

**Deloitte.**



## 2023 Transparency Report

Deloitte LLP and Deloitte Limited

# Regulatory context

This Audit Transparency Report (Report) relates to Deloitte LLP and Deloitte Limited's<sup>1</sup> principal activities in the UK and Gibraltar, respectively, for the year ended 31 May 2023 (FY2023), 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.

This Report includes disclosures required by the 2022 Audit Firm Governance Code (the Code), which provides a framework for good governance practice against which firms that audit Public Interest Entities (PIEs) can be assessed and report. A reconciliation to the Code is provided in [Appendix 16](#).

This Report is prepared to comply with Article 13 of Regulation No 537/2014 of the European Parliament and of the Council of 16 April 2014 (the EU Audit Regulation) as amended by The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019. In addition, it also addresses our obligations under the EU Audit Regulation to prepare a transparency report in each of the EEA countries where Deloitte LLP has a third country audit registration: Ireland, Luxembourg, the Netherlands, Sweden and Germany.

Deloitte Limited, the Deloitte business operating in Gibraltar that has been a subsidiary of Deloitte LLP since 1 June 2017, also prepares an audit transparency report under Article 13 of the EU Audit Regulation as retained in Gibraltar law ([Appendix 3](#)).

## 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 audits<sup>2</sup> during the year ended 31 May 2023, we are required to comply with The Local Auditors (Transparency) Regulations 2020. [Appendix 4](#) 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 five NHS Trusts and for 32 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 and Scottish public sector audits (which are not required to be included in this Report under The Local Auditors (Transparency) Regulations 2020) are consistent with those for local audits.

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<sup>1</sup> 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](http://www.deloitte.com/about) to learn more about our global network of member firms.

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

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# Leadership message

The topics dominating the headlines over the past 12 months highlight the ongoing challenge and changing risk landscape faced by global markets during FY2023. Geopolitical uncertainty, rising energy prices, financial stress, the climate imperative and the power of artificial intelligence have created a complex landscape for businesses, regulators, governments, society and the audit profession to navigate.

In the face of this, the audit and assurance profession must remain resilient and agile. Through its independent rigour and quality, it should enhance trust in, and add value to, capital markets and wider society. To achieve this objective, we must continue to evolve. Developing our audit and assurance products, training, methodology and technology are priorities, ensuring we uphold our high-quality standards amidst a changing risk landscape and shifting stakeholder needs.

A strong control environment is the bedrock to market confidence and quality. We continued to significantly invest in this area as we transitioned to [International Standard on Quality Management \(ISQM\) 1](#) and started moving our audit methodology onto new global audit technology platforms – [Deloitte Omnia](#) and [Deloitte Levvia](#).

We cannot make these important investments in our people, products and processes without a solid business foundation. Our Audit & Assurance business delivered a strong financial performance in FY2023. This is important; it allows us to be agile, forward-looking and respond to the drivers of change in the face of fast-moving global markets and technological, societal and environmental shifts.

Our Transparency Report is our opportunity to share how we have invested in quality, while embracing the changing environment and maintaining the financial and operational health of our business. We highlight what we are proud of, what we are doing to continue to invest in our quality programmes, how we are addressing instances where we have fallen short of the high standards we expect of ourselves and how we are preparing for the future.

## **Driven by purpose**

A resilient and forward-looking profession must be one that is attractive both to those who are within it and those who are at the early stages of considering their future career. Having a clearly defined purpose is critical.

Deloitte's purpose is to make an impact that matters, and in our Audit & Assurance business this translates to protecting the public interest and building trust and confidence in business. It's our people, through their commitment to quality, professional scepticism, challenge and desire to do the right thing, who bring our purpose to life.

# Leadership message

Our purpose shapes everything we do and is underpinned by [our shared values](#) and [our cultural ambition](#). This in turn guides our [commitment to excellence](#) and collective [mindset and behaviours](#) that we nurture across our business. Our culture, [controls and processes](#) allow us to respond to a changing environment and help us drive [high-quality outcomes](#). This enables us to contribute to the value of audit and the audit profession, and deliver on our purpose.

Our strategy is focussed on enhancing our structure, how we develop and deploy our talent, how we shape our culture and how we strengthen our resilience to deliver high-quality outcomes in the public interest.

Getting every element of this working effectively – with our people inspired and empowered to play their part – helps us continue to evolve the audit product to better protect the public interest, and develop assurance products that respond to changing stakeholder needs. It means we can be agile and resilient. Ultimately, it allows us to make a meaningful contribution to the value of audit, driving responsible business behaviours and bringing benefit to the capital markets and to wider society.



# Leadership message

## A reflection on financial year 2023

### Our purpose-led culture

During FY2023, we made significant progress in enhancing and nurturing our purpose-led culture. We introduced a dedicated role onto the Audit & Assurance Executive team to focus further on culture and accelerate our progress. We have actively involved colleagues across our business to help define and shape our approach. For the first time, we have clearly defined our [cultural ambition](#) in Audit & Assurance: we include everyone, we challenge and we rise to the challenge, and we do the right thing.

The Audit & Assurance Executive Culture Lead sits on the UK Culture Council, the membership of which is drawn from across the firm and which is also attended by one of the Non-Executives. The Culture Council supports the development, embedding and delivery of the UK firm's culture work programme, as well as being a forum to challenge UK firm leadership on our current and desired culture.

Within our Audit & Assurance business, we have identified specific Audit & Assurance behaviours aligned to Deloitte's shared values and designed to reflect our purpose, our inclusive nature, the standards we uphold and the pride in what we do. These behaviours are incorporated into our FY2024 performance management process for our partners and our people, ensuring there is a link between reward and recognition and contribution to our purpose-led culture.

Integral to our purpose-led culture is our work to grow the diversity of talent in Audit & Assurance. We are improving the representation of leadership and making good progress towards our gender and ethnicity targets in our ongoing efforts to be representative of society and the companies we work with. We know we have more to do, in particular at partner level for underrepresented ethnic groups. We are encouraged by the improving picture across the business. The work we are doing to make our talent pipeline more diverse is starting to [yield positive results](#).

### Our commitment to excellence Ring-fencing and the Audit Governance Board (AGB)

FY2023 was the second year of the Audit & Assurance business operating as a ring-fenced audit and assurance business independently governed by our AGB. We are substantially compliant with the [principles laid out by the Financial Reporting Council](#) (FRC). We have fully implemented the commercial requirements between the ring-fence and the rest of the firm and no cross-subsidy exists. Moreover, we expect to be fully compliant with the principles regarding scope of services by the end of 2023, having completed all transitional arrangements. Further details are provided in [Appendix 5](#).

The AGB continues to make a positive impact and we value the independent oversight and challenge it brings. In addition to its involvement in our partner reward and admissions process, the Non-Executives have had individual and collective input into the [Culture Council](#), the

[Continuous Improvement Group](#) and the [Single Quality Plan](#).

In April, we invited AGB members to visit our extended delivery teams in India and Romania. Our colleagues in these locations form part of our extended UK engagement teams on audits and the visits provided a good opportunity to show how teams work together effectively to deliver high-quality outcomes.

More detail on the AGB and its oversight can be found in the [Audit Governance Board and UK Oversight Board report](#).

### Resourcing and capacity

We recognise the importance of having an appropriately resourced and skilled workforce to enable us to deliver quality audits in the public interest. While demand for our audit and assurance services has never been higher, we were appropriately resourced across the whole of FY2023. We hired over 2,000 individuals in the year, a mixture of experienced audit and assurance practitioners and people joining our early careers programmes. As a result of this we entered our audit reporting season for 31 December year ends with no net capacity shortfalls, ensuring our people had sufficient time to deliver quality audit work.

Like all responsible businesses we constantly monitor the markets and economic landscape and adjust our resourcing plans in response. Given a slowdown

# Leadership message

in business spending and an increasingly uncertain economic and geopolitical landscape, in September 2023 Deloitte UK announced plans for a small number of targeted restructurings across the firm, subject to consultation. The proposed changes affect less than 1% of our Audit & Assurance colleagues and are important to ensure we can continue to invest in areas aligned to our business needs. Our priority over the coming months will be to support our people and partners impacted by these changes.

Notwithstanding the changed economic circumstances, we continue to recruit across a range of entry-levels, experience and backgrounds, tailoring the recruitment levels carefully to our business needs. Over half of our recruits are expected to be based outside of London. They will work and be trained in a range of areas critical to audit including climate, data, cyber, emerging technologies and analytics.

Our reward strategy focuses on creating a total reward offering which is competitive, fair and transparent, ensuring our people and partners share in the success of the firm. In FY2023 we have taken steps to narrow the gap in salaries between our regions based colleagues and London and introduced a new 'on-target bonus' approach which is designed to give individuals more clarity about bonus earning potential and rewarding behaviours consistent with our shared values.

Over the next five years, we will invest more than £125m in the firm's audit product and quality improvements, as well as on learning and development for audit and assurance teams, part of our ongoing investment to attract and retain the best and brightest talent.

## **Climate and sustainability**

Climate-related risks and opportunities are increasingly creating measurable financial impact for companies and that's why capital markets participants want consistent, comparable and reliable climate-related disclosure. Robust governance, systems and controls are essential to promote authentic reporting of a company's commitments, strategy, performance and operations. Global reporting and assurance standards and frameworks are needed to underpin corporate disclosures and enable consistent and comparable reported information.

We welcome the work of the International Sustainability Standards Board (ISSB) to establish global sustainability standards and frameworks which are essential in driving consistency in sustainability disclosures. It is a journey we have contributed to throughout, including with the International Financial Reporting Standards (IFRS) Foundation and the World Economic Forum (WEF).

We have continued to strengthen our environment, social and governance (ESG) expertise and offering. In the last two years, our integrated team has grown, with more

specialists embedded to provide assurance over a wide range of ESG metrics, as well as delivering a consistent approach to climate change in audits.

We remain focused on the actions we can take to deliver our commitment to reducing our own climate impact, which is detailed in our [Annual Review](#). We have also added to our performance management tools and the partner performance goals and objectives to support behaviours aligned with our sustainability priorities.

See the [sustainability reporting appendix](#) for more details.

## **Generative artificial intelligence (AI)**

One of the hottest topics to emerge over the last year is generative AI, with plenty of debate about its capability, its potential application, and associated opportunities and risks. Many of the implications about what this means for our people, our business and the companies we audit and work with are still being worked through, and across the globe, a number of proposed regulations in this area are being developed. It is clear there is a need for consistent standards and frameworks to support high-quality reporting and governance in this emerging area.

Generative AI capabilities can act as an accelerator to business processes. Given the stage of maturity of many of these models, alongside the need for professional judgement and experience, our view is they complement rather than replace the existing audit approach.

# Leadership message

While we do use forms of AI on our audits, we are not currently using generative AI on our audit and assurance engagements. However, we are evaluating several key areas with potential to impact on our future engagement execution, to transform our products to ensure they remain relevant to the needs of the market and drive the highest levels of quality. Innovative technology solutions that we develop and implement form part of an integrated suite of technologies which are connected in the cloud and embedded in our global audit delivery platforms.

We have started to assess how the implementation of AI at the entities we audit will impact the work we perform. We expect to develop our approach as the use cases for AI become clearer and regulations are put in place. For now we are remaining close to the entities we audit to understand how they see AI impacting their businesses.

We have appointed an Audit & Assurance Executive sponsor for AI, to ensure it is appropriately represented in leadership decision-making and governance forums.

See the [disruptive technology perspective](#) and the [digital audit appendix](#) for more detail on our technology priorities.

## Learning and development

Equipping our people with the right skills and expertise to navigate emerging trends remains paramount. In addition

to the investment in our core learning and development programmes, this year we teamed up with Edinburgh Napier University to offer a Masters qualification in Digital and Business Risk Management to our IT Audit & Assurance graduate hires in the UK. This offers a unique learning experience for our people right from the outset of their careers, equipping them with the skills required in a business world driven by technology.

