaggregated to align to how the SQC operates. Comparatives have been adjusted to provide consistency of reporting.

Deloitte commentary

Results of firm's internal audit quality reviews

Both the current and comparative data include the UK and Gibraltar, but exclude Switzerland. Any comparison of FY20 and FY19 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.

Engagement reviews

In FY20, seven engagements were rated as non-compliant. We performed causal factor analysis for all engagements and the significant findings which led to quality failings were retrospectively addressed through remediation. The increase in the number of files rated as non-compliant and improvement required was as a result of evolving our practice reviews to respond to the needs of our internal and external stakeholders.

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 three years.

System of Quality Control review

The SQC is not a static environment but one that is constantly needing to adapt to respond to shifts in risks driven by changes from both the internal and external environment. As noted in the summary section, the impact of this on the review has been carefully considered resulting in heightened or new risks which has led to new findings being identified as the SQC responds to this change.

There were 16 processes (FY19: 16) rated as needing improvement. Whilst this looks consistent with the prior year we highlight:

- 6 process have been fully remediated during the period
- For the 10 remaining areas that have been rated as NI in both FY18 and FY19:
 - 60% of actions committed to were completed during the period, with the majority of the remaining actions in line with the agreed timeframes
 - Where prior year findings were remediated, new findings have been noted in the year driven by the changing internal and external environment
- New NI processes relate to processes within the reputation and risk and monitoring elements of the SQC.

The processes rated as requiring significant improvement were:

- Engagement Quality Control Review (EQCR): limited monitoring of EQCR hours performed
- Global audit acceptance consultation (GAAC): failure to perform a required consultation for engagements meeting set criteria due to lack of awareness in the practice during initial implementation of this new area of policy
- Public filings in other countries (other than SEC): failure to consult with other member firms prior to filing due to lack of awareness of the requirement in the practice.

Action plans are in place to address all findings raised during the FY20 review. To respond to the increase in the number of processes that have received a rating of NI or SI in two consecutive years, an additional centralised monitoring process has been introduced. Action status is reviewed with the process owners on a quarterly basis and reported to leadership through the AQI reports using RAG reporting to highlight where leadership support is required. All actions are subject to testing during the subsequent SQC review to confirm both completion and effectiveness.



Results of AQR reviews on the firm

Number of Audit engagements reviewed: 2019/20: 17, 2018/19: 25, 2017/18: 25

Results	2019/20	2018/19	2017/18
Good with limited improvement	76%	84%	76%
Acceptable overall with improvements required	18%	12%	24%
Significant improvements required	6%	4%	0%

Deloitte commentary

Results of inspection by AQR

The results of our most recent AQR inspection are discussed above and the full 2019/20 report of the AQR on Deloitte can be found at:

<https://www.frc.org.uk/document-library/audit-and-assurance/2020/july-public-firm-reports/deloitte-audit-quality-inspection-report-jul-2020>

Results of inspection by the QAD of the ICAEW

Number of Engagements reviewed: FY20: 10, FY19: 10, FY18: 13

Results	FY20	FY19	FY18
Satisfactory or generally acceptable	90%	80%	100%
Improvements required	-	20%	-
Significant improvements required	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 and a summary of the inspections is included as an appendix to the FRC public report on the firm.

The overall conclusion of the QAD was "In 2019, the audit work reviewed was generally of a good standard. Nine standard-scope reviews were satisfactory / acceptable, however one required significant improvement. ICAEW did not carry out any focused reviews. ICAEW assessed one audit as needing significant improvement because the consolidated accounts contained errors stemming from mistakes in the consolidation process. The errors should have been identified by the firm's quality control procedures. ICAEW had no significant concerns about the rest of the audit work on this file. Other findings included a theme relating to substantive analytical revenue, and isolated aspects of audit evidence and documentation. ICAEW identified and shared a number of examples of good practice."

We have performed RCA on the file requiring significant improvements and have taken firm-wide and engagement-specific actions to address the matters including remediation of the audit work. In relation to substantive analytical review we have taken action to address this including issuing a practice aid highlighting the pitfalls identified in inspections and the inclusion of the approach to revenue as part of our engagement team based learning coaching sessions for 2020.

Number of Part I references in the latest PCAOB inspection report

Latest AQI ¹⁹	Deloitte commentary
1	<p>The most recent inspection report on Deloitte was published by the PCAOB on 30 October 2017 and contained one Part I reference. The full report can be found at</p> <p>https://pcaobus.org/Inspections/Reports/Documents/104-2018-004-Deloitte.pdf</p> <p>(The previous report was issued on 10 November 2014 and contained five Part I references.)</p> <p>We have evaluated the PCAOB's comments on the one issuer audit identified in Part I of the 2017 report and taken actions as appropriate across our portfolio. The actions we have taken are subject to review by the PCAOB. We are 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.</p> <p>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.</p> <p>The PCAOB's next report on our UK audits is due during 2020.</p>

iv. Metrics on partner and staff tenure*Average tenure in years of audit partners:*

FY20: 19.3, FY19: 19.3; FY18: 19.2

Deloitte commentary

The average tenure of our audit partners reflects the number of years with the firm (including as staff, prior to promotion to partner) and demonstrates our focus on retaining and promoting experienced professionals for the benefit of audit quality. It indicates the deep experience of our partners and their 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 tenure of a number of our audit partners who were Andersen partners before 2002 is not included in this figure.

Average partner and staff turnover:

FY20: 14.1%, FY19: 15.7% FY18: 16.0%

Deloitte commentary

This metric measures the annual staff turnover for our Audit & Assurance practice in the UK, including all grades of staff and partners. Turnover has remained roughly consistent over the last few years.

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.

¹⁹ The PCAOB review is undertaken every three years and this metric relates to audit work performed in 2016.



v. Investment in training - number of hours undertaken per person (partners and qualified staff) in audit:

FY20: 78.1, FY19: 82.1; FY18: 82.7

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 audit professionals. 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:

1. All classroom, e-learning and virtual classroom our audit professionals complete as part of their mandatory annual curriculum
2. Mandatory training for personnel accredited to work on PCAOB audit engagements
3. TechEx (our residential technical training), mandatory for all qualified audit professionals
4. Mandatory firmwide training, for example on financial crime, ethics and data privacy regulations
5. Formal Engagement Team Based Learning (ETBL)
6. 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. The approximately hour-long sessions provide updates on corporate and financial reporting, auditing and regulatory information to audit partners and staff in the UK. 10 webinars (FY19: 9) were made available for professionals during the year.

Further description of the learning and development programmes provided to audit professionals can be found in the 'Delivering quality audits' section.

Notes:

- 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.

vi. Investment in national office resources

National office as percentage of total audit staff 3.7% (2019: 3.4%)

This indicator measures the level of our central personnel available to provide engagement teams with advice on complex, unusual, or unfamiliar issues and the extent to which they are used in a particular engagement.

The work of the national office is discussed throughout the audit quality section above, and includes accounting, corporate reporting, audit technical, audit quality, risk and implementation teams.

vii. Investment in research and development on audit and assurance

Deloitte commentary

We invest in innovation and quality to transform how our audits are delivered. We are enabling the audit of the future by leveraging cutting-edge technologies, embedding data analytics, developing the skills and capabilities of our people, and utilising audit delivery centres to continuously raise audit quality, streamline processes, and deliver greater insights. We are also developing our assurance offerings to deliver stakeholder confidence on more questions and in more areas.

The Deloitte Way introduces standardised audit work packages to drive consistency in quality audit work and enables the use of audit delivery centres. This brings innovation into the core of how we audit: we continue to invest in automation that improves consistency of execution of routine tasks, analytics that yield a deeper and more insightful view into the data, and artificial intelligence to enable our teams to better understand and focus on key judgements.

viii. Involvement in audits by grade

	FY20	FY19
Audit partner	4%	4%
Audit director, senior manager and manager	23%	30%
Specialists	10%	(not available)

This indicator measures audit partner, director, audit senior manager, manager and specialist involvement in the engagement by capturing the hours charged to the engagement by the audit partners, directors, audit managers and specialists as a percentage of total audit hours charged. While such a measure is typically dependent on an individual engagement's degree of difficulty, a higher proportion of senior time and/or specialist hours may indicate that the firm is involving the right team members in the audit for the benefit of audit quality.