## Mindset and behaviours

The mindset and behaviours we nurture across our business are important in helping us deliver our commitment to excellence and execute against our strategy. We believe inclusivity and respect are fundamental to audit quality. Inclusivity provides the foundation for diversity in our audit and assurance teams, which promotes a broader range of approaches, challenge and perspectives. It also gives our people the confidence to be themselves in the workplace, engaging and motivating them to work together to deliver a high-quality audit.

During our annual training we had a focus on culture, behaviours and purpose, with a module specifically covering professional scepticism, an area vital to our auditors as they develop and maintain a mindset of challenge.

We have recently developed a self-evaluation tool which supports partners in their self-awareness of their own behavioural tendencies which can have a direct impact

on audit quality. Partners are assisted in interpreting the outputs from the self-evaluation to better understand how their behaviours might change in different situations and how to mitigate any behaviours that could undermine the quality of their audit work.

In addition, over the last year, in-house clinical advisors have been introduced as part of our UK firm wellness programme. These clinical advisors are dedicated to supporting our people's physical and mental wellbeing. We have also provided extra support for our junior colleagues whose education was disrupted by lockdowns during the COVID-19 pandemic.

Against the context of the economic uncertainty and volatility in financial markets, we have provided our auditors with additional training and support to ensure that they are equipped to understand the impact that these conditions can have on our audits and remain professionally sceptical at all times. Our auditors are regularly reminded of the need to engage, challenge and consult.

## Controls and processes

### Single Quality Plan (SQP)

Our SQP has been an area of particular focus during the year. Through it we prioritise and measure progress in specific identified areas that we consider most critical to maintaining the high level of quality in our audits that we expect from our business. Members of our Audit &

# Leadership message

Assurance Executive individually sponsor each of the priority areas identified and we have introduced key performance indicators (KPIs) and real time monitoring to measure the effectiveness of the actions being taken. Read more on our [SQP](#).

## Continuous improvement

Over the last year we established our Continuous Improvement Group (CIG) and Actions Development Group (ADG) to address regulatory and internal findings and better understand root causes of issues, including repeat findings. These are important formal mechanisms to ensure continuous improvement to audit quality, bringing challenge and timely responses to emerging areas of focus.

More detail on the activities of the ADG and CIG can be found in [Appendix 5](#).

## ISQM 1

The UK firm's ISQM 1 implementation programme, led by senior UK leadership, reached successful completion on 15 December 2022, building on multi-year investment that goes beyond the requirements of the existing professional standards. Our first evaluation of the System of Quality Management (SQM) took place on 31 May 2023 and concluded with one deficiency identified (which did not have an impact on the evaluation of the SQM). The results were reported to the AGB and the UK Oversight Board (UKOB).

As our transition from implementation to operation continues, we will challenge ourselves to identify further areas for enhancement. This includes further investment in systems and ways to drive closer linkage between our strategic objectives and our SQM.

## Our business structure

This year, industry has been a key area of focus; we have introduced a new structure which supports stronger connections between industry communities. Industry insights are vital to both good auditing and quality outcomes, as well as effective management of emerging risks and issues. They enhance our ability to respond to industry-specific needs as an audit and assurance business, within our permissible services, and across our multi-disciplinary firm. It is also clear industry creates a sense of belonging and community in our business and it connects our audit and assurance practices - something we want to continue to strengthen.

We are adapting other parts of our business too, building our assurance capability, and ensuring our teams have the access to the right expertise to apply the right level of challenge and professional scepticism in some of the more complex areas of audit. In addition to our integrated ESG team we have extended our capability in areas such as IT controls, global capital markets and pensions, embedding expertise within the Audit & Assurance business.

## Our digital audit

Deloitte's global audit platforms, Deloitte Omnia and Deloitte Levvia, demonstrate our commitment to delivering digital, high-quality audits of all sizes and levels of complexity. We commenced the rollout of the two platforms during FY2023 and have set targets that, by the end of FY2024, 35% of our higher-risk and more complex audits will have transferred to Omnia, and 17% of low risk and less complex audits to Levvia.

Our audits are digitally enabled with all our audit tools and technologies on these central platforms, ensuring our audit practitioners are able to deploy these tools in an integrated way, supporting high-quality and efficient audits. Find out more by reading our digital audit story at [Appendix 7](#).

## Quality outcomes

We are proud the percentage of our public interest entity (PIE) audits rated 'good' or 'limited improvements required' by the FRC was once again 82% (2022: 82%). Our results also remain strong for our audits inspected by the Institute of Chartered Accountants in England and Wales (ICAEW)'s Quality Assurance Department (QAD) with 100% of engagements in the cycle assessed as good or generally acceptable (last year: 80%).

We are pleased to see the positive impact of actions taken over the last 12-18 months to address findings raised by the FRC in their previous inspection, with no

# Leadership message

recurrence of these key findings in the current cycle. We engage regularly and openly with the regulator as we seek to drive continued improvements. We have developed a tailored plan which addresses the areas for improvement raised in the current year, including the creation of a revenue centre of excellence. Find out more in the [Audit quality](#) section.

We recognise we still have more we want to do and there are instances when our audit quality has fallen below the high standards we expect of ourselves.

During the year, the FRC issued a final decision notice and imposed sanctions, including fines, on the firm and one of our audit partners in relation to the statutory audit of the financial statements of SIG plc (for FY2015 and FY2016). In addition, the FRC announced it had imposed a fine in respect of the audit of the financial statements of a listed entity within the Crown Dependencies (in respect of an audit in FY2018). Both of these sanctions acknowledged the firm's cooperation and mitigating actions in respect of these matters.

We take all regulatory findings seriously and place a significant level of resource and effort into understanding what has gone wrong and how we learn and improve going forward.

We perform [root cause analysis](#) for key findings and put detailed actions in place to address these, both on

individual audits and across all our audits more generally. We continue to improve our technology, processes, governance and controls.

## Looking ahead

We remain strongly committed to driving meaningful and proportionate reform across corporate reporting, corporate governance and the audit market, and recognise our responsibility and voice in helping inform and shape the direction of travel. The consultation on Corporate Governance Code revisions and the proposals for increased reporting around fraud, resilience, distributions and the introduction of the Audit and Assurance Policy are long awaited positive steps forward. However, we were disappointed to hear recent reports that primary legislation to support reform of the audit and corporate governance system might not be included within the King's Speech. We firmly believe the proposed reforms provide an opportunity to significantly improve the corporate reporting and governance system and strengthen trust in the UK's capital markets – and must proceed at pace.

We have been active in our engagement with government, regulators, professional bodies, companies and investors to encourage representative engagement in ongoing consultations. It is critical the proposals for regulatory reform are carefully worked through and implemented in a way that drives meaningful change. However, primary legislation remains vital and without laws being passed

to establish the Auditing, Reporting and Governance Authority (ARGA) there is a risk that the full extent of reform and broader accountability across the financial ecosystem will not be realised.

As emerging risks, technology trends and markets evolve, we will continue to respond to these and shape our products and skill sets accordingly, drawing on the strength of our whole firm. We remain committed to the importance and strength of our multi-disciplinary business model (MDM). Our MDM enables access to functional specialists and industry experts who are independent, and who provide audit support helping to deliver high-quality audits. The scale of the MDM brings greater resilience to each Deloitte business line, including Audit & Assurance, allowing continued investment in technology, methodology, and process to support delivery of high-quality services.

The Audit & Assurance business delivered a robust financial performance in FY2023, despite significant cost pressures. These pressures arose through a combination of factors but were primarily driven by wage inflation due to resourcing pressures that impacted the entire industry, and materially full implementation of arm's length transfer pricing and cost allocations between the ring-fenced business and the rest of the firm. We also continued to invest heavily in audit quality with increases in spend on new audit tools, which we commenced pilot use of in the year.

# Leadership message

We have a strong pipeline of work and our business is robust, but we are not complacent. We continue to look ahead and recognise the importance of adapting to ensure the shape of our business allows us to be agile and fit for the future.

Our investment in quality included a £6m increase in spend on training as we recognised the need to boost skills for our people following two years of largely remote working. This was paid for through a mixture of better pricing and improvements in our delivery model including enhanced integration with our extended delivery teams and improved use of project management skills. The financial resilience of the audit market is important in ensuring companies have access to high-quality audits that support confidence in capital markets, which is why we are pleased that despite significant cost pressures the Audit & Assurance business continued to receive no cross-subsidy from the rest of the firm, consistent with the FRC's ring-fence principles.



**Richard Houston**

Senior Partner & CEO



**Paul Stephenson**

UK Managing Partner

Audit & Assurance



**Shauna Robinson**

UK Audit & Assurance

Head of Public Policy,

Regulatory and Reputational Risk



**Alan Chaudhuri**

UK Audit & Assurance

Head of Quality & Risk

# The Deloitte perspective

## Why does the sustainability of the audit profession matter?



**Paul Stephenson**

UK Managing Partner Audit & Assurance

There is a lot of discussion around the attractiveness of the audit profession, which on the face of it may sound self-serving, especially when it is a subject being raised by me as the head of audit and assurance at a Big 4 firm. Of course, Deloitte – like any other business – has a vested interest in the profession in which it operates having a long and sustainable future. But beyond the interests of the audit firms themselves – why is this important? Does it matter?

At the heart of this is the question of the value that audit brings to the capital markets – both today and in the future. The purpose of audit is well debated – however the value of audit is not always felt or understood.

High-quality audit is not about preventing business failure; strategic decisions around business model, risk management, oversight and governance lie with the company, not the auditor. However, a high-quality audit should bring rigour and challenge to those who do have responsibility – an independent pair of eyes that calls out weaknesses in control environments and challenges judgements and how they are reported.

Deloitte UK audits approximately 10,000 entities every year. As a result, recommendations are made to audit committees and management to strengthen the control environment or improve the reporting process, judgements are challenged, and adjustments are processed. But much of this is not visible to the end users of the annual report and wider stakeholders.

Without an independent audit, this extra pair of eyes and challenge is lost and with it a sense of stability and confidence in the information being reported. Of course – some audits fail to deliver appropriate challenge. Mistakes are made and quality falls short. Sometimes events occur which could not have been foreseen by anyone and result in market shocks and failings.

But in the vast majority of cases, audits do provide a high-quality independent rigour which helps investors take decisions based on risk appetite, that help consumers decide who they want to buy from, and employees who they want to work for.

To be sustainable, I believe the audit profession must better demonstrate how the rigour of an independent audit brings value and is appropriately valued. This is particularly important as the information that underpins business models and is reported to the market continues to grow in complexity.

And that is why sustainability of the audit profession matters. Because it is intrinsically linked with a well-functioning capital market and one of the ways that those outside the company can better understand and assess responsible business behaviour.

Of course, the sustainability of the profession must not be at the expense of quality or accountability. The firms that make up the audit and assurance profession have a responsibility to innovate to ensure they are fit for the future, and continue to deliver audit and assurance to the highest quality, consistently. We must also be better at demonstrating the challenge that we bring. A sustainable audit profession cannot be assumed a given – it needs to be earned.

# The Deloitte perspective

Our cultural ambition –  
designed by our people,  
driven by our purpose.



**Kate Darlison**

Audit & Assurance Culture Lead

As I have spent time focussing on our purpose-led culture, I have had the huge privilege of spending time this year listening to lots of people across the Audit & Assurance business and our wider stakeholders, reflecting upon and testing our [cultural ambition](#). We all agree that our purpose guides all that we do, and we are proud that what we do matters.

While there has been plenty of lively debate, I've heard our cultural ambition be brought to life by our people, very clearly and very simply:

**We include everyone;**

**We challenge and we rise to the challenge; and**

**We do the right thing.**

I've also heard our people talk with an openness and honesty about the behaviours they feel will enable us to realise this ambition – behaviours aligned to our [shared values](#). There are things they feel we do well already and some where we all acknowledge there is more to do. With these desired behaviours identified, we are now focused on supporting our people to put them into practice and drive meaningful change within our business.

We have designed our Technical Excellence learning this year around our cultural ambition. In addition, our FY2024 performance management process for colleagues has allowed each of us to incorporate these desired behaviours into our objectives for the year ahead.

Activating and embedding our ambition requires our individual and collective contribution and commitment. I therefore posed a question of our people: "Tell us what we, as leaders in our business, can do more of to embed our cultural ambition."