In FY19 we were unable to split out the specialist time from the rest of the audit team. As our specialists are likely to be more senior grades, this has affected the percentage of Audit director, senior manager and manager time in FY19.



ix. Metrics gathered by staff survey

Deloitte commentary

In the past, we have surveyed our partners and staff to gather their views on, among other things, whether they are provided with sufficient training, tools and resources to deliver a high-quality audit. However, this did not happen during FY20 partly because:

- plans to conduct a survey of partners and staff at the recent annual TechEx Live training were abandoned due to the need to transfer the course content to digital learning and virtual classrooms, and to prioritise the changes around risks and audit approach
- the quarterly Your Voice surveys focused on the wellbeing of our people and their views on how the firm responded to COVID-19

As part of the System of Quality Control review, 33 focus group discussions were held with partners and staff of all grades across 11 business units to gather views on a range of subjects. The results of those discussions have been collated and, while much of the feedback was positive, there were some areas of concern for our people and action plans are being drawn up to address them. The results included:

Positive feedback:

- The firm took swift and decisive action to respond to COVID-19, taking the necessary action to support and protect partners and staff.
- The increased focus on working with entities who share our views on quality is being felt, with individuals noting they feel able to raise concerns regarding quality and that action will be taken by leadership.
- Focus groups reported a good understanding of ethical matters and the routes through which these should be raised. Individuals feel able to raise matters and trust that these would be kept confidential and investigated appropriately.

Areas where some of our people expressed concern:

- There remains a perception that the workload requires long hours and, while the firm's messaging around not working long hours or at weekends is being heard, more action is needed to make this a possibility e.g. extending deadlines or providing larger teams.
- Staff, particularly at junior grades, feel the appraisal, reward and promotion process is still not transparent enough.
- Some staff noted that they felt they had to complete core learning outside of working hours and they did not receive sufficient on the job coaching.

More work is now being undertaken to analyse and contextualise the results and to deliver appropriate action plans.

Some actions that have already been undertaken include:

- A new staff booking system that is linked to the time recording system and enables better tracking of budgeted v actual time for each engagement
- Changes to how the quality dashboard is used in appraisal meetings and peering discussions, to demonstrate a clearer link to reward decisions.

x. Metrics on investor liaison

Deloitte commentary

1. Since 2012, we have held an annual 'Stakeholder Forum'. In November 2019 we refocused this around our public interest role as auditors, and held the inaugural Deloitte Audit AGM. In addition to investors, we were joined by business body and academic institution representatives, audit committee chairs, regulators and other stakeholders.

The Deloitte Audit AGM provides stakeholders with the opportunity to hear from and engage with Deloitte leadership including our INEs, and panellists debate matters relating to audit quality, audit operational matters, the evolving audit product and scope of assurance, among other topical areas.

We also use the AGM as an opportunity to highlight our Audit Transparency Report, and invite investor and other stakeholder input on what they wish to see included in our Reports.

2. At the very start of FY20, as mentioned in last year's Report, we held a second Deloitte Audit Debate aimed at engaging stakeholders in the audit reform debate. This again featured an independent Chair, keynote speeches and an extensive panel discussion and was attended by a broad range of stakeholders including investors.

3. We continue to hold one-to-one discussions with investment houses, proxy advisors and investor bodies to ensure there is open dialogue and a process for capturing investor views on sector issues and specific companies audited by Deloitte.

4. The INEs and other Deloitte leaders also interact with investors, as set out in the Report on the work of the INEs.



Appendix 5: Principal risks and mitigations

The table below sets out the principal risks and related key mitigations that, at 31 May 2020, the Executive and the UKOB considered to have the most potentially significant impact on Deloitte's ability to realise its strategy, and to protect the firm and the public interest, should they materialise. The firm's exposure to a number of these risks has increased as a result of COVID-19.

Priority risks	Mitigations	Risk exposure trend at 31 May 2020		
		FY18	FY19	FY20
 <p>Audit Quality & Independence Systemic or major failure of audit quality or compliance with audit independence rules</p> <p>Threat narrative</p> <ul style="list-style-type: none"> inability to prevent significant and/or multiple failures in the delivery of audit quality failures brought about by component auditors the unsuccessful deployment and implementation of technology or methodology risk associated with unsatisfactory regulatory inspections firm and/or its people fail to comply with audit independence rules addressing the challenges posed by COVID-19 to audit quality and delivery, potential corporate failures and the difficulties in assessing going concern 	<ul style="list-style-type: none"> System of Quality Control assessment of processes and controls to drive audit quality Individual engagement review to assess compliance with the audit approach manual Response to audit quality observations raised by the FRC's AQR, the ICAEW's QAD team or the PCAOB, including root cause investigation of each finding, along with improvements to internal quality review procedures Audit Professional Standards Review (PSR) Processes to capture significant economic and industry risks which have an impact on audit quality Audit Centres of Excellence Firm and personal independence systems and monitoring Annual certification of compliance with independence policies and procedures Mitigations below (as applied to evolving services and delivery models) apply equally to audit quality Increased consultation requirements on COVID-19, including threats to objectivity Increased communications to keep quality, risk management and professional scepticism 'top of mind' during COVID-19; provision of specific guidance about increased risks 			
		<p>Despite the firm's continued focus on delivering high quality audits the exposure remains high in recognition of the fact that the firm needs to continue to move ahead of the "quality curve" as the bar continues to be set higher. The likelihood of perceived audit failure has also increased given financial distress being experienced by certain businesses as a result of COVID-19.</p>		

	Priority risks	Mitigations	Risk exposure trend at 31 May 2020		
	<p>Client Service Quality Failure to manage the quality of evolving services and client delivery models</p> <p>Threat narrative</p> <ul style="list-style-type: none"> • inability of the firm's quality and risk management policies, procedures, capabilities and infrastructure to keep pace with and so manage the quality of complex, evolving services and client delivery models • inability to innovate technology • inability to deliver alternative talent models (e.g. products and solutions business, managed services and growth platforms) • addressing challenges to advisory delivery & quality (client, operational, people) caused by COVID-19 • ensuring quality in delivery of large public interest engagements associated with national COVID-19 response 	<ul style="list-style-type: none"> • Firmwide Quality & Risk community led and staffed by dedicated experts • Established quality policies, processes and procedures on specific regulatory, legal, ethical and professional requirements • Involvement of QRS with innovation incubator programme • Updated Quality & Risk processes, systems and training in response to changing nature of services delivered • Delivery Model programme • Monitoring of delivery centre risk registers and mitigating actions • Practice and portfolio reviews of engagements and clients • Continually monitor and manage pipeline and capacity and repurpose resources as necessary • Increased consultation requirements on COVID-19, including threats to objectivity • Increased communications to keep quality, risk management and professional scepticism "top of mind" during COVID-19; provision of specific guidance about increased risks • Increased in-flight reviews of higher risk engagements 	FY18	FY19	FY20
					
			<p>Good progress has been made with respect to developing quality frameworks for new and emerging advisory services and delivery models, including managed services. However this has been offset by an increase in likelihood due to rapidly evolving services & delivery models, particularly those involving the application of technology in service delivery, the development of technology enabled products and major growth platforms, as well as the challenge of maintaining the quality of client service delivery in a COVID-19 environment.</p>		



Priority risks	Mitigations	Risk exposure trend at 31 May 2020		
<p> Client Portfolio Failure to deliver our desired client portfolio</p> <p>Threat narrative</p> <ul style="list-style-type: none"> failure to leverage our assets into our client relationships failure to achieve our vision of being the first port of call for clients when they are faced with major challenges liquidity concerns and resilience of clients associated with a prolonged downturn including future waves of COVID-19 	<ul style="list-style-type: none"> The Audit Capture programme ensures that partners and teams bidding for FTSE100 audits have the time, incentives, support, best practice guidance, training and challenge to win in the market Actively review portfolio of the entities we audit to ensure the fee structures allow us to sufficiently invest in quality, risk management and resources. This includes considering: unrealistic deadlines; quality of management information; engagement of management and those charged with governance; and occasions where fees do not reflect the required audit work and effort Client portfolio strategy including industries and audit/advisory, supported by industry and account plans The Lead Client Service Partner (LCSP) programme for non audit clients focused on key activities needed to deliver change and support to the LCSP role over the short, medium and longer term, with an overall objective of strengthening client relationships and thereby driving incremental growth in our priority accounts Governance structure through the public policy group to ensure the firm develops a strong, coordinated and consistent voice in the market, including on the impacts of Brexit LCSP programme to prioritise client relationships KPIs that are aligned to the strategy and monitored Closely monitor and manage pipeline and capacity during COVID-19 Reinforce awareness and communication for adherence to consultation, review and approval processes as a consequence of COVID-19 	FY18	FY19	FY20
		—	↓	—
		<p>Risk remains unchanged. To reflect the firm's 4 year ambition the C&M strategy has been updated with alignment of organisation to new innovative solutions and growth platforms. The pipeline of work is being particularly closely monitored as a result of the impact of COVID-19 on the economy.</p>		

Priority risks	Mitigations	Risk exposure trend at 31 May 2020		
 <p>Regulatory & Public Interest Failure to manage regulatory and public interest threats</p> <p>Threat narrative</p> <ul style="list-style-type: none"> • failure to mitigate risks arising from changes in policy and the regulatory landscape • risk that the firm acts without appropriate regard to the public interest • scrutiny of the firm's public interest role in connection with public interest engagements associated with national COVID-19 response 	<ul style="list-style-type: none"> • Stakeholder Engagement Programme to deliver the public policy priorities • Process to identify and respond to public policy and regulatory consultations • Channels for identifying regulatory change • The UK Oversight Board's role specifically includes overseeing regulatory and public interest matters • Three Independent Non-Executives (INEs) on the UK Oversight Board and INE Oversight Committee • A Public Interest Review Group to assess the public interest risks of potential engagements • A Tax Review Panel to consider the reputational issues associated with complex tax engagements • Proactive communication with stakeholders (regulators, audit committees, public investors, media, etc.) on implications of COVID-19 for audits, the profession and more broadly the public interest • Central coordination to evaluate COVID-19 specific opportunities/proposals (e.g. from government, industry bodies, health authorities, pro-bono work and other public interest work) 	FY18	FY19	FY20
		↑	↑	↑
		<p>Risk exposure has risen in light of the ever increasing public scrutiny of the profession, audit market reform as well as growing public interest considerations across all Businesses, including with the firm's role in supporting the national COVID-19 response.</p>		



Priority risks	Mitigations	Risk exposure trend at 31 May 2020								
<div data-bbox="105 443 181 519" style="display: inline-block; vertical-align: top; margin-bottom: 10px;"> </div> <p>People & Purpose Failure to deliver the People & Purpose strategy (including culture)</p> <p>Threat narrative</p> <ul style="list-style-type: none"> • failure to have a flexible and sustainable talent model that enables us to respond to the changing shape of our business and the market • failure to deliver the Respect & Inclusion agenda so that our working environment reflects what we communicate both internally and externally • detrimental impact on wellbeing from pressure of work, compounded by changed ways of working as a result of COVID-19 • impact on our people of COVID-19 related management actions to protect liquidity & resilience of the firm 	<ul style="list-style-type: none"> • Responsibility for setting and embedding the firm's culture and ethical standards sits with the firm's Executive; the Managing Partner Audit & Assurance is a member of the Executive • The UK Oversight Board specifically oversees public interest, ethics and culture • Robust HR policies including Equal Opportunities, Respect, Inclusion & Diversity and Agile working • Black Action Plan • Ethics Code sets the firm's values and ethical principles • Ethics programme provides our people with guidance and support, complemented by an enhanced ethics programme including whistle-blowing and speak up line processes and reporting channels • Audit talent model transformation programme • Performance management approach with supporting technology • MF programme and resources to support practitioners with mental and physical health concerns arising from COVID-19 including regular team touch point calls • Flexible working arrangements and other solutions during COVID-19 	<table border="1"> <tr> <th data-bbox="1133 421 1257 474">FY18</th> </tr> <tr> <td data-bbox="1133 474 1257 551" style="text-align: center;"> </td> </tr> </table>	FY18		<table border="1"> <tr> <th data-bbox="1257 421 1382 474">FY19</th> </tr> <tr> <td data-bbox="1257 474 1382 551" style="text-align: center;"> </td> </tr> </table>	FY19		<table border="1"> <tr> <th data-bbox="1382 421 1505 474">FY20</th> </tr> <tr> <td data-bbox="1382 474 1505 551" style="text-align: center;"> </td> </tr> </table>	FY20	
FY18										
FY19										
FY20										
		<p>Increased impact and likelihood of risk combined with speed of onset as a result of COVID-19, including its impact on wellbeing (particularly with the move to home working), and as a result of the focus on Black Lives Matter and its impact on our purpose.</p>								

Priority risks	Mitigations	Risk exposure trend at 31 May 2020		
 <p>Data Security & Privacy Failure to manage data security and privacy</p> <p>Threat narrative</p> <ul style="list-style-type: none"> the risk of a substantial loss, unauthorised access to, or inappropriate use of client or firm data the increased risk of supporting the evolving business models that threaten the firm's compliance with contractual, legal and regulatory requirements increased confidentiality/security risks arising from COVID-19 including home working/new collaboration tools COVID-19 impact on contingency planning and business continuity 	<ul style="list-style-type: none"> A centralised security function in the form of the Deloitte Business Security group with defined data security and privacy responsibilities Defined security strategy including privacy, information security policies & processes IT technical solutions including, but not limited to, encryption, data leakage protection, privileged access management, event monitoring & incident management Framework for risk assessing Third parties to ensure the firm meets 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 audits Appointment of a Data Privacy Officer, mandatory training to all partners and staff and processes to enable GDPR compliance Increased communications to keep confidentiality and data management "top of mind" Communication of specific guidance about increased risks due to working from home during COVID-19, including use of approved collaboration tools 	FY18	FY19	FY20
		—	↑	↑
		<p>The risk exposure trend continues to increase, particularly with respect to the continually evolving cyber threat which has heightened as a result of working arrangements to combat COVID-19 and the need to maintain a robust and consistent approach to the management and safeguarding of all personal and client confidential data.</p>		



Priority risks	Mitigations	Risk exposure trend at 31 May 2020		
<p> IT Infrastructure Failure to ensure the IT infrastructure supports the current and future business models</p> <p>Threat narrative</p> <ul style="list-style-type: none"> failure to ensure that the IT infrastructure supports the firm’s ability to efficiently, effectively and securely deliver services under current and future business models COVID-19 impact on contingency planning and business continuity 	<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 New Service Management team and processes Business Resilience and IT Disaster Recovery processes Monthly monitoring of ITS risk register that identifies operational and vulnerability risk Monitoring of SLAs for third party IT providers Technology taskforce looking across existing and new requests for collaboration tools Increased communications to keep confidentiality and data management “top of mind” Communication of specific guidance about increased risks due to working from home during COVID-19, including use of approved collaboration tools 	FY18	FY19	FY20
				
		<p>The overall trending remains flat as the firm continues to invest in the IT infrastructure required to support and manage the growth of the firm, particularly the increasing role played by technology in client service delivery. An increase in complexity of IT Service mix e.g. third-party cloud, global, NSE and locally managed IT with differing service levels could effect time to recover from a significant failure. Overall the firm’s IT infrastructure has proved to be resilient despite the pressures of COVID-19.</p>		
<p> Disruptive Innovation Failure to innovate our core services, and create adjacent or transformational services, and thus not respond to changing client needs</p> <p>Threat narrative</p> <ul style="list-style-type: none"> people and partners fail to lead and/or respond to disruptive change limited leveraging of ideas from within Deloitte as well as alliances and partnerships outside the firm firm’s operating model does not support innovation both in terms of the nature of services as well as the means by which these services are delivered and priced – with speed and at scale 	<ul style="list-style-type: none"> An innovation strategy focussed on creative pervasive culture of change An embedded innovation strategy focused on refreshing Deloitte’s core products and services as well as developing new business offerings Creation of global Audit & Assurance platforms to deliver innovation 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 Executive level oversight and focused leadership driving aligned approach to innovation 	FY18	FY19	FY20
				
		<p>Risk remains unchanged. Although “concept to market” has improved, “speed to scale” requires further focus, including operating model constraints (e.g. IT platforms, commercial models).</p>		