This is what they said:

**"Be open to challenge** – allow us to feel safe to challenge and equip us with the skills to do so with the management teams of the companies we audit"

**"Be visible** – provide direction and lead by example"

**"Be transparent** – explain your decisions, share back what you have done as a consequence of what you have heard"

**"Be on our side** – back up the team where required, support us throughout the engagement"

This is powerful, honest, feedback from our people. As leaders in our business, we owe it to our people to listen to this feedback, to take it on board and to act upon it.

So, our focus for the next 12 months? To strengthen the link between reward and recognition and contribution to our cultural ambition, to measure our progress in bringing our cultural ambition to life, and to showcase the behaviours that will activate our cultural ambition in everything we do.

# The Deloitte perspective

## How will disruptive technology shape the audit of the future?



**Simon Stephens**

Audit & Assurance Executive Sponsor for AI

The rapid advancement of generative AI is driving an unparalleled surge in business and societal opportunities resulting in significant shifts in business models. An increasing number of companies are exploring the potential to introduce AI into their products and processes. While the potential benefits are huge, this technology also brings new dimensions into the business risk landscape. The audit industry is not immune from the impacts of emerging, disruptive technologies and the audit and assurance profession has a responsibility to innovate to ensure it is fit for the future.

Doing nothing is not an option. Technology and digital capabilities are embedding themselves further into every aspect of business and society, and driving innovation and change is fundamental to meeting the changing expectations of our stakeholders.

However, deploying innovative new capabilities needs to be managed in the context of the complex regulatory environment in which audit firms operate and with the overarching objective of improving audit quality.

Audits now routinely deploy advanced data analytic capabilities to improve the quality and efficiency of processing large volumes of data. This is largely, although not solely, focused on analysis of the financial data produced by the company being audited. New technologies, in particular generative AI, create the ability to source and analyse greater quantities of data. Despite increased use of advanced data analytics, auditors expend significant manual effort searching for corroborative and contradictory audit evidence as a way to challenge management judgements. Using AI to collate publicly available data from a wider range of sources, these technologies should provide a more robust, comprehensive, and objective way to bring that challenge.

Companies, particularly those with mature control environments, are moving towards continuous control monitoring and real-time data on the effectiveness of their internal control environment. Disruptive technologies will enhance the auditor's capability to independently monitor a company's transactions, systems, processes, and controls throughout the year and with a greater depth of analysis. Machine learning will enhance the application of audit technology, building greater capabilities to identify unusual transactions, control exceptions and potential fraud. For example, parameters for identifying journal entries with characteristics of fraud are currently set manually by the audit team. In future, machine learning will analyse every journal entry posting to identify trends and outliers specific to the characteristics of that entity. These capabilities align to several of the key priorities in the FRC and UK government corporate reform recommendations, including internal controls and fraud, underlining the important role that these technologies must play in delivering an audit that meets the changing needs of stakeholders.

# The Deloitte perspective

So how do we move forward and harness the opportunities that these technologies can bring, whilst managing the associated risks?

There is a delicate balance to be struck between deploying disruptive technology to drive innovation and change the way audits are delivered, and ensuring those technologies are robust, reliable, drive improvements in quality and comply with the regulatory frameworks.

To realise the value these technologies will bring to audits in the future, I believe there are four priorities that need to be front of mind for stakeholders:

- Audit firms should accelerate their investment in these capabilities and become more innovative in how new technologies can be adapted and deployed for audits. Importantly, these new technologies must align with audit firms' ethical values, be objective and alert to bias. Risk management and governance frameworks of audit firms will need to reflect the changing role of technology. New technology may bring the revolution, rather than evolution, of how an audit is delivered

- Regulators will be a key stakeholder as they seek to understand and challenge audit firms on these new technologies, and engage with audit firms as technologies are developed to support the future of the profession
- Companies must improve the way they control and protect their data to ensure that data integrity is not a barrier to deploying new technologies. Many companies will look to leverage data lakes and deploy AI and other technologies within their own businesses, requiring enhancements to their governance and risk management frameworks
- Audit reporting needs to continue to evolve, by audit firms and through regulation, to ensure that new expectation gaps do not emerge as the way audits are conducted becomes more technology-centric.

## Deloitte Audit Forum: spotlight on AI

Our annual Audit Forum will feature a panel debate on AI and its impact on the audit profession. For more details and to request a place at the Forum contact: [auditforum@deloitte.co.uk](mailto:auditforum@deloitte.co.uk)

# Message from the Non-Executives

In what has generally been a challenging year for the UK economy, we report on our work in providing independent advice and recommendations to Deloitte's management in the UK, with a focus on ensuring the delivery of high-quality audits in the public interest.

We are pleased to see the UK Audit & Assurance business continues to demonstrate agility, resilience and an unrelenting focus on quality. None of its audits inspected by the FRC during the year were found to require significant improvements, and we are encouraged by how seriously the firm views all inspection findings as we continue to oversee how the resulting actions are monitored and addressed.

## Our governance focus during FY2023

### UK governance bodies

Since its establishment in January 2021, the **AGB** has been chaired by, and comprises a majority of, Independent Audit Non-Executives (ANEs). This means we set our own agenda and get right to the heart of the drivers of quality.

Three of us are also members of the **UK Oversight Board (UKOB)**, giving us direct oversight of Deloitte's non-audit businesses and certain firmwide matters in the UK. Under Deloitte's multi-disciplinary model, the reputation and resilience of the UK business as a whole is critical to the sustainability of the Audit & Assurance business and its ability to deliver high-quality audits.

As the 'Doubly Independent ANE' (i.e., not a member of any other governance body of the firm or network), Shirley Garrood's focus is on the Audit & Assurance business. She is not a member of the UKOB but does observe parts of the meetings, such as the CEO and Managing Partner's UK practice and performance updates and certain people and purpose matters, that deal with matters of direct relevance to the Audit & Assurance business.

### Non-Executive Committee (NEC)

The NEC provides an invaluable forum for us to undertake deeper dives into areas of particular public interest and for us to privately share information between ourselves on matters of relevance to our remit, without management present. During the year, the NEC met monthly, including immediately following the UKOB/AGB meetings where the UKOB Chair was also invited to participate in a debrief session. Matters covered by the NEC in FY2023 included:

- A discussion with the Ethics Partner and the UK Audit & Assurance Head of Public Policy, Regulatory & Reputational Risk on **public interest considerations**
- **Audit partner remuneration**, as a proxy for the sub-committee of the AGB comprising only Non-Executives as required by the FRC's principles for operational separation
- An education session on **ISQM 1**, to enhance our understanding of the impact of the new requirements, including monitoring and remediation
- A private discussion with the Head of **Internal Audit** on the operation of Deloitte's internal audit function and current challenges

# Message from the Non-Executives

- **Sharing information** between ourselves to help ensure we are each, individually, able to fulfil our remit as Deloitte Non-Executives.

Going forward, the NEC will meet on a quarterly basis, with longer sessions to facilitate deeper discussions than are possible in the current format.

## Individual engagement

To facilitate a deeper understanding of the firm, its strategy and operations, and the challenges it faces, we engage individually with key members of the firm's Executive and senior management team on a regular basis. We share insights from those discussions with our Non-Executive colleagues at the NEC meetings. We also regularly observe various quality and risk-related meetings, including the quarterly Monitoring & Remediation reporting meetings and meetings of the Audit & Assurance Quality Board, Audit Quality Forum (AQF) and Public Interest Review Group.

Meetings with the AQF are particularly important as an opportunity to hear the views of staff working on audits without management present. We also met with groups of junior staff at various office visits during the year to discuss their views of the firm. Going forward, the firm is planning to establish a permanent colleague engagement programme that one of us will lead on, to help better inform UK governance considerations.

We have an annual engagement plan to provide structure around our individual engagement and to help us all fulfil our responsibilities under the Audit Firm Governance Code. During the year, we undertook a process of reviewing our roles and responsibilities to ensure the engagement plan remains relevant, effective and valuable for us and the firm, and that it continues to achieve its intended purpose.

## Our public interest responsibilities

We have always recognised our public interest responsibilities as Independent Non-Executives and the recent changes to the Code will now formalise our role in representing the public interest and providing counsel and challenge in respect of the firm's activities.

There is a wide range of stakeholders to consider (including audited entities and their shareholders, the regulator, the firm's partners and staff, and the wider public) and their interests may not be aligned. The 'public interest' means different things to different people and in different situations; it is also clear there is a subtle, but important, distinction between what is in the public interest and what is of interest to the public.

In our view, serving the public interest requires firms to have a strong and embedded culture of doing the right thing. Culture is an area of focus for the AGB and UKOB, and for us individually as Non-Executives, and we meet regularly with the partners responsible for leading the firm's work on culture. One of us also attends the monthly meetings of the newly established Culture Council. This provides us with good sight of activities in this critical area.

We are encouraged by the time and effort leadership puts into getting this right. The next step for the firm is around measuring the effectiveness of these activities and we will continue to advise and challenge as that progresses.

We also have a direct reporting line with the Ethics Partner and he consults with us, as necessary, on matters arising from the Public Interest Review Group or the firm's whistleblowing procedures, or on independence matters of particular public interest.

# Message from the Non-Executives

## Overseas extended delivery teams

We welcomed the opportunity to visit the extended delivery teams in Romania and India during the year. Overall, we were impressed with both teams and took confidence from seeing for ourselves the quality of the operations and the high levels of professionalism and engagement among the staff.

Both visits were structured similarly – meetings with management to understand the operating models, the scope of work performed, talent processes (recruitment, learning and development, performance management, career pathways) and quality processes, and with opportunities for us to speak directly with the staff about their experiences.

Following the visits, we discussed our observations with UK leadership and they are taking forward some actions to enhance the integration of the UK and overseas teams. Given the importance of both teams to audit quality, we are exploring ways we can maintain greater visibility of their operations as part of the role of the AGB.

## Audit partner reward and promotion

Audit partners are ultimately responsible for the quality of an audit and there is, understandably, public interest in the individuals who are promoted to that position and in the way they are rewarded.

In addition to the oversight at the AGB and NEC meetings, individual Non-Executives observed various meetings that took place throughout the year to discuss audit partner remuneration and promotions and saw for themselves the rigour with which audit partners and partner candidates are assessed and the strong emphasis that is placed on audit quality.

We were pleased to see management had addressed the process improvements we suggested last year, and we will follow up with the Audit & Assurance People & Purpose Leader on some further process improvements for the coming year. In addition, we commissioned a desktop internal audit review of the partner promotions process that found further improvements had been made to the quality of documentation and clarity of the due diligence processes. We did not feel an internal audit review of the partner remuneration process was necessary during the year, following favourable findings in the two previous years and, going forward, we do not plan to commission reviews of the audit partner promotions or remuneration processes for FY2024.

Overall, based on the frameworks established for FY2023, we are satisfied processes were in place during the year to ensure audit quality is taken into account in audit partner remuneration, reflecting the degree of difficulty and risk of the audits, and that audit quality is also taken into account in selecting and reviewing candidates for promotion to audit partner.

## Driving confidence and trust amidst uncertainty

There is a window of opportunity pre-regulation for businesses to reflect on their controls and to strengthen stakeholder engagement on business model resilience and governance. We see audit firms and audit committees engaging in meaningful dialogue on corporate governance, reporting and audit reform. We welcome Deloitte's proactive approach to continue to drive momentum within the firm and across the market. We are maintaining our oversight of those voluntary measures through our interactions with Deloitte management, with external stakeholders and through our other external board responsibilities. However, the effectiveness of those measures and their ability to create really positive change would be significantly improved with legislative and regulatory support.

# Message from the Non-Executives

We recognise that the recently proposed changes to the Companies Act and Corporate Governance Code are an important step forward, though recent reports the broader reform proposals and legislation may not be included in the King's Speech are disappointing. We must not lose sight of the full breadth of the recommendations from the various audit market reviews undertaken in 2018 and 2019 – to do so would be a missed opportunity for the profession. There is a clear and pressing need for the Audit, Reporting and Governance Authority (ARGA) – a robust regulator, with the powers to resolve the current asymmetry between the sanctions able to be imposed on auditors and on the entities' directors, and to deploy a number of different mechanisms to improve corporate governance.

## The importance of an attractive, robust and resilient audit profession

Deloitte's Global CEO, Joe Ucuzoglu, publicly shared his views on audit separation and the strength of the multi-disciplinary model earlier this year. They were consistent with our views on the UK firm, having seen the positive impact operational separation has had in terms of focusing management's attention on ensuring Audit & Assurance is a resilient business in its own right. While a multi-disciplinary model may create independence and conflicts of interest challenges, we see how seriously management takes its responsibilities to develop robust policies and procedures to mitigate any risks.

Today's audit is less about spreadsheets and more about analysing and constructively challenging. The future of audit is exciting and we all (the audit firms, their partners and Non-Executives, audited entities and the regulator) need to play our part, through our actions and communications, in ensuring it remains an attractive career prospect that attracts the brightest and best talent.

## Conclusion

We remain confident that Deloitte's commitment to quality, its open and consultative culture, its robust governance and the way it is moving forward with voluntary measures in advance of regulatory and legislative change, puts it in a strong position to ensure a resilient and thriving audit offering and to address the challenges that lie ahead in the public interest.

We will continue to leverage our position as Non-Executives to advise and challenge management and to communicate with stakeholders – through the Deloitte Audit Forum, Deloitte Academy programme, our regular meetings with the FRC and other interactions with investors and audit committee chairs.

We are always delighted to receive any feedback. If you would like to contact us, please do so at: [independentnon-execs@deloitte.co.uk](mailto:independentnon-execs@deloitte.co.uk)



**Baroness Ford**

AGB Chair, Non-Executive



**Jim Coyle**

UKOB Deputy Chair, Non-Executive



**Almira Delibegovic-Broome KC**

Non-Executive



**Shirley Garrood**

Audit Non-Executive

# Audit Governance Board and UK Oversight Board report

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.

## Governance context

Established on 1 January 2021, in preparation for operational separation, the Audit Governance Board (AGB) comprises a majority of independent Audit Non-Executives (ANEs), including the Chair, who provide independent governance, advice and challenge to the UK Audit & Assurance business. The AGB's remit gets right to the heart of the drivers of audit quality, including ensuring people in the audit business are focused on the delivery of high-quality audits in the public interest – both today and in the future.

The UK Oversight Board (UKOB) oversees how Deloitte's non-audit businesses in the UK meet their regulatory and legal requirements; how the material risks facing the businesses are managed and controlled; and how the businesses meet their public interest responsibilities. The UKOB's remit also covers oversight of specific UK firmwide matters, including financial reporting.

The AGB and UKOB work alongside each other to ensure Deloitte's UK business, as a whole, meets the requirements of the Code and other regulatory and legal requirements. Baroness Ford and the elected partner members of both the AGB and UKOB are also members of the NSE Board.

The NSE Board remains the primary governance body for the whole of Deloitte North and South Europe (NSE), responsible for ensuring high quality governance and stewardship of the NSE business. The NSE Board works with the NSE Executive to set and approve the long-term strategic objectives for the NSE business and the markets in which it operates. It oversees the risk appetite in each area of the business and is responsible for the oversight of the executive function.

The governance schematic in [Appendix 12](#) illustrates how the various governance bodies work together.

## The work of the Audit Governance Board

The firm's supervisor at the FRC is invited to attend one AGB meeting a year and receives copies of the papers from each meeting.

At each AGB meeting, the Managing Partner Audit & Assurance and the Audit & Assurance Chief Operating Officer provide an update on the strategy and performance of the UK Audit & Assurance business, including updates on strategic priorities; operations and performance; tenders, resignations and the audit pipeline; people matters such as resourcing, attrition, performance management and reward; and reputational matters impacting the firm and/or the profession.

The UK audit strategy execution KPI framework is presented at each AGB meeting.

The AGB is consulted on all significant responses to Audit & Assurance Strategy and Performance findings and feedback from the FRC, including on its Audit Quality Inspection and Supervision Report and root cause analysis, and on the annual formal feedback from Deloitte's supervisor at the FRC.

Baroness Ford will step down as a Non-Executive and as Chair of the AGB on 31 October 2023. A search for her successor is in progress.

# Audit Governance Board and UK Oversight Board report

## **Operational separation**

The AGB has closely monitored the implementation of operational separation throughout the transition period, in particular the measures put in place to ensure, between the Audit & Assurance business and the rest of the firm:

- Appropriate arm's length pricing with respect to specialist non-audit input to audit engagements
- Appropriate allocation of costs
- The Audit & Assurance business is sustainable and no material cross-subsidy persists
- Assurance services provided from within the ring-fence are permissible and appropriately controlled.

The AGB maintains a keen interest in the evolving market expectations for audit and assurance and received an update during the year on the work the firm is doing to understand and respond to shifting stakeholder needs. The AGB provided input to the firm's plans and will continue to monitor progress.

## **Audit quality**

Audit quality is the primary focus of the AGB and underpins everything it does.

The UK Audit & Assurance Head of Quality & Risk is a permanent attendee at the AGB meetings and provides an update on audit quality matters at each meeting. Given the recent economic uncertainty, during the year he presented to AGB on actions being undertaken by the firm to equip its people to audit in such an environment.

Audit quality updates during the year also covered the results of regulatory reviews and internal audit quality monitoring; progress against the firm's SQP and actions being taken to improve quality; progress in evolving current monitoring processes to support the transition to ISQM 1 and ongoing compliance with the new standard; and the status of specific claims and investigations.

The Non-Executives have direct access to the SQP, including data analytics, allowing them to scrutinise the data and monitor the progress of actions on an ongoing basis.

## **Continuous Improvement Group (CIG)**

The CIG lead attends three AGB meetings each year to update on their work in assessing, challenging and monitoring actions being taken to respond to audit quality findings.

The AGB also reviewed and agreed the CIG's terms of reference.

## **Culture**

The Audit & Assurance Culture Lead reported to the AGB on the approach being taken in Audit & Assurance to promote and embed an appropriate culture, and the AGB provided input to the cultural ambition and desired audit-specific behaviours.

She also reported on the actions being taken in response to the results of the global culture survey and to address the FRC's findings following its thematic review of culture.

## **Audit partner remuneration and promotions**

The Non-Executives attended various meetings during the year to observe the audit partner remuneration and promotion policies and processes, reflecting on whether they are focused on audit quality. The Audit & Assurance Managing Partner presented the Audit & Assurance Executive's recommendations to the AGB.

# Audit Governance Board and UK Oversight Board report

## **Resourcing and people management**

Attracting and retaining top talent, both onshore and offshore, are critical to ensuring the resilience and reputation of the Audit & Assurance business and in delivering audit quality.

The AGB discussed the observations from the Non-Executives' (and certain members of Audit & Assurance Leadership's) visits to the overseas extended delivery teams in Romania and India, and plans for their usage going forward.

The AGB received an update on an internal programme to understand the challenges around the attractiveness of the Audit & Assurance profession and to develop a framework for addressing them. This is a critical issue for the profession and the AGB will continue to monitor progress.

The wellbeing of staff and partners remains a key focus and the Audit & Assurance People & Purpose Leader reported to the AGB on the actions being taken to support people.

## **Public policy and regulatory**

The Audit & Assurance Public Policy, Regulatory & Risk Lead provides a regular update to AGB on policy and regulatory developments impacting the firm and the profession. Updates during the year included progress on audit and corporate governance reforms;

competition and resilience in the audit market; potential consequences of proposed changes to ethical standards; and the circumstances under which a firm might decline to tender for, or resign from, an audit and the impact from a public interest perspective.

## **The work of the UK Oversight Board**

### **Firmwide strategy**

At each UKOB meeting, the UK Senior Partner and Chief Executive and the UK Managing Partner provide an update on the strategic priorities for the UK business.

This year, the updates have included matters such as: UK, NSE and Global financial performance and plans; corporate and real estate transactions; talent matters including attrition, recruitment and wellbeing; the impact on Deloitte of matters impacting significant competitors and any actions being taken in response; and updates on significant claims and investigations for the UK business and across the Deloitte network (where relevant to the resilience and/or reputation of the UK business).

The UK Senior Partner and Chief Executive also updated the UKOB on the sale of the Deloitte Total Rewards and Benefits business and the measures being taken by the firm to ensure the retention of pensions specialists for audits.

## **Operational separation**

From a firmwide and non-audit perspective, the UKOB has closely monitored the implementation of operational separation throughout the transition period. The UKOB oversees the same measures around arm's length pricing, cost allocation and cross-subsidy as the AGB, but using a firmwide and non-audit lens.

## **People & Purpose**

Across the whole firm, attracting and retaining high-quality people are critical to ensuring the resilience and reputation of the UK business and to the quality of the work it delivers.

The Managing Partner People & Purpose and HR partner reported to the UKOB on the results of the Engage for Change survey and measures being taken under the Deloitte Works programme to support people in a hybrid working environment.

The wellbeing of staff and partners remains a key focus and the UK Managing Partner People & Purpose reported to the UKOB on the actions being taken to monitor wellbeing, including long-term sickness, and actions being taken to support people and address any concerns. She also discussed with the UKOB the listening mechanisms already in place across the firm to facilitate meaningful engagement with colleagues and the plans to establish a permanent mechanism for colleagues to engage directly with the UKOB and Non-Executives.

# Audit Governance Board and UK Oversight Board report

## **Resilience**

The operational and financial resilience of the firm and the Audit & Assurance business are a key focus of the strategy updates provided at each UKOB.

During the year, we established a sub-group of the UKOB to oversee financial reporting matters of behalf of the UKOB. The Sub-group will meet with the Chief Financial Officer and external auditors on various occasions in the run up to our reporting deadline to oversee the preparation of the financial statements. The sub-group comprises the UKOB Chair, one elected partner member and one Non-Executive, and they will formally report to the UKOB on the outcome of their review.

The Security Partner updated the UKOB on the firm's contingency plans, including the role of the UKOB in the event of an existential crisis. The UKOB Chair and some of the Non-Executives will be taking part in a crisis management exercise planned for FY2024.

## **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, and a summary report of cases is provided at each UKOB meeting. Individually, the ANEs observed various Public Interest Review Group meetings during the year.

The UKOB is mindful of the firm's responsibilities around climate and sustainability, both in terms of the work we do for clients and the entities we audit, and as a large systemic business. During the year, the UKOB received reports on actions being taken to manage the risks to the business and on how we are meeting our disclosure requirements. Going forward, in FY2024, the UKOB will continue its oversight in this area, including meeting with the WorldClimate team.

## **Ethics and culture**

The UK Managing Partner Quality, Risk & Security and the UK Managing Partner People & Purpose reported to the UKOB on the firm's approach to promoting and embedding an appropriate culture across the UK business, underpinned by sound values and behaviours. They also discussed the establishment of the Culture Council, which is now attended by one of the Non-Executives.

The UK Ethics Partner presented to the UKOB on trustworthy and ethical technology, including examples of risks to the business and the governance arrangements in place. He also reported to the UKOB on the results of the ethics survey and actions being taken by the firm in response. There is a direct reporting line between the Non- Executives and the UK Ethics Partner.

## **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 & Business Reporting as a framework.

In relation to the internal control environment, 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. This system of internal control, which is the responsibility of the UK Executive, is designed to mitigate and manage, and 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 UK Executive monitors the effectiveness of the firm's internal controls on an ongoing basis. Evidence as to controls effectiveness, and where required 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 UK Executive where necessary. In addition, the UK 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.

# Audit Governance Board and UK Oversight Board report

The robustness of the documentation of the design and implementation of the firm's risks and related controls has been enhanced during the financial year following the inaugural assessment against the requirements of International Standard on Quality Management (UK) 1 (ISQM 1). ISQM 1 operating effectiveness has also been assessed through first line of defence activities as well as a comprehensive and objective second line monitoring programme. Risks and controls addressed by ISQM 1 not only include in-scope audit and assurance services but firmwide business processes including independence, ethics, privacy and confidentiality, and finance. To complement ISQM, 1 the Executive has also initiated a multi-year programme aligned to the methodologies developed for the implementation of ISQM 1. The programme has allowed for clearer documentation and assessment of the effectiveness of key risks and related controls across the firm, commencing with the firm's principal enterprise and entity-level risks, including fraud risk. It will build upon the existing documentation of the principal controls in place for each of the firm's enterprise risks that have been documented and refreshed annually in order to evidence the scope of the control framework in each area; the frequency with which these controls are refreshed and monitored; and the independent assurance in place over each of these.