	Priority risks	Mitigations	Risk exposure trend at 31 May 2020		
	<p>Operating Model Failure to create a resilient operating model and capacity for change within the firm that aligns to Deloitte Global network strategy</p> <p>Threat narrative</p> <ul style="list-style-type: none"> • firm fails to evolve and optimise its operating model • firm fails to play a leading role in influencing and executing the Deloitte Global Network strategy • liquidity concerns and resilience associated with a prolonged downturn including future waves of COVID-19 • COVID-19 impact on contingency planning and business continuity 	<ul style="list-style-type: none"> • The firm's Chief Operating Officer has overall responsibility for the operating model, reporting directly to the CEO • Strategic and operational targets embedded within the business • Alignment of Audit operating model to client value • Alignment of partner objectives to support strategic and operational goals • Strong UK representation and participation in Deloitte Global leadership and governance bodies including Audit • Strong leadership focus and communication to partners on cash collection and billing • Close monitoring of WIP and receivable positions • Early renewal of funding facilities • Procurement team engaged with critical and high risk suppliers to assess financial viability and continuity of service 	FY18	FY19	FY20
					
			<p>Increased pressures on the Operating Model, including liquidity, as a result of COVID-19, and the capacity of the firm to manage complex change. This upward pressure has been offset by a robust management response including the prioritisation of market-facing activity; and close control of liquidity and profitability.</p>		



Appendix 6: Equity partner appraisal and pay

How are equity partners appraised and remunerated?

Performance appraisal and profit share

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

All equity partners (including those in a governance or management role) are assigned to an equity group, which is reviewed annually²⁰ 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 partner²¹ 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
- **Risk:** Consistent and strong contributions across all areas of risk
- **Performance:** Strong performance against key metrics and objectives
- **Leadership:** Demonstration of strong leadership skills and partner behaviours which reflect the organisation's culture and expectations of its most senior individuals

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

- **Clients and audited entities:** Portfolio managed and other market roles performed
- **Business:** Shaping and delivering on the firm's strategic and financial plan
- **People:** Contributions across all aspects of people management, including development, coaching and mentoring

- **Stewardship:** Thought leadership, innovation and brand protection
- **Collaboration:** Working across the firm and being inclusive of other partners and our people.

Partner performance is evaluated in all of the competencies, beginning with the NSE Board's approval of the profit sharing strategy proposed by the Senior Partner and Chief Executive and concluding with the NSE Board's review of the recommended profit allocation and equity group for each individual partner. An NSE Board sub-committee of partners oversees the management process with a focus on consistent and equitable treatment.

Additional procedures for the remuneration of audit partners are discussed in the frequently asked questions on audit quality earlier in this report.

Drawings and the contribution and repayment of partners' capital

UK equity partners contribute the entire capital of Deloitte LLP. Each equity partner's capital contribution is linked to their 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.

All Deloitte NSE equity partners share in the profits of the Deloitte NSE group. In the UK, 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.

²⁰ In FY20, as a consequence of COVID-19, partner appraisals in the UK were undertaken and equity group and unit adjustments were made on an exceptional basis only. These outcomes will be considered further in FY21 when the scope of the profit sharing decision making (in terms of both units and equity group positioning) will extend across both financial years. In addition, the final FY19 distribution was deferred by six months.

²¹ Partners who aren't equity partners are also evaluated against the criteria set out above. However, their remuneration is comprised of salary and bonus, as for other employees.

Appendix 7: Deloitte Gibraltar

As set out at the start of this Report, Deloitte Limited is the Deloitte practice operating in Gibraltar that has been a subsidiary of Deloitte LLP since 1 June 2017.

Transparency Report disclosures are driven by the EU Audit Regulation and are reflected in this Report as set out below.

Provision of Article 13.2	Where this can be found in this Report
(a) a description of the legal structure and ownership of the audit firm;	Deloitte operates in Gibraltar through Deloitte LLP's wholly owned subsidiary, Deloitte Limited, a company registered in Gibraltar. Deloitte Limited is approved as a statutory auditor by the Gibraltar Financial Services Commission under the Gibraltar Financial Services Act 2019 (previously under the Gibraltar Financial Services (Auditors) Act 2009).
(b) where the statutory auditor or the audit firm is a member of a network:	See:
(i) a description of the network and the legal and structural arrangements in the network;	(i) Deloitte network
(ii) the name of each statutory auditor operating as a sole practitioner or audit firm that is a member of the network;	(ii), (iii) and (iv) Appendix 8 – EU/EEA Audit firms
(iii) the countries in which each statutory auditor operating as a sole practitioner or audit firm that is a member of the network is qualified as a statutory auditor or has his, her or its registered office, central administration or principal place of business;	
(iv) the total turnover achieved by the statutory auditors operating as sole practitioners and audit firms that are members of the network, resulting from the statutory audit of annual and consolidated financial statements;	
(c) a description of the governance structure of the audit firm;	Deloitte Limited is governed by a board of directors, which currently consists of the three locally based partners ²² and two UK partners. The board meets at least quarterly and is responsible for overseeing the legal and regulatory requirements of the company, as well as its local operations and future development.
(d) a description of the internal quality control system of the statutory auditor or of the audit firm and a statement by the administrative or management body on the effectiveness of its functioning	See Report on the work of the UK Oversight Board from Steve Williams, Chair

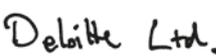
²² Note: there are no equity partners in Gibraltar



Provision of Article 13.2	Where this can be found in this Report
(e) an indication of when the last quality assurance review referred to in Article 26 was carried out;	Deloitte Limited and its individual statutory auditors are regulated by the Gibraltar Financial Services Commission (GFSC). The most recent quality assurance review by the GFSC was carried out in February 2019. The latest annual report on audit supervision can be found here .
(f) a list of public-interest entities for which the statutory auditor or the audit firm carried out statutory audits during the preceding financial year;	<ul style="list-style-type: none"> • Admiral Insurance (Gibraltar) Limited • Bank J. Safra Sarasin (Gibraltar) Ltd • Bray Insurance Company Limited • Derwent Insurance Limited • Douglas Insurance (Gibraltar) Limited • Jyske Bank (Gibraltar) Limited • London & Colonial Assurance PLC • Nelson Insurance Company Limited • Petrus Insurance Company Limited • PREMIUM Insurance Company Limited • Skyfire Insurance Company Limited • STM Life Assurance PCC PLC • Turicum Private Bank Limited
(g) a statement concerning the statutory auditor's or the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted;	See Independence
(h) a statement on the policy followed by the statutory auditor or the audit firm concerning the continuing education of statutory auditors referred to in Article 13 ²³ of Directive 2006/43/EC;	See Delivering quality audits
(i) information concerning the basis for the partners' remuneration in audit firms;	See Appendix 6 – Equity partner appraisal and pay – and Delivering quality audits, Our people sub-section
(j) a description of the statutory auditor's or the audit firm's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7) ²⁴ ;	See Delivering quality audits, Our people sub-section

²³ Member States shall ensure that statutory auditors are required to take part in appropriate programmes of continuing education in order to maintain their theoretical knowledge, professional skills and values at a sufficiently high level, and that failure to respect the continuing education requirements is subject to appropriate penalties as referred to in Article 30" [Article 30 relates to Systems of investigations and penalties]

²⁴ The key audit partners responsible for carrying out a statutory audit shall cease their participation in the statutory audit of the audited entity not later than seven years from the date of their appointment. They shall not participate again in the statutory audit of the audited entity before three years have elapsed following that cessation

Provision of Article 13.2	Where this can be found in this Report		
<p>(k) where not disclosed in its financial statements within the meaning of Article 4(2) of Directive 2013/34/EU, information about the total turnover of the statutory auditor or the audit firm divided into the following categories:</p> <p>(i) revenues from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity;</p> <p>(ii) revenues from the statutory audit of annual and consolidated financial statements of other entities;</p> <p>(iii) revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and</p> <p>(iv) revenues from non-audit services to other entities.</p>	Total turnover of Deloitte Limited by category:		
	Year ended	Year ended	Year ended
	31 May 2020	31 May 2019	31 May 2018
	£'000s	£'000s	£'000s
	Statutory audit of EU PIEs and entities belonging to a group of undertakings whose parent undertaking is an EU PIE		
	454	636	631
	Statutory audit of other entities		
	1,227	1,213	858
	Permitted non-audit services to audited entities		
	389	367	326
	Non-audit services to other entities		
	2,497	1,903	1,509
	4,567	4,119	3,324
<p>To note: the transparency report shall be signed by the statutory auditor or the audit firm.</p>			