The UK Executive's ongoing monitoring of the system of internal control is complemented by oversight from the UKOB throughout the year. Evidence considered by the UKOB during FY2023 has been presented in accordance with a risk-based plan which sets out those areas of the firm's operations upon which the UKOB wished to focus in discharging its responsibilities for oversight of the firm under the Code, including the outputs of monitoring activities from across the firm.

Based upon the 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 thereof, having regard to both qualitative and quantitative measures, could seriously affect the performance, future prospects or reputation of the firm. This included whether any significant 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.

While areas for improvement and actions are identified as part of the enterprise risk framework (ERF), monitoring of control effectiveness, internal audit reports and ISQM 1, these are not of such individual or collective significance such that they represent a significant control failing or weakness. Rather they represent improvement areas we believe will further strengthen our system of internal control.

In light of the evolving regulatory environment in which the firm operates, including ISQM 1, we will continue to assess the maturity of our control frameworks, to identify further areas where improvements maybe achieved.

Based on our discussions and the evidence provided, the UK Executive and UKOB have concluded that no significant failings or weaknesses exist which require disclosure.

On the basis of the reviews carried out, the UK Executive and UKOB are satisfied that the firm's system of internal control has operated effectively throughout the year.

# Audit Governance Board and UK Oversight Board report

## Other matters

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

- An update from the NSE Chair on his governance priorities and their relevance to the UK business
- Reports from the UK Internal Audit Leader, including consideration of the firm's audit/monitoring plans and the reports issued in the UK and at NSE/Global (where relevant to the UK business)
- An update from the Security Partner on the information security framework in place across the UK business and how cyber security and data protection risks are managed
- A report from the MLRO on the money laundering and terrorist financing risks facing the firm and how they are being managed
- A report on the regulatory and claims landscape facing the UK business, and the current claims in progress
- A report from the firm's General Counsel on the process for managing employee claims
- A report from the Consulting Quality & Risk Partner on the procedures in place for safeguarding quality and reputation within Consulting, including in respect of large-scale delivery projects
- The UK business's FY2023 indicative ratings for compliance with relevant DTTL Member Firm Standards, which are the Deloitte network's quality standards
- The results of the FY2023 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
- An update on how quality and risks are managed in the UK's 'small geographies' (Channel Islands, Isle of Man and Gibraltar)
- A report on the key matters relating to independence during the year

# Audit Governance Board and UK Oversight Board report

## How do we monitor the effectiveness of our governance?

The following indicators are used to monitor and report on the performance of the AGB and UKOB:

KPI	Performance during FY2023
<b>Structure and composition</b>	
1. The AGB has a majority of Audit Non-Executive (ANE) members, including an ANE Chair and at least one ANE member who is 'doubly independent', i.e., not a member of any other governance body of the firm or network	<p>The AGB comprises:</p> <ul style="list-style-type: none"><li>• four ANE members, including the Chair (Baroness Ford) and one doubly independent ANE (Shirley Garrood)</li><li>• one elected partner member who is also an elected member of the NSE Board</li><li>• two executive members</li></ul>
2. The UKOB has a majority of members, including the Chair, who are not members of the firm's Executive	<p>The UKOB comprises:</p> <ul style="list-style-type: none"><li>• three elected partner members, including the Chair, who are also elected members of the NSE Board</li><li>• three INE members, one of whom is Deputy Chair</li><li>• two executive members</li></ul>
3. Relative to the responsibilities of the UKOB and AGB, the members bring the right combination of skills, expertise and knowledge	<p>The Non-Executive and partner members of the UKOB and AGB have a broad range of skills, expertise and knowledge from their current and former roles, including as auditors and consumers of audit services.</p>
<b>Meeting attendance</b>	
4. Each UKOB and AGB member attends at least 75% of meetings during the year	<p>There were six UKOB and six AGB meetings during the year and meeting attendance is reported in <a href="#">Appendix 1</a> to this Report.</p> <p>Other than Baroness Ford, all members of the UKOB and AGB attended all the meetings for which they were eligible.</p> <p>Baroness Ford was unable to attend two UKOB and two AGB meetings during the year due to illness and a bereavement. On both occasions, Baroness Ford made prior arrangements for Shirley Garrood to chair the AGB meetings in her absence.</p>

# Audit Governance Board and UK Oversight Board report

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## KPI

### Meeting effectiveness

- UKOB and AGB meetings are effective in enabling the governance bodies to fulfil their roles and responsibilities in relation to the requirements of the FRC's principles for operational separation and the Code, including around the reputation and resilience of the firm and the Audit & Assurance business, and around audit quality
- Actions arising from meetings are recorded, monitored and responded to

## Performance during FY2023

High-level UKOB and AGB agendas are drafted by the respective Chairs and the Governance Chief of Staff at the beginning of the year to align with the requirements of the FRC's principles, the Code and the anticipated needs of the firm and Audit & Assurance business and may be flexed as necessary.

Detailed agendas and pre-UKOB/AGB briefing meetings between the Chairs and presenters ensure the timings are sufficient to cover the required content in enough detail and that the content meets the needs of the UKOB/AGB.

The UKOB/AGB Secretariat takes minutes of the meetings and compiles action plans, which are distributed to the UKOB/AGB members and relevant action owners, monitored by the Governance Chief of Staff and then followed up at subsequent meetings.

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# Audit Governance Board and UK Oversight Board report

KPI	Performance during FY2023
<b>Information flows</b> 7. The quality and content of management information presented to the UKOB and AGB is appropriate to enable the governance bodies to meet their responsibilities 8. There is an appropriate flow of information to and from the UKOB/AGB and the NSE Audit & Risk Committee (ARC)	<p>A standing Audit &amp; Assurance management information pack has been developed, for the purposes of reporting to the Audit &amp; Assurance Executive and AGB. The pack contains narrative on key themes to support execution of the Audit &amp; Assurance business strategy: quality and risk, financial and operational resilience, people and purpose, and reputation, alongside relevant metrics and performance indicators. The pack is also shared with the FRC after each AGB meeting.</p> <p>A standing management information pack setting out the monthly trading results of the UK business is presented to each UKOB meeting by the UK Managing Partner.</p> <p>UKOB and AGB agendas, standing management information packs and other relevant pre-read information are uploaded onto an electronic board portal in advance of the meetings, with a view to them being available to members during the week before the meeting.</p> <p>During the year, one of the elected partner members of UKOB and Baroness Ford were members of the NSE ARC. Going forward, the elected partner member who is common to both UKOB and AGB will chair the NSE ARC and will formally report to UKOB on matters of relevance to the UK business.</p> <p>This commonality of membership ensures a good flow of information and shared knowledge between the UKOB/AGB and NSE ARC.</p> <p>The NSE ARC papers are also made available to the UK Non-Executives.</p>
<b>Monitoring governance effectiveness</b> 9. A review is undertaken into the effectiveness of the UKOB and AGB on at least a three-yearly basis	<p>During FY2021, as part of our plans for operational separation, an internal review was undertaken into the UK governance structure and the future roles and authorities of the AGB and UKOB.</p> <p>An externally facilitated review of the effectiveness of the governance model is planned for FY2024, to coincide with three years of operation of the AGB.</p> <p>The terms of reference of the UKOB and AGB are kept under review.</p>

# Audit Governance Board and UK Oversight Board report

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## KPI

## Performance during FY2023

### Stakeholder dialogue

10. The firm, including the Non-Executives, meets regularly with stakeholders (public interest entity investors and audit committees, regulators, etc.) to discuss matters of relevance to the profession and ensure it keeps in touch with stakeholder opinion, issues and concerns
11. The Non-Executives provide an external perspective to the firm's public reports and consultation responses, drawing on their broad knowledge and experience

The firm holds an Audit Forum each autumn, inviting various stakeholders to discuss and debate issues affecting the profession.

The FRC has a regular programme of supervisory meetings with the firm's leadership and also meets the Non-Executives at least twice a year.

During the year the Non-Executives reviewed and provided input to the firm's responses to the FRC's Audit Quality Inspection and Supervision Report and root cause analysis, and the Supervisor's Letter; as well as the firm's response to the FRC's consultation on audit quality indicators.

The Non-Executives also reviewed and provided input to this Transparency Report.

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# Audit quality

The disruption the market has continued to experience in the last year, marked by geopolitical and social uncertainties and economic pressures, continues to throw challenges at our profession, the corporate reporting ecosystem and stakeholders.

“Against this backdrop of uncertainty, the value of high-quality audit and assurance services must be clearly felt. We have continued to make ongoing investment in audit quality and I am pleased with the results of the inspection programmes this year. Across both our external and internal programmes, progress has been in the right direction over a number of years. But that does not mean we are complacent.

“With an increasingly data-focused world, uncertainty around government priorities for corporate governance and audit reform, as well as continued economic pressures, it is important we focus on ensuring the audit business is fit for the future.

“The positive results over the last year are testament to the commitment from our partners and teams. Our people are genuinely invested and interested in getting things right with an uncompromising focus on high-quality outcomes. I believe our people have the right mindset, which is critical. The collaboration across our core audit business units, with technical experts in our national office and with specialists in our complex areas, continues to increase. Extended delivery teams are integrated into our audit teams' approach and our people of all grades continue to show professional scepticism and know they have the support of the firm behind them as they make difficult but necessary decisions in the public interest.

“Our purpose-led culture, values, commitment to excellence, behaviours and investment in controls and processes are all essential elements of delivering the highest quality audits. All of our people have an incredibly important role to play and I would like to thank them for their outstanding contributions over the last year.”

**Alan Chaudhuri**, Deloitte UK Audit & Assurance Head of Quality & Risk

Our [commitment to excellence](#) ensures we stay alert to changes and act quickly on emerging issues. Furthermore, the increased focus on sustainability reporting and future corporate governance reform is a watershed period for the profession. Investors and other stakeholders continue to call for professional services to engender trust and inspire confidence in the capital markets; we are committed to leading the way.

The culture and the audit quality environment we create are critical to our resilience and reputation as a business. Every moment spent evaluating evidence, every challenge made, every decision to do the right thing.

Each of those actions by every one of our 6,000 people in Audit & Assurance has contributed to our purpose of protecting the public interest and building trust and confidence in business.

The introduction of a Culture Lead onto our Audit & Assurance executive has brought real focus and energy as we continue to build and nurture our purpose-led culture and our collective mindset and behaviours. Our aligned Audit & Assurance behaviours build on our global shared values to bring our cultural ambition to life.

# Audit quality

The effective implementation of ISQM 1 has provided an opportunity to further enhance our [controls and processes](#) that enable us to respond to a changing environment. A key element of Deloitte's global audit quality strategy is to deliver compliance with ISQM 1 and to achieve the associated broader business benefits.

The UK firm's ISQM 1 implementation activities, led by senior UK leadership, reached successful completion on 15 December 2022, realising the multi-year investment that goes beyond the requirements of the existing professional standards.

We continue to prioritise delivering high-quality audits across our portfolio. Our inspection results for our audits selected by the FRC as part of the 2022/23 inspection cycle remain consistent year-on-year, with 82% (2021/22: 82%) of all inspections in the cycle assessed as good or needing limited improvement. Our five-year average for PIE audits rated 'good' or 'limited improvements required' is above 81%. For our audits inspected by the QAD this year, our results remain strong, with 100% (2021/22: 80%) of engagements in the cycle assessed as good or generally acceptable. Following our 2022 inspection, the Public Company Accounting Oversight Board (PCAOB)'s next report on our UK audits is due in 2023/24. Our internal practice reviews have improved to 88% assessed as 'Compliant' (last year: 83%).

We are pleased to see the positive impact of actions taken over the last 12-18 months to address findings raised by the FRC in their previous inspection relating to Engagement Quality Reviews (EQR), independence and ethics and group audits, with none of these areas identified as key findings in this year's engagement inspection cycle. The reduction in findings in this area reflects the ongoing effectiveness of the actions taken, particularly the successful rollout of our group audit coaching and our EQR transformation programme.

The measures we have taken over the last 12 months to improve the effectiveness and efficiency of our resourcing model mean the workload and capacity challenges evident last year have eased. The resource pressures and extended timetables as a result of COVID-19 have been addressed and are no longer a root cause of adverse inspection results. We have further enhanced our onboarding and training processes during FY2023 to support our recruitment of over 2,000 people into the business. We continually monitor the shape of our Audit & Assurance business to ensure that the skills and experience within our business supports the delivery of high-quality audit and assurance to meet regulatory and market expectations.

## Focus for FY2024

Audit quality shapes our vision of the business we want to be, driving our priorities and defining our successes.

We are continuously investing in our processes and controls to drive audit quality. This includes actions being taken to address areas identified in our FRC and QAD inspections, as well as our internal review processes, and also actions to enhance the effectiveness of our audits in the short and longer term. We have already appointed a partner to develop a revenue centre of excellence. We will continue to make incremental enhancements across other improvement areas, with the help of our Actions Development Group and Continuous Improvement Group.

As part of our ongoing operations under ISQM 1, we continue to identify those areas where we could further enhance and transform our system of quality management. As part of this, we continue to work with leaders across the firm, as well as the broader network, to further enhance our proactive approach to managing the quality of engagements performed. We are committed to identifying and addressing audit quality risks and driving continued advancements in quality management processes.

Read more detail about our audit quality story in [Appendix 5](#).

# Ethics, independence and conflicts

With our continuous commitment to quality and serving the public interest, we have focused on aligning our established systems of quality management with ISQM 1 requirements. This has enhanced our ongoing review cycle and driven valuable outcomes, which we believe will have further positive effects on the quality of our audits.

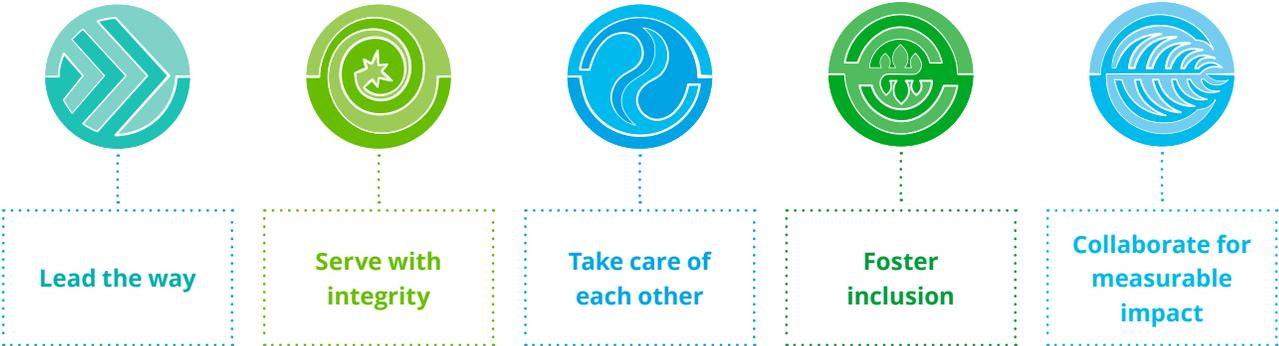
### Confirmation of internal review of independence practices and compliance

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.

Our internal and global practice reviews and other monitoring processes provide us with reasonable 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.

### Our shared values

Our shared values lie at the core of how we shape our behaviours, attitudes and decisions which underpin our [cultural ambition](#):



# Ethics, independence and conflicts

## The importance of an ethical and independent mindset

We take pride in our shared values and base our policies on them. Our Ethics, Independence and Conflicts policies, processes and operations are especially driven by two of our shared values: serve with integrity and collaborate for measurable impact.

Our Ethics, Independence and Conflicts teams all work closely together as we support project teams across the firm. At Deloitte, we encourage active consultation to make the right choices, protect the quality of our services and ensure ethics and independence are embedded into our day-to-day ways of working.

Maintaining an ethical and independent mindset is crucial to the success of the firm as it allows us to establish the right behaviours and ensure that our people act in line with our shared values. Our robust system of quality management supplements and supports our shared values, in addition to meeting the requirements set by our Regulators - mainly the UK FRC, International Ethics Standards Board for Accounting (IESBA) and the US PCAOB.

At Deloitte, all our employees are guided and committed to follow our Code of Conduct, which outlines the commitments that each of us makes. While we are all individually responsible for knowing, understanding and complying with the Code, our Ethics team supports

our people in maintaining an independent mindset and embedding ethical behaviours. We place a strong emphasis on encouraging people to speak up if they have any ethical concerns or believe they have seen any wrongdoing.

## Governance and framework to support those behaviours

Our robust governance framework is articulated through several internal systems, processes and quality controls. These are established both at a global and a UK level. The framework is designed to ensure throughout all our engagements and external relationships we are independent in our mindset and actions, both in fact and in appearance. To find out more, read our [appendix on Ethics, independence and conflicts governance](#).

The introduction of ISQM 1 has given us an opportunity to further test and challenge our systems and focus on enhancing further our embedded system of quality management.

## Systems, policies and practices

We have adopted global and national systems which provide our professionals with the platforms and tools to address ethical and independence concerns. Alongside this, we place continued emphasis on the importance of consultation and collaboration to ensure we adopt appropriate behaviours, fulfil our values and that our processes and practices are supported and executed effectively.

The components of our key systems, policies and practices are detailed in [Appendix 11](#).

## Education and awareness

We recognise the importance of education to support our people's evaluation of the independence and ethical challenges they are presented with in their day-to-day roles. Our education and awareness programme is tailored to the needs of individuals. It follows their journey through the firm and offers multi-disciplinary courses and proactive communications reflecting changes to the regulatory and risk environment and continuous improvement opportunities.

Upon starting with the firm, our colleagues complete Ethics and Independence Awareness learning modules and in FY2023 we introduced a new milestone Independence Awareness e-learning course, focused on additional responsibilities for colleagues promoted into new roles. Additionally, personal independence learning content tailored to an individual's circumstances has been rolled out, which includes case studies to make it simpler for our people to understand and relate to independence requirements. A wealth of resources, ranging from webinars, knowledge articles, short and focused videos, online resource hubs and newsletters is available to all.

Our mandatory ethics learning programme is enhanced by additional awareness building which takes the form of discussions with partners as well as interactive

# Ethics, independence and conflicts

presentations with partners and staff explaining our processes and, through the use of storytelling, how we deal with issues in an open and transparent manner. The aim of our programme is to increase our people's understanding and confidence in ethics. The programme has been enhanced by feedback received through the firm's ethics survey, regular communication with partners and staff and on supporting and informing colleagues through structured and specific ethics training. This fosters an environment of trust; we encourage trust and accountability amongst colleagues, which is reflected in the strong relationships we build with the companies we work with.

In addition to our e-learning programmes, we run regular sessions for partners which focus on our values, tone from the top and risk identification and management. We also run Ethics Roadshows across the firm which have been attended by a significant proportion of our partners and staff.

This year we released an Ethics Toolkit to enable our partners and leaders to highlight the importance of doing the right thing, better equipping them to discuss ethics with their teams.

## Acceptance and continuance processes

Professional standards and regulations require us to have effective policies and processes in place to identify and address potential conflicts of interest and ensure the scope of the services we want to provide is compatible with relevant legal and regulatory requirements. This is a particular area of focus for audited entities, where our independence and objectivity are critical.

To ensure we safeguard the public interest, we consider the spirit, not just the letter, of the regulation and before taking on a new relationship with an entity we consider whether it is the right thing to do in the circumstances.

If we identify potential conflicts, we design, implement, and monitor robust safeguards to eliminate or reduce the threat posed to an acceptable level. When we believe engagements pose a threat, be it real or perceived, to our independence and objectivity, and that conflicts cannot be eliminated or reduced to an acceptable level, we decline them.

All new engagements and business relationships are required to go through a conflict check before they are accepted, in line with our Global Conflicts Policy. For certain areas of assurance work (particularly in emerging business risk areas, for example AI, cyber, or special purpose acquisition companies) we have created specialist review boards to ensure that the proposed work meets our ethical and independence requirements.

Our independence experts specialise in assessing permissibility of services across a number of different regulatory environments. These experts and firm leaders are consulted on matters that are complex or contentious. Where there are significant public interest considerations, the matter is raised with the firm's Ethics Partner and the Public Interest Review Group.

## Serving the public interest

The firmwide Public Interest Review Group (PIRG) continues to review proposed engagements with high public interest characteristics, those which could potentially impact on the reputation of the firm or may be of interest to the public. It is aligned with the equivalent Deloitte NSE body, the Public Interest Consistency Group.

During FY2023, 50 matters (FY2022: 49 matters) were brought to the PIRG for a formal consultation of which 74% proceeded (FY2022: 78%), in most cases subject to conditions, 16% matters were declined (FY2022: 14%), and 10% were not pursued or did not require a specific decision (FY2022: 8%). In line with previous years, actual or perceived conflicts of interest remain the most frequently identified reason for declining opportunities reviewed by the PIRG.

In addition to formal consultations the Office of the PIRG also triaged a number of less complex matters, and participated in firmwide forums, including those focusing on emerging risks (for example regarding engagements with Russian or Belarusian links).

# Ethics, independence and conflicts

The PIRG continues to develop new, and update existing, guardrails in a number of subject matter areas, for example related to our specific services, sectors and ethics to support consideration of public interest. Communications across the firm, for example intranet articles and webinars, highlight the importance of public interest review in the way we do business, and the role the Group plays.

## Partner and staff rotation

To ensure we serve with integrity and control the risk of a threat to independence from prolonged service in audit engagement teams, we closely monitor the length of time partners and key staff (as defined by the role they play in the engagement) spend on each engagement, including across different roles, and implement succession plans where appropriate.

Supported by systems, this active monitoring allows us to identify and manage perceived threats to independence and ensure strict adherence to regulation in this area. In response to inspection findings, a revised long association policy was issued in November 2022 (applicable for years commencing on or after 15 December 2022), with a two-year transitional provision. In addition to the five and seven year rotation periods imposed by FRC standards<sup>3</sup>, we now presume that all UK personnel of any grade working on such audits should serve for no longer than seven years without a two year break – the presumption can only be rebutted on grounds of audit quality.

## Speak up and ethics policies

Ethics, integrity and 'doing the right thing' underpin everything that we do. All partners and staff must abide by our Code of Conduct and are expected to live the firm's shared values. We have a robust ethics programme to ensure our people understand and comply with the firm's ethical principles, and supporting this we have a number of policies including: Non-Retaliation; Whistleblowing, and Familial and Personal Relationships. We have an externally hosted Speak Up system, which includes case management for all reported matters of an ethical nature.

In FY2023 there were 320 reports from across the firm through our Speak Up channels; an increase of 33% from FY2022 (240 reports). Given the firm's headcount has increased, an increase in reports was anticipated, but we have also seen an increase in reports per 100 full-time equivalents (FTE)<sup>4</sup> equating to 1.2 reports per 100 FTEs (compared with 0.99 reports per 100 FTEs for FY2022). This is in line with external market benchmarking. The increase in the number of reports can be attributed to a number of factors. Firstly, during FY2022 and FY2023, the firm increased communications on culture and behaviours – regularly communicating and referring to the importance of integrity, values, and doing the right thing; increasing the level of transparency about the types of issues that are reported and how they are dealt with; and using case studies and storytelling which has

resonated with our people. Secondly, we are seeing a healthy reduction in tolerance of certain behaviours, and an increase in our people's willingness to speak up when things do not seem right. Collectively, these factors appear to be indicative of increased confidence in the system.

The top three categories of reports in FY2023 were Respect and Fair Treatment (29%), Expenses (12%) and Discrimination (11%). These were also the top three categories in FY2021 and FY2022, although exact percentages varied slightly. In accordance with our procedures, we investigate all reported matters and take action as and when appropriate.