Appendix 8: EU / EEA audit firms

Disclosure in accordance with Article 13.2 (b)(ii)-(iv) of the EU Audit Regulation

EU/EEA member state (Article 13.2 (b)(iii) EU Audit Regulation: the countries in which each audit firm that is a member of the network is qualified as a statutory auditor or has its registered office, central administration or principal place of business)

Name of audit firms carrying out statutory audits in each member state (Article 13.2 (b)(ii) EU Audit Regulation: the name of each audit firm that is a member of the network)

EU/EEA member state	Name of audit firms carrying out statutory audits in each member state
Austria	Deloitte Audit Wirtschaftsprüfungs GmbH
	Deloitte Burgenland Wirtschaftsprüfungs GmbH
	Deloitte Niederösterreich Wirtschaftsprüfungs GmbH
	Deloitte Oberösterreich Wirtschaftsprüfungs GmbH
	Deloitte Salzburg Wirtschaftsprüfungs GmbH
	Deloitte Tirol Wirtschaftsprüfungs GmbH
	Deloitte Wirtschaftsprüfung Styria GmbH
Belgium	Deloitte Bedrijfsrevisoren / Réviseurs d'Entreprises CVBA / SCRL
Bulgaria	Deloitte Audit OOD
Croatia	Deloitte d.o.o. za usluge revizije
Cyprus	Deloitte Limited
Czech Republic	Deloitte Audit s.r.o.
Denmark	Deloitte Statsautoriseret Revisionspartnerselskab
Estonia	AS Deloitte Audit Eesti
Finland	Deloitte Oy
France	Deloitte & Associés
	Deloitte Marque & Gendrot
	Audalian Commissaire
	BEAS
	Cisane
	Constantin Associés
	Constantin Entreprises
	D.B. Consultant
	ECA Audit
	Jacques Serra et Associés
	Durand & Associés
	ECA Audit
	Jacques Serra et Associés

EU/EEA member state	Name of audit firms carrying out statutory audits in each member state
	Laurens Michel Audit
	Opus 3.14 Audit et Conseil
	Pierre-Henri Scacchi et Associés
	Revi Conseil
Germany	Deloitte GmbH Wirtschaftsprüfungsgesellschaft
	Deutsche Baurevision GmbH Wirtschaftsprüfungsgesellschaft
	SüdTreu Süddeutsche Treuhand GmbH Wirtschaftsprüfungsgesellschaft
Greece	Deloitte Certified Public Accountants S.A.
Hungary	Deloitte Könyvvizsgáló és Tanácsadó Kft.
Iceland	Deloitte ehf.
Ireland	Deloitte Ireland LLP
Italy	Deloitte & Touche S.p.A.
Latvia	Deloitte Audits Latvia SIA
Liechtenstein	Deloitte (Liechtenstein) AG
Lithuania	Deloitte Lietuva, UAB
Luxembourg	Deloitte Audit
Malta	Deloitte Audit Limited
Netherlands	Deloitte Accountants B.V.
Norway	Deloitte AS
Poland	Deloitte Audyty spółka z ograniczoną odpowiedzialnością spółka komandytowa
	Deloitte Audyty spółka z ograniczoną odpowiedzialnością
Portugal	Deloitte & Associados, SROC S.A.
Romania	Deloitte Audit SRL
Slovakia	Deloitte Audit s.r.o.
Slovenia	Deloitte Revizija d.o.o.
Spain	Deloitte, S.L.
Sweden	Deloitte AB
United Kingdom	Deloitte LLP
	Deloitte Limited
	Deloitte N.I. Limited

Disclosure in accordance with Article 13.2 (b)(iv) of the EU Audit Regulation

The total turnover achieved by the audit firms that are members of the network, resulting from the statutory audit of annual and consolidated financial statements: €2.1 billion²⁵

²⁵ Amount represents an estimate determined based upon best efforts to collect this data. Certain Deloitte audit firms registered to perform statutory audits in respective Member states provide statutory audit services as well as other audit, assurance and non-audit services. While Deloitte endeavored to collect specific statutory audit turnover for each EU/EEA Deloitte audit firm, in certain cases turnover from other services has been included. The turnover amounts included herein are as of 31 May 2020, except for a limited number of instances where a Deloitte audit firm has different financial year-end or has not finalized its reporting for such period. In these cases, turnover amounts are for the relevant financial year or preceding financial year. Where currency other than Euros is used in the Member state, the amount in Euros was translated using an average exchange rate in effect for the period 1 June 2019 to 31 May 2020.



Appendix 9: Audit Firm Governance Code and EU Audit Regulation disclosure requirements

Audit Firm Governance Code

We cross-reference in the table below to where and how Deloitte LLP complies with the principles and provisions of the Audit Firm Governance Code published in July 2016..

Provision of the Code	How / where Deloitte is addressing the provisions in the Code	
A. Leadership		
A.1 Owner accountability principle		
<p>The management of a firm should be accountable to the firm’s owners and no individual should have unfettered powers of decision.</p> <p>A.1.1 The firm should establish a board or equivalent governance structure, with matters specifically reserved for its decision, to oversee the activities of the management team.</p> <p>A.1.2 The firm should state in its transparency report how its governance structures and management operate, their duties and the types of decisions they take. In doing so the firm should explain how its governance structure provides oversight of both the audit practice and the firm as a whole with a focus on ensuring the Code’s purpose, is achieved. If the management and/ or governance of the firm rests at an international level it should specifically set out how management and oversight of audit is undertaken and the Code’s purpose achieved in the UK.</p> <p>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, how they are elected or appointed and their terms, length of service, meeting attendance in the year, and relevant biographical details.</p> <p>A.1.4 The members of a firm’s governance structures and management should be subject to formal, rigorous and ongoing performance evaluation and, at regular intervals, members should be subject to re-election or re-selection.</p>	<p>Governance, legal structure and Deloitte network and our website</p> <p>Report on the work of the UK Oversight Board from Steve Williams, Chair and our website</p> <p>As above, see also NSE governance and the Report on the work of the Independent Non-Executives from Jim Coyle</p> <p>See Appendix 1 and Governance, legal structure and Deloitte network; also our website (re. the Executive Group and the UKOB)</p> <p>As above; refer also to equity partner performance appraisal and profit share details in Governance, legal structure and Deloitte network</p>	
A.2 Management principle		
<p>A firm should have effective management which has responsibility and clear authority for running the firm.</p> <p>A.2.1 Management 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.</p>		<p>See document about the Executive Group on our website</p>

Provision of the Code	How / where Deloitte is addressing the provisions in the Code
B. Values	
B.1 Professionalism principle	
<p>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 and meets auditing and ethical standards.</p>	<p>See throughout this Report, notably in Delivering quality audits – culture sub-section; and the section relating to Conducting business with honesty, integrity and high standards of professional behaviour</p>
<p>B.1.1 The firm’s governance structures and management should establish and promote throughout the firm an appropriate culture, supportive of the firm’s public interest role and long term sustainability. This should be achieved in particular through the right tone from the top, through the firm’s policies and practices and by management publicly committing themselves and the whole firm to quality work, the public interest and professional judgement and values.</p>	<p>As above; see also the leadership messages at the start of the Report and our Ethics Code on our website</p>
<p>B.1.2 Firms should introduce KPIs on the performance of their governance system, and report on performance against these in their transparency reports.</p>	<p>See Governance KPIs in the Report on the work of the UK Oversight Board from Steve Williams, Chair; plus Appendix 1 (meeting attendance)</p>
<p>B.1.3 The firm should have a code of conduct which it discloses on its website and requires everyone in the firm to apply. The Board and independent non-executives should oversee compliance with it.</p>	<p>See our Ethics Code on our website; the Report on the work of the Independent Non-Executives from Jim Coyle and the Delivering quality audits – culture sub-section</p>
B.2 Governance principle	
<p>A firm should publicly commit itself to this Audit Firm Governance Code.</p>	<p>We continue to support the aims and principles of the Code</p>
<p>B.2.1 The firm should incorporate the principles of this Audit Firm Governance Code into an internal code of conduct.</p>	<p>See our Ethics Code on our website</p>
B.3 Openness principle	
<p>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.</p>	<p>See Delivering quality audits</p>



Provision of the Code

How / where Deloitte is addressing the provisions in the Code

C. Independent Non-Executives

C.1 Involvement of Independent Non-Executives principle

A firm should appoint Independent Non-Executives to the governance structure who through their involvement collectively enhance the firm’s performance in meeting the purpose of the Code.