We have designed and implemented a robust system of quality management which supports our global and local governance systems and allows us to implement, embed and monitor our adherence to key policies. Our systems, policies and practices ultimately ensure that we enact our values and protect the integrity of our behaviours.

## Monitoring

We continuously monitor our business activities to identify emerging risks as a result of changing market conditions and new business and service offerings, to ensure timely and appropriate risk mitigation.

<sup>3</sup> Applies to audits of PIEs, market traded companies and listed companies (other than technically listed companies) in respect of time spent in a partner or other 'senior role'.

<sup>4</sup> An FTE includes partners, staff and contractors/associates.

# Ethics, independence and conflicts

Our monitoring focuses on three key ongoing and well-established processes, covering business relationships, non-audit services and partners' and professionals' financial interests. We also undertake ad-hoc, additional monitoring where a need is identified.

We continue to enhance and automate our monitoring processes and take a risk-based approach to make sure we cover an appropriate sample of our processes. In addition to the oversight and challenge of the Culture Council and establishing culture engagement sessions supported by the Independent Non-Executives across our offices, we monitor the culture and behaviours in our firm through an annual ethics survey. In FY2023 the survey was completed by almost 9,000 people (35.5% of the firm's population), with an Audit & Assurance-specific completion rate of 39%, a significant increase on the previous year (FY2022 23.5%). Almost all participants thought the firm was an ethical place to work, with the majority of other results similarly positive.

We continue to seek opportunities to further enhance our approach to ensure our colleagues continue to have trust and confidence in our processes. This includes increased signposting of speak up channels available, increased communication from leaders on ethics and integrity and further transparency to explain how difficult matters are dealt with. Over the last year our communications have significantly increased, and different forms of media are being explored – such as short videos and the use of 'Viva

Engage' platform (formerly Yammer). We are consistently referencing ethics and our values within firmwide town halls, ethics roadshows and Audit & Assurance specific sessions on inclusion, such as our recently introduced 'Can you see me?' workshops. Throughout the year the Ethics team runs regular sessions on ethics for both partners and staff, and in addition speaks directly to all incoming partners, graduates and Bright Starts.

## Priority focus areas looking forward

In the upcoming year, key to our success will be our ability to empower the business to proactively engage with innovation and emerging opportunities whilst safeguarding the public interest and maintaining our commitment to quality. Regulatory compliance remains our highest priority and we see ISQM 1 as a valuable mechanism to further ensure that quality remains at the heart of all our interactions and actions as individuals and teams. We are currently focused on our digitisation agenda, to enhance and streamline our systems of quality management and to ensure effective sharing of information and application of policies and procedures globally.

Through our digitisation programme, we have delivered migration of some of our existing systems to more modern, strategic platforms and global systems as appropriate, as well as mobile applications to make compliance on the go easier for our practitioners. The programme will continue delivering more transformation in FY2024 to help achieve the vision we have set to:

- Improve the experience for our practitioners as well as quality and risk teams, so that we can make it much easier for them to do the right thing and therefore help protect our brand and reputation
- Provide tools and systems to support timely decision making and proactive risk management.

We continue to focus on the independence agenda to make sure it remains an area of key consideration for our people. Examples of our ongoing initiatives include proactive engagement for early identification of independence risks and expanding personal independence obligations related to projects in our businesses.

Our mindset of continuous improvement pervades not just the training of our practitioners, but also our system of quality management. We use multiple sources to draw insights for areas of improvement, including lessons learned from our monitoring processes, practice reviews and our most complex and challenging engagements.

We want to ensure our colleagues operate in an open and transparent environment, with trust and confidence in each other, and are equipped with the right tools to protect their own and the firm's independence and to make ethical choices.

# Appendices

# Appendix 1:

## Executive Group, Audit Governance Board and UK Oversight Board members' biographies<sup>5</sup>

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### 1. Current Deloitte UK Executive members

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#### **Richard Houston, UK Senior Partner & Chief Executive \***

Since he was elected in 2019, Richard has successfully led the UK firm through COVID - taking market share and increasing profitability, while continuing to focus on both quality and inclusion. In addition, Richard is Senior Partner and Chief Executive of Deloitte NSE, the second largest member firm in the Deloitte network with over 75,000 people and 3,500 partners across 29 countries in EMEA. He has led the integration of NSE as a single Deloitte business to deliver greater value for clients, investment in people and an impact in society. In 2022, Richard received overwhelming support from the partnership to serve as CEO for a second term. Richard leads several People & Purpose campaigns for Deloitte, with a particular focus on the role of technology and the need for digital inclusion. Richard has over 24 years' experience in Consulting and financial services. He joined Deloitte in 2002 having previously worked at Arthur Andersen, HSBC and Royal Bank of Scotland.

- Appointed: June 2019
- Executive meetings attended during FY2023: 25/25

#### **Heather Bygrave, UK Chief Financial Officer**

Prior to her UK CFO role, Heather was Chief Operating Officer for our large and complex Audit business and consumer lead for Audit. An Audit partner with over 25 years' experience across both the corporate and public sectors, her corporate experience focused on the consumer business sector. In addition to audit, Heather has also worked with our reorganisation services and forensic teams supporting clients on transactions, investment reviews and investigations.

- Appointed: June 2023
- Executive meetings attended during FY2023: N/A

#### **Cindy Chan, UK Managing Partner Risk Advisory**

Cindy is the UK Managing Partner Risk Advisory and has over 20 years' financial services consulting and audit experience. She has extensive experience in supporting firms in regulatory risk assurance reviews and conduct risk projects including complaints handling, product development and governance, sales and suitability assurance, as well as Section 166 Skilled Person reviews and enforcement cases.

- Appointed: January 2023
- Executive meetings attended during FY2023: 11/11 for which she was eligible

#### **Rob Cullen, UK Managing Partner Consulting**

Rob is the UK Managing Partner Consulting. He has over 20 years' consulting experience and specialises in supporting CFO's and finance directors to improve their finance functions to better meet their strategic needs, primarily within the telecommunications, media and technology sector.

- Appointed: January 2023
- Executive meetings attended during FY2023: 11/11 for which he was eligible

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<sup>5</sup> To note: \* where used throughout this appendix denotes the individual also holds an NSE leadership role.

# Appendix 1:

## Executive Group, Audit Governance Board and UK Oversight Board members' biographies

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### **Duncan Farrow-Smith, UK Chief Strategy Officer**

Duncan is Deloitte UK's Chief Strategy Officer with responsibility for shaping how the firm adapts to issues such as the economy, geopolitics, AI and changes in the competitive landscape. Prior to this Duncan led the strategy, analytics and M&A practice in Deloitte's Consulting business comprising Monitor Deloitte, net zero strategy teams and the firm's AI & data practice including the AI Institute. Duncan works in the defence and security sector and is the lead client service partner for the UK and Middle East defence practices.

- Appointed: January 2023
- Executive meetings attended during FY2023: 10/11 for which he was eligible

### **Dominic Graham, UK Managing Partner Consumer**

Dom leads the consumer industry team and alongside our sector specialists, provides advice in optimising value to our major client organisations. He has been at Deloitte since 1998 and, as a partner within our Financial Advisory team, has extensive transaction support experience.

- Appointed: June 2019
- Executive meetings attended during FY2023: 24/25

### **Richard Hammell, UK Managing Partner Financial Services**

Richard has over 30 years' experience in the financial and professional services industry. He leads a team responsible for providing comprehensive solutions to support the resilience of the financial system, sustainable finance, international competitiveness, structural efficiency and technological innovation, creating customised services for a range of financial services sectors. He joined Deloitte in 2000, has been a partner since 2004, and has led the financial services industry group since March 2020.

- Appointed: March 2020
- Executive meetings attended during FY2023: 23/25

### **Jackie Henry, UK Managing Partner People & Purpose**

Jackie was appointed UK Managing Partner People & Purpose in May 2021 and is Deloitte Northern Ireland Office Senior Partner. She started her career with Deloitte in Belfast in 1989, became a partner in 2004 and for the past eight years has been lead partner in Northern Ireland and has previously served as Consulting People & Purpose Lead. Jackie has over 30 years' experience of supporting the transformational change of Northern Ireland, in particular within the public sector. In 2017, she was awarded an MBE for services to the Northern Ireland economy.

- Appointed: May 2021
  - Executive meetings attended during FY2023: 22/25
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# Appendix 1:

## Executive Group, Audit Governance Board and UK Oversight Board members' biographies

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### **Philip Mills, UK Managing Partner \***

Philip is responsible for delivering the strategy and financial performance in the UK, leading on all operational matters. Prior to his UK Managing Partner role, Philip was the Global Leader for Tax & Legal for four years and previously led the Global and UK business tax practices. He delivered significant operational and market changes and supported Deloitte's Tax & Legal practices around the globe on their transformation journeys. For over 20 years, Philip's client work has been focused on M&A tax, particularly private equity, real estate and hedge funds. He has worked on significant, large and complex European transactions, and supported some of our largest multinational corporate clients.

- Appointed: June 2023
- Executive meetings attended during FY2023: 11/11 for which he was eligible (as an observer)

### **Mark Mullins, UK Managing Partner Quality, Risk & Security**

Mark has 38 years' professional experience including 27 as a partner; he joined Deloitte in 1989. He was appointed UK Managing Partner Quality, Risk and Security in 2019. As an audit partner he was focused on UK listed global manufacturing, engineering and services businesses. Other experience includes being a member of the Board, member of the Audit Executive and COO of the Audit & Assurance business.

- Appointed: June 2019
- Executive meetings attended during FY2023: 24/25

### **Charindra Pathiwille, UK Managing Partner Financial Advisory**

Charindra is the UK Managing Partner Financial Advisory and has been with Deloitte for 20 years, 15 of them focused on real assets advising on complex infrastructure and real estate transactions across the UK and Europe. Prior to his appointment, he was the head of London transaction services. Charindra continues to spend a significant proportion of his time leading some of our most important client relationships.

- Appointed: January 2023
- Executive meetings attended during FY2023: 10/11 for which he was eligible

### **Paul Stephenson, UK Managing Partner Audit & Assurance**

Paul was appointed UK Managing Partner Audit & Assurance in September 2020. Prior to his appointment, Paul was the COO of the UK Audit & Assurance business. He has been with Deloitte for 33 years, becoming a partner in 2006. He specialises in delivering audit and assurance services to the insurance sector.

- Appointed: October 2020
- Executive meetings attended during FY2023: 22/25

# Appendix 1:

## Executive Group, Audit Governance Board and UK Oversight Board members' biographies

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### **Lisa Stott, UK Managing Partner Tax & Legal**

Lisa joined as a graduate in 1988 and became a partner in 1999. Prior to taking on the UK Managing Partner Tax & Legal role, she served on the Global Tax & Legal Executive. Lisa's experience lies in advising large multi-national corporations on corporate tax restructuring, refinancing and reorganisation.

- Appointed: June 2021
- Executive meetings attended during FY2023: 24/25

### **Nick Turner, UK Managing Partner, Growth**

Nick is the UK Chief Growth Officer. Prior to this, he was the private sector industry leader on the UK Consulting Executive taking responsibility for consumer, healthcare & life sciences, energy, resources & industrials and technology, media & telecommunications. Nick's professional services experience has given him significant exposure to both consumer and business-to-business markets across a wide variety of sectors and countries. Nick has previously held the role of consumer industry leader encompassing consumer products, retail and transportation, hospitality and services sectors.