C.1.1 Independent Non-Executives should number at least three and be in 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. They should have full visibility of the entirety of the business but should pay particular attention to and report on risks to audit quality and how they are addressed. If a firm considers that having three INEs is inappropriate given its size or number of public company clients, it should explain this in its transparency report and ensure a minimum of two at all times. Where the firm adopts an international approach to its management it should have at least three INEs with specific responsibility and relevant experience to focus on the UK business and to take part in governance arrangements for this market; or explain why it regards a smaller number to be more appropriate, in which event there should be a minimum of two.

C.1.2 The firm should disclose on its website and in its transparency report information about the appointment, retirement and resignation of Independent Non-Executives; their remuneration; their duties and the arrangements by which they discharge those duties and the obligations of the firm to support them. The firm should report on why it has chosen to position its independent non-executives in the way it has (for example, as members of the main Board or on a public interest committee). The firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes Independent Non-Executives.

C.1.3 The independent non-executives should report in the firm’s transparency report on how they have worked to meet the purpose of the Code defined as:

- Promoting audit quality.
- Helping the firm secure its reputation more broadly, including in its non-audit businesses.
- Reducing the risk of firm failure.

C.1.4 Independent non-executives should have regular contact with the Ethics Partner, who should under the ethical standards have a reporting line to them.

See [Governance, legal structure and Deloitte network](#) and the [Report on the work of the Independent Non-Executives](#) from Jim Coyle

As above; see also [Report on the work of the UK Oversight Board](#) from Steve Williams, Chair.

Since August 2020, there are four INEs on the UKOB and they also meet privately as an INE Oversight Committee to discuss matters relevant to their remit.

One of the INEs also sits on the NSE Board.

See [Governance, legal structure and Deloitte network](#) and the [terms of reference for the UKOB and INE Oversight Committee](#) on our website

This Transparency Report is housed on our [website](#).

See the [Report on the work of the Independent Non-Executives](#) from Jim Coyle and the [Report on the work of the UK Oversight Board](#) from Steve Williams, Chair

See the [Report on the work of the Independent Non-Executives](#) from Jim Coyle and the [Message from Feargus Mitchell, UK Ethics Partner](#)

Provision of the Code	How / where Deloitte is addressing the provisions in the Code
<p>C.2 Characteristics of Independent Non-Executives principle</p> <p>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. They should have a balance of relevant skills and experience including of audit and a regulated sector. At least one independent non-executive should have competence in accounting and/or auditing, gained for example from a role on an audit committee, in a company's finance function, as an investor or at an audit firm.</p>	<p>See Governance, legal structure and Deloitte network, the Report on the work of the Independent Non-Executives from Jim Coyle and the Report on the work of the UK Oversight Board from Steve Williams, Chair</p>
<p>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.</p>	<p>See Governance, legal structure and Deloitte network</p>



Provision of the Code	How / where Deloitte is addressing the provisions in the Code
<p>C.3 Rights and responsibilities of Independent Non-Executives principle</p> <p>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.</p> <p>C.3.1 Each Independent Non-Executive should have a contract for services setting out their rights and duties.</p> <p>C.3.2 Independent non-executives should be appointed for specific terms and any term beyond nine years should be subject to particularly rigorous review and explanation.</p> <p>C.3.3 The responsibilities of an independent non-executive should include, but not be limited to, oversight of the firm's policies and processes for:</p> <ul style="list-style-type: none"> • Promoting audit quality. • Helping the firm secure its reputation more broadly, including in its non-audit businesses. • Reducing the risk of firm failure. <p>C.3.4 The firm should ensure that appropriate indemnity insurance is in place in respect of legal action against any Independent Non-Executive in respect of their work in that role.</p> <p>C.3.5 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.</p> <p>C.3.6 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.</p>	<p>See Governance, legal structure and Deloitte network</p> <p>Each INE has an appropriate contract</p> <p>None of the firm's INEs has been in role for longer than nine years</p> <p>See Governance, legal structure and Deloitte network and the Report on the work of the Independent Non-Executives from Jim Coyle</p> <p>See Governance, legal structure and Deloitte network</p> <p>See Governance, legal structure and Deloitte network</p> <p>See Governance, legal structure and Deloitte network (this Report is available on our website)</p>

Provision of the Code	How / where Deloitte is addressing the provisions in the Code
D. Operations	
D.1 Compliance principle	
A firm should comply with professional standards and applicable legal and regulatory requirements. Operations should be conducted in a way that promotes audit quality and the reputation of the firm. The independent non-executives should be involved in the oversight of operations.	See Delivering quality audits and Report on the work of the Independent Non-Executives from Jim Coyle
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 Delivering quality audits ; Appendix 4: Audit quality monitoring, measurement and results
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 Delivering quality audits
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 Independence (and Governance, legal structure and Deloitte network regarding the INEs' independence)
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 Delivering quality audits ; Appendix 4: Audit quality monitoring, measurement and results
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 firm and reassure stakeholders.	See Report on the work of the UK Oversight Board from Steve Williams, Chair
D.2.1 The firm should, at least annually, conduct a review of the effectiveness of the firm's system of internal control. Independent non-executives should be involved in the review which should cover all material controls, including financial, operational and compliance controls and risk management systems as well as the promotion of an appropriate culture underpinned by sound values and behaviour within the firm.	See Report on the work of the UK Oversight Board from Steve Williams, Chair and Report on the work of the Independent Non-Executives from Jim Coyle
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.	See Report on the work of the UK Oversight Board from Steve Williams, Chair
D.2.3 The firm should carry out a robust assessment of the principal risks facing it, including those that would threaten its business model, future performance, solvency or liquidity. This should reference specifically the sustainability of the audit practice within the UK.	See Principal risks and uncertainties



Provision of the Code	How / where Deloitte is addressing the provisions in the Code
<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>D.3.2 Independent Non-Executives should be involved in reviewing people management policies and procedures, including remuneration and incentive structures, to ensure that the public interest is protected.</p>	<p>See Delivering quality audits</p> <p>This Transparency Report is housed on our website</p> <p>See the Report on the work of the Independent Non-Executives from Jim Coyle and the Report on the work of the UK Oversight Board from Steve Williams, Chair</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. The independent non-executives should be satisfied that there is an effective whistleblowing process in place.</p>	<p>See the Message from Feargus Mitchell, Ethics Partner and the Whistleblowing policy on our website</p> <p>See Delivering quality audits – culture sub-section, the Report on the work of the Independent Non-Executives from Jim Coyle and the Report on the work of the UK Oversight Board from Steve Williams, Chair</p>
<p>E. Reporting</p>	
<p>E.1 Internal reporting principle</p> <p>The management 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 received timely and relevant information to enable them to discharge their duties</p>

Provision of the Code	How / where Deloitte is addressing the provisions in the Code
E.2 Governance reporting principle	
A firm should publicly report how it has applied each of the principles of the Audit Firm Governance Code and make a statement on its compliance with the Code's provisions or give a considered explanation for any non-compliance.	Please refer to this Report and this reconciliation to the Code
E.2.1 The firm should publish an annual transparency report containing the disclosures required by Code Provisions A.1.2, A.1.3, B.1.2, C.2.1, D.1.3, D.2.2 and E.3.1.	This Transparency Report is housed on our website
E.2.2 In its transparency report the firm should give details of any additional provisions from the UK Corporate Governance Code which it has adopted within its own governance structure.	N/A
E.3 Transparency principle	
A firm should publish on an annual basis in its transparency report a commentary on the firm's performance, position and prospects.	See Appendix 2: Financial information
E.3.1 The firm should confirm that it has carried out a robust assessment of the principal risks facing the audit firm, including those that would threaten its business model, future performance, solvency or liquidity. The firm should describe those risks and explain how they are being managed or mitigated.	See Principal risks and uncertainties
E.3.2 The transparency report should be fair, balanced and understandable in its entirety.	The Report is produced with extensive subject matter expert input, is coordinated centrally and is subject to review and approval by the UKOB
E.4 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.	See Report on the work of the UK Oversight Board from Steve Williams, Chair
E.4.1 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 audit committee should publish a description of its work and how it has discharged its duties.	See Report on the work of the UK Oversight Board from Steve Williams, Chair and our website regarding the UKOB



Provision of the Code

How / where Deloitte is addressing the provisions in the Code

E.5 Financial statements principle

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 and should be clear and concise.

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.

Our Financial Statements are available at Companies House

As above

E.5.1 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, preferably in accordance with the extended audit report standards.

E.5.2 The firm should state whether it considers it appropriate to adopt the going concern basis of accounting and identify any material uncertainties to its ability to continue to do so, with supporting assumptions or qualifications as necessary.

As above

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.

See [Report on the work of the Independent Non-Executives from Jim Coyle](#) and [Appendix 4: Audit quality monitoring, measurement and results \(AQI regarding investor liaison](#)

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. It should also report on the dialogue it has had during the year. These disclosures should cover the nature and extent of the involvement of Independent Non-Executives in such dialogue.

As above. See also our [Public policy webpage](#). This Report also references our dedicated mailbox for matters relating to / feedback on the Report, as well as the dedicated email address for the INEs.

F.2 Shareholder dialogue principle

Shareholders should have dialogue with audit firms to enhance mutual communication and understanding.

As above

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.

EU Audit Regulation

We cross-reference in the table below to where and how Deloitte LLP complies with the requirements of Article 13.2 of the EU Audit Regulation.

Provision of Article 13.2	Reference to where in this report Deloitte LLP addresses the provisions in Article 13.2
(a) a description of the legal structure and ownership of the audit firm;	Governance, legal structure and Deloitte network
(b) where the statutory auditor or the audit firm is a member of a network:	
(i) a description of the network and the legal and structural arrangements in the network;	Governance, legal structure and Deloitte network
(ii) the name of each statutory auditor operating as a sole practitioner or audit firm that is a member of the network;	Appendix 8: EU/EEA Audit firms
(iii) the countries in which each statutory auditor operating as a sole practitioner or audit firm that is a member of the network is qualified as a statutory auditor or has his, her or its registered office, central administration or principal place of business;	Appendix 8: EU/EEA Audit firms
(iv) the total turnover achieved by the statutory auditors operating as sole practitioners and audit firms that are members of the network, resulting from the statutory audit of annual and consolidated financial statements;	Appendix 8: EU/EEA Audit firms
(c) a description of the governance structure of the audit firm;	Governance, legal structure and Deloitte network
(d) a description of the internal quality control system of the statutory auditor or of the audit firm and a statement by the administrative or management body on the effectiveness of its functioning;	Report on the work of the UK Oversight Board from Steve Williams, Chair, statement on effectiveness of system of internal control
(e) an indication of when the last quality assurance review referred to in Article 26 was carried out;	Appendix 4: Audit quality monitoring, measurement and results
(f) a list of public-interest entities for which the statutory auditor or the audit firm carried out statutory audits during the preceding financial year;	Appendix 3: Public interest entities
(g) a statement concerning the statutory auditor's or the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted;	Independence
(h) a statement on the policy followed by the statutory auditor or the audit firm concerning the continuing education of statutory auditors referred to in Article 13 of Directive 2006/43/EC;	Delivering quality audits
(i) information concerning the basis for the partners' remuneration in audit firms;	Governance, legal structure and Deloitte network and Delivering quality audits – people sub-section



Provision of Article 13.2	Reference to where in this report Deloitte LLP addresses the provisions in Article 13.2
(j) a description of the statutory auditor's or the audit firm's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7) ²⁶ ;	Delivering quality audits – people sub-section
(k) where not disclosed in its financial statements within the meaning of Article 4(2) of Directive 2013/34/EU, information about the total turnover of the statutory auditor or the audit firm, divided into the following categories:	Appendix 2: Financial information
(i) revenues from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity;	
(ii) revenues from the statutory audit of annual and consolidated financial statements of other entities;	
(iii) revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and	
(iv) revenues from non-audit services to other entities.	

²⁶The key audit partners responsible for carrying out a statutory audit shall cease their participation in the statutory audit of the audited entity not later than seven years from the date of their appointment. They shall not participate again in the statutory audit of the audited entity before three years have elapsed following that cessation

Appendix 10: Local Audit disclosure requirements

Local Audit Transparency Report disclosures are driven by The Local Auditors (Transparency) Regulations 2020 and are reflected in this Report as and where set out below.

Provision per the schedule to the Regulations	Where found in this Report / information specific to Local Audit
a. A description of the legal structure, governance and ownership of the transparency reporting local auditor;	See Governance, legal structure and Deloitte network
b. Where the transparency reporting local auditor belongs to a network, a description of the network and the legal, governance and structural arrangements of the network;	See Governance, legal structure and Deloitte network
c. A description of the internal quality control system of the transparency reporting local auditor and a statement by the administrative or management body on the effectiveness of its functioning in relation to local audit work;	<p>In accordance with the schedule of The Local Auditors (Transparency) Regulations 2020, and based on the practice review carried out in 2019 and the status of the 2020 practice review that will be finalised in September 2020, the Audit & Assurance Executive is satisfied that our internal quality controls and systems are, in general, robust and operating effectively in regard to the local audits and allow us to readily identify any areas of potential improvement or refinement.</p> <p>We continually seek to improve all aspects of our business, including in relation to local audits, and we use the findings of the practice review, other internal reviews and external regulatory reviews to enhance our SQC. The results of local audit practice review are presented within the overall practice review results for the firm.</p> <p>The firm also conducts an annual review of the ongoing effectiveness of the firm's systems of internal control, including financial, operational and compliance controls and risk management systems, as well as the promotion of an appropriate culture underpinned by sound values and behaviour within the firm.</p> <p>A statement regarding the effectiveness of the firm's system of internal control is included in the Report of the work of the UKOB and also covers local audit practice review.</p>



d. A description of the transparency reporting local auditor's independence procedures and practices including a confirmation that an internal review of independence practices has been conducted;

See [Independence](#)

Also:

- The specific independence requirements applicable to local audits include the requirements of the National Audit Office's Code of Audit Practice and Auditor Guidance Note 1 'General Guidance Supporting local audit'
- Our local audit engagement leads and staff, together with our Independence Team, are experienced in considering local audit specific requirements where they add to those of the FRC's Ethical Standard

e. Confirmation that all engagement leads are competent to undertake local audit work and staff working on such assignments are suitably trained;

- All of our engagement leads for local audit work are public sector specialists, and have been accredited as 'Key Audit Partners' by the ICAEW. Our process in submitting candidates for accreditation includes specific consideration of their competence to undertake local audit work. The allocation of engagement leads to individual engagements takes account of the nature of the engagement and the skills and experience of the individual. Staff working on local audit assignments receive suitable training.
- In addition to the audit-wide learning programmes detailed in the Report - see [Delivering quality audits](#) - specific NHS and Local Government training courses are delivered nationally to our staff to address sector-specific learning requirements. This is supplemented by regular sector conference calls for field managers and above discussing emerging issues and guidance. Additional briefing calls were held for both NHS and Local Government audits to address key current issues in April 2020, including the impact of COVID-19 on our audits. Sector specific work papers were prepared covering relevant auditing and accounting issues, including those highlighted in guidance from the FRC, National Audit Office, NHS Improvement and CIPFA, as well as relevant considerations from internal risk assessment of the impact on each sector.
- We actively engage with the working groups hosted by the National Audit Office with representatives from each of the firms that carry out local audit work, including the Local Auditors Advisory Group, NHS Technical Network, Local Government Technical Network, and Value for Money Technical Network. Issues arising through these fora are communicated to partners and staff working on local audits through e-mails and/or the regular sector conference calls.

f. A statement of when the last monitoring of the performance by the transparency reporting local auditor of local audit functions, within the meaning of paragraph 23 of Schedule 10 to the 2006 Act, as applied in relation to local audits by Section 18 and paragraphs 1, 2 and 28(7) of Schedule 5 to the 2014 Act, took place;	<ul style="list-style-type: none"> All local audits are included within the scope of our audit quality control system, including practice review. For the practice review year to 31 May 2020 we included local audit selections as the portfolio of engagements had changed, whereas in 2019 a high proportion of engagements for which we issued audit reports in the year ended 31 May 2018 were subject to external inspection by the AQR (for major local audits) and QAD (for other local audits) and we therefore actively de-selected those engagements from our internal practice review for that cycle.
g. A list of major local audits in respect of which an audit report has been made by the transparency reporting local 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;	<p>The organisations below are the only relevant authorities:</p> <p>a) Which constitute a 'major local audit' for the purposes of Regulation 12 of The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014 (SI 2014/1627); and</p> <p>b) For which Deloitte LLP signed an audit report on its annual financial statements during the year ended 31 May 2020.</p> <ul style="list-style-type: none"> Blackpool Council City of Wakefield Metropolitan District Council London Borough of Ealing North Yorkshire County Council Royal Borough of Windsor and Maidenhead South Yorkshire Pensions Authority
h. A statement on the policies and practices of the transparency reporting local auditor designed to ensure that persons eligible for appointment as a local auditor continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level;	See point e. above
i. Turnover for the financial year of the transparency reporting local auditor to which the report relates, including the showing of the importance of the transparency reporting local auditor's local audit work; and	See Appendix 2 - Financial information
j. Information about the basis for the remuneration of partners.	<ul style="list-style-type: none"> See Appendix 6 – Equity partner appraisal and pay – and Delivering quality audits, Our people sub-section Local audit partners were included in the FY20 audit appraisal process. The key part in partners' audit quality evaluation is the Audit Quality Remuneration Committee.



Glossary

Term	Description
Audit AGM	Annual event that provides stakeholders with the opportunity to hear from and engage with Deloitte leadership, INEs and expert panellists about matters relating to audit such as audit quality, the evolving audit product and scope of assurance.
Audit Blueprint	Launched in spring 2020, the tool guides teams through the key headline matters they need to consider at each stage of the audit.
Audit Firm Governance Code (the Code)	Published by the FRC and ICAEW in 2010 and revised in 2016, the Code sets a benchmark for good governance at the UK's largest audit firms, on a 'comply or explain' basis.
Audit Firm Monitoring & Supervision (AFMAS)	<p>The FRC's approach to the monitoring and supervision of the UK's largest audit firms. The FRC sets out its expectations of each firm and seeks evidence in five pillars:</p> <ul style="list-style-type: none"> • leadership and governance • values and behaviours • business models and financial soundness • risk management and control • audit quality
Audit Quality Board (AQB)	<p>Established in 2014 and comprising partners and directors from across our Audit & Assurance practice, the AQB's remit is to:</p> <ul style="list-style-type: none"> • develop and govern activities to improve audit quality • implement these improvements across the Audit & Assurance practice • respond to audit quality issues raised by regulators and stakeholders
Audit Quality Forum (AQF)	A group consisting of staff at manager grade and below who meet quarterly to discuss a range of matters concerning audit quality. They have representation on the Audit Quality Board to feed back their findings.
Audit Quality Remuneration Committee	A committee comprising experienced partners, independent of the Audit & Assurance Executive, that evaluates the audit quality contribution of audit partners. Its recommendations are used by the Audit & Assurance Executive to inform their decisions on audit partner reward and promotion.
Audit Quality Review (AQR)	The FRC's AQR team monitors the quality of the audit work of UK statutory auditors and audit firms that audit Public Interest Entities (PIEs) and certain other entities.
Deloitte Academy	Provides support and guidance to board and executive committee members, through a series of webinars, seminars and discussions.
Deloitte Way Workflows	Developed during the year, these workflows cover each area of the audit and aim to promote greater global consistency in the audit methodologies across all the member firms in the Deloitte network. They include a guided risk assessment, prescribed tasks and templates, embedded use of analytics and audit delivery centres along with associated guidance and support.



Emerging Issues Group (EIG)	Established during 2015 and comprising partners from across the Audit & Assurance practice, including industry specialists and those from our central technical team, the EIG's objective is to identify significant emerging industry, political/economic, technology and regulatory/inspection related issues that could have a significant impact on audit quality in the future.
Engagement Quality Control Review (EQCR)	An EQCR partner is allocated to each of our public interest entity audits and higher risk engagements to support our high standards of professional scepticism and audit quality by bringing independent challenge to the audit process. They are appropriately skilled and experienced audit partners who would otherwise be eligible to act as audit engagement partner on the relevant audit engagement.
Ethical Standard	Applicable to audit engagements and other public interest assurance engagements, the FRC published the current Ethical Standard in December 2019. The standard aims to strengthen auditor independence, prevent conflicts of interest and, ultimately, improve audit quality.
Financial Reporting Council (FRC)	The UK's Competent Authority for Audit, responsible for promoting high quality corporate governance and reporting. It sets the standards framework within which auditors, accountants and actuaries operate in the UK.
Institute of Chartered Accountants in England and Wales (ICAEW)	Professional Accountancy body and Recognised Supervisory Body with delegated powers from the FRC to supervise audit work. They monitor firms to ensure that work is completed competently, ethically and appropriately.
International Standards on Auditing (ISA)	Auditing guidelines developed by the International Auditing and Assurance Standards Board (IAASB) aimed at achieving global consistency in auditing. In the UK the FRC supplements these international standards with additional requirements, which form ISAs (UK).
Key Audit Matters (KAMs)	Reported in our audit reports for listed companies and EU PIEs, these are the most significant areas of our audits determined through risk assessment. These include the most significant assessed risks of material misstatement (whether or not due to fraud) and those areas which have the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.
Partnership Council	The partner group responsible for ensuring fairness and equity between partners and fairness in the implementation of Deloitte NSE policies and strategies. The Partnership Council is also the body that undertakes soundings to assist in the selection of candidates for election to the NSE Board and appointment to the role of UK CEO.
Professional Standards Review (PSR)	The PSR function is a robust, independent challenge and review of the engagement team's rationale and documentation of decisions taken and opinions reached within our reports and other documents.
Public Company Accounting Oversight Board (PCAOB)	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. In the UK this applies to UK corporates with US listings, and certain subsidiaries of US-listed companies.

Public Interest Entity (PIE)	<p>Pursuant to the EU Audit Regulation, the definition of a PIE includes:</p> <ol style="list-style-type: none"> 1. Companies with transferable securities listed on EU regulated markets (as opposed to all markets in the EU) and governed by the law of an EU member state 2. Credit institutions authorised by EU member state authorities 3. Insurance undertakings authorised by EU member states 4. Other entities a member state may choose to designate as a PIE.
Public Interest Review Group	A group, chaired by the Ethics Partner and comprising senior partners from across the firm, to consider whether or not certain proposed engagements are pursued on public interest grounds.
Purpose & Values Working Group	The objectives of the working group are to develop an action plan to embed the desired purpose and values across the Audit & Assurance practice and report on progress to the firm's People and Purpose leadership.
Responsible Individuals (RIs)	Individuals who are qualified to sign the audit report and who are authorised by a professional body to do so. At Deloitte, these are audit partners and signing directors.
Sarbanes-Oxley	US legislation passed in 2002 requiring companies' management and auditors to report publicly on the internal controls over financial reporting. In the UK this applies to UK corporates with US listings, and certain subsidiaries of US-listed companies.
TechEx	Our year-round learning programme, delivered through a multi-faceted mechanism consisting of local, targeted workshops (TechEx on Tour), a live residential, experiential learning event (TechEx Live), further local workshops (TechEx on Tour) and the opportunity to embed experiences and learning onto Audit engagements (TechEx Teams).
Those Charged With Governance (TCWG)	Those with responsibility for overseeing the strategic direction of the audited entity and with obligations related to the accountability of the entity. This includes overseeing the financial reporting process.
UK Oversight Board (UKOB)	The governance body responsible for overseeing how the firm meets its regulatory and legal requirements in the UK, including how it meets the purpose of the Audit Firm Governance Code which focuses on promoting audit quality, assisting the firm to secure its reputation more broadly and reducing the risk of firm failure.



Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients.

[Please click here to learn more about our global network of member firms.](#)

© 2020 Deloitte LLP. All rights reserved.

Designed and produced by CoRe Creative Services RITM0499781