- Appointed: January 2023
  - Executive meetings attended during FY2023: 11/11 for which he was eligible
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# Appendix 1:

## Executive Group, Audit Governance Board and UK Oversight Board members' biographies

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### 2. Former Deloitte UK Executive members

The following were members of the UK Executive during FY2023; their meeting attendance for the (relevant part of that) year is shown below:

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#### **Dan Barlow, UK Managing Partner Regions**

- Executive meetings attended during FY2023: 7/7
- End of term: September 2022

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#### **Simon Kerton-Johnson, UK Managing Partner Transformation**

- Executive meetings attended during FY2023: 13/14
- End of term: December 2022

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#### **Richard Bell, UK Managing Partner Financial Advisory**

- Executive meetings attended during FY2023: 13/14
- End of term: December 2022

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#### **Anne-Marie Malley, UK Managing Partner Consulting**

- Executive meetings attended during FY2023: 12/14
- End of term: December 2022

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#### **Pauline Biddle, UK Managing Partner Clients & Industries**

- Executive meetings attended during FY2023: 14/14
- End of term: December 2022

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#### **Andy Morris, UK Managing Partner Risk Advisory**

- Executive meetings attended during FY2023: 10/14
- End of term: December 2022

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#### **Emma Cox, UK Managing Partner Deloitte Private**

- Executive meetings attended during FY2023: 12/14
- End of term: December 2022

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#### **Donna Ward, UK Chief Financial Officer**

- Executive meetings attended during FY2023: 21/25
- End of term: May 2023

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#### **Stephen Griggs, UK Managing Partner**

- Executive meetings attended during FY2023: 23/25
  - End of term: May 2023
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# Appendix 1:

## Executive Group, Audit Governance Board and UK Oversight Board members' biographies

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### 3. Current Deloitte UK Audit Governance Board members

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#### **Margaret, Baroness Ford of Cunninghame OBE, Non-Executive and Chair of the UK Audit Governance Board \***

Baroness Ford was appointed as an Independent Non-Executive on the Deloitte UK Oversight Board and NSE Board in August 2020. She was appointed as Chair of the Deloitte Audit Governance Board when it was established in January 2021.

She has over 25 years' experience as a non-executive director and chair of private and listed companies, and government bodies. She currently chairs NewRiver REIT plc and is also a Trustee of the British Olympic Association and National President of Epilepsy Action.

Previous corporate experience includes chairing STV plc, 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 in the House of Lords.

- Appointed: January 2021, will step down 31 October 2023
- AGB meetings attended during FY2023: 4/6

#### **Jim Coyle, Non-Executive**

Jim was appointed as an Independent Non-Executive on the Deloitte UK Oversight Board in January 2019 and is Deputy Chair. He was appointed as a member of the Deloitte Audit Governance Board when it was established in January 2021.

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 Senior Independent Director and Chair of the Audit & Risk Committee at Pollen Street Capital. Jim holds a degree in Law and Accountancy from Glasgow University and qualified as a chartered accountant with KPMG.

- Appointed: January 2021
  - AGB meetings attended during FY2023: 6/6
-

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### **Almira Delibegovic-Broome KC, Non-Executive**

Almira was appointed as an Independent Non-Executive on the Deloitte UK Oversight Board in March 2020 and on the Deloitte Audit Governance Board when it was established in January 2021.

She is a senior member of the Bar in Scotland, specialising in company and insolvency law. Almira is also Chair of JUSTICE Scotland; a member of the Business Committee of the General Council of the University of Edinburgh and Convener of its Finance and Services Standing Committee; a non-executive member of the Advisory Board for the Accountant in Bankruptcy (The Scottish Government agency responsible for administering the process of personal bankruptcies and recording corporate insolvencies in Scotland); and a member, trustee and director of the Scottish Council of Law Reporting.

Originally from Bosnia-Herzegovina and now living in Edinburgh where she completed her undergraduate studies, Almira 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.

- Appointed: January 2021
- AGB meetings attended during FY2023: 6/6

### **Shirley Garrood, Audit Non-Executive**

Shirley was appointed as an Independent Non-Executive on the Deloitte UK Oversight Board in May 2020, providing oversight of the external audit business only. In January 2021, Shirley stepped down from the UK Oversight Board and became a member of the Deloitte Audit Governance Board upon its establishment. Shirley currently chairs the Non-Executive Committee, which comprises only the Deloitte Non-Executives and provides a forum for 'deeper dives' into specific areas of public interest.

She was Chief Financial Officer of Henderson Group plc from 2009-2013 and is currently Audit Committee Chair of Ashmore Group plc and Chair of Dignity Group Holdings Limited. During the year, Shirley stepped down from her board roles at the BBC, Royal London Asset Management and Royal London Mutual Insurance Society. Other previous non-Executive roles include esure Group plc until 2019; and Hargreaves Lansdown plc until 2020.

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.

- Appointed: January 2021
  - AGB meetings attended during FY2023: 6/6
-

# Appendix 1:

## Executive Group, Audit Governance Board and UK Oversight Board members' biographies

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### **Philip Mills, UK Managing Partner**

See Deloitte UK Executive members.

- Appointed: July 2023
- AGB meetings attended during FY2023: 1/1 for which he was eligible (as an observer)

### **Jane Whitlock, UK Partner**

Jane is an Audit partner with nearly 30 years' experience (19 as a partner) of auditing a range of larger complex and FTSE 350 entities. She was elected as a member of the NSE Board in 2022 and has recently been appointed as Chair of the NSE Audit & Risk Committee.

Throughout her career, Jane has worked with a number of large UK-listed international companies in both the energy and resources and consumer business sectors, advising senior management, boards and audit committees on corporate governance and regulatory matters. Jane specialises in complex PCAOB audit engagements, with a focus on internal controls, and advises on a range of accounting and assurance related matters including Generally Accepted Accounting Principles (GAAP) transitions, bond offerings and group reorganisations.

Jane was previously Practice Senior Partner for the Midlands.

- Appointed: July 2023, term ends in 2025, could be re-elected for a further four-year term
- AGB meetings attended (as an observer) during FY2023: 5/5 for which she was eligible

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### **Paul Stephenson, UK Managing Partner Audit & Assurance**

See Deloitte UK Executive members.

- Appointed: January 2021
  - AGB meetings attended during FY2023: 6/6
-

# Appendix 1:

## Executive Group, Audit Governance Board and UK Oversight Board members' biographies

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### 4. Former Deloitte UK Audit Governance Board Members

The following were members of the AGB during FY2023; their meeting attendance for the (relevant part of that) year is shown below:

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#### **Stephen Griggs, UK Managing Partner**

- AGB meetings attended during FY2023: 6/6
- End of term: May 2023

#### **Steve Williams, UK Partner**

- AGB meetings attended during FY2023: 6/6
  - End of term: July 2023
-

# Appendix 1:

## Executive Group, Audit Governance Board and UK Oversight Board members' biographies

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### 5. Current Deloitte UK Oversight Board members

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#### **Sarah Sturt, Chair of the UK Oversight Board \***

Sarah is a transaction services partner within Financial Advisory, based in the Bristol office. She has 25 years' experience with Deloitte and has been a partner since 2008. She provides buy-side and sell-side transaction support for many private sector businesses, specialising particularly in mid-market private equity and the consumer and business services sectors. Sarah is currently Head of People & Purpose for the UK Financial Advisory business. She previously led the UK Regions transaction services business and is a long-standing member of the Public Interest Review Group.

Sarah has been a member of the NSE Board since 2021, also currently sitting on the NSE Audit & Risk, People & Purpose and Property Sub-Committees, and is a member of the UK Partnership Council.

- Appointed: as a member in January 2023, as Chair in July 2023, term ends in 2027
- UKOB meetings attended during FY2023: 3/3 for which she was eligible

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

See Deloitte Audit Governance Board members.

- Appointed: January 2019
- UKOB meetings attended during FY2023: 6/6

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#### **Richard Houston, UK Senior Partner and CEO \***

See Deloitte UK Executive members.

- Appointed: June 2019
- UKOB meetings attended during FY2023: 6/6

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#### **Almira Delibegovic-Broome KC, Non-Executive**

See Deloitte Audit Governance Board members.

- Appointed: March 2020
- UKOB meetings attended during FY2023: 6/6

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#### **Margaret, Baroness Ford of Cuninghame OBE, Non-Executive \***

See Deloitte Audit Governance Board members.

- Appointed: August 2020
- UKOB meetings attended during FY2023: 4/6

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#### **Jane Whitlock, UK Partner \***

See Deloitte Audit Governance Board members.

- Appointed: July 2023, term ends in 2025, could be re-elected for a further four-year term
  - UKOB meetings attended during FY2023: 5/5 for which she was eligible (as an observer)
-

# Appendix 1:

## Executive Group, Audit Governance Board and UK Oversight Board members' biographies

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### **Philip Mills, UK Managing Partner \***

See Deloitte UK Executive members.

- Appointed: July 2023
- UKOB meetings attended during FY2023: 1/1 for which he was eligible (as an observer)

### **James Byles, UK Partner \***

James joined Deloitte in 2015 and is a partner within the UK Consulting practice, focused on the retail, consumer and energy industries.

For 22 years, James has specialised in designing and delivering transformational change, underpinned by technology, with large multinational organisations and has extensive experience working across the UK, Europe and the USA.

James is a member of the UK Consulting Leadership team and the NSE Board, chairing the NSE Integration and Transformation Committee.

- Appointed: September 2023, term ends in 2027
  - UKOB meetings attended during FY2023: 0/0 for which he was eligible
-

# Appendix 1:

## Executive Group, Audit Governance Board and UK Oversight Board members' biographies

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### 6. Former Deloitte UK Oversight Board members

The following were members of the UKOB during FY2023; their meeting attendance for the (relevant part of that) year is shown below:

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#### **Cindy Chan, UK Managing Partner Risk Advisory**

- UKOB meetings attended during FY2023: 2/2 for which she was eligible
- End of term: November 2022

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#### **Karen McNicholls, UK Partner**

- UKOB meetings attended during FY2023: 6/6
- End of term: July 2023

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#### **Kalvinder Dhillon, Vice Chair Deloitte UK**

- UKOB meetings attended during FY2023: 1/1 for which she was eligible
- End of term: July 2022

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#### **Steve Williams, Former Chair of the UK Oversight Board**

- UKOB meetings attended during FY2023: 6/6
- End of term: July 2023

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#### **Stephen Griggs, UK Managing Partner**

- UKOB meetings attended during FY2023: 6/6
  - End of term: May 2023
-

# Appendix 2:

## Financial information

Our Audit & Assurance business delivered a robust financial performance in FY2023, despite significant cost pressures.

These pressures arose through a combination of factors but were primarily driven by wage inflation due to resourcing pressures that impacted the entire industry, and materially full implementation of arm's length transfer pricing and cost allocations between the ring-fenced business and the rest of the firm. We also continued to invest heavily in audit quality with increases in spend on new audit tools, which we commenced pilot use of in the year.

Demand for our services remains strong. The strength of our business allows us to be agile, forward-looking, and responsive to the drivers of change in the face of fast-moving global markets and technological, societal, and environmental shifts.

Our firmwide results and performance are covered in our [financial statements](#).

### **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 2023.

The figures indicate the relative concentration of audit work for UK PIEs<sup>6</sup>, audits of entities on EU exchanges 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.

FY2023 was the second year of the Audit & Assurance business operating as an operationally separate practice. We have fully implemented the principles laid out by the FRC regarding commercial requirements between the ring-fence and the rest of the firm and our Audit & Assurance business continued to receive no cross-subsidy from the rest of the firm; consistent with the FRC's ring-fence principles.

The FRC released a suggested template for the Transparency Report in July 2023 to make it consistent with the requirements of reporting under the ring-fencing principles. The definition of audit services has broadened to include "directly related services" and, as such, we have changed the classification of some services from non-audit to audit services as they now fall into this category. Prior year numbers have also been adjusted accordingly. As part of this change, we have also taken the opportunity to make additional changes in the basis of preparation, for both current and prior years, which has resulted in a reduction to prior year numbers of 'Non-audit services provided to entities we audit' and a corresponding increase to 'Statutory audits and directly related services' and 'Non-audit services to entities we do not audit'.

<sup>6</sup> See definition in [Appendix 15: Public interest entities](#).

# Appendix 2:

## Financial information

	<b>FY2023 £m</b>	<b>FY2022 £m</b>
<b>SERVICE</b>		
Statutory audits and directly related services for entities we audit (UK PIE and subsidiaries of UK PIE)	365	268
Statutory audits and directly related services for other entities we audit	441	393
<b>Total audit revenues<sup>7</sup></b>	<b>806</b>	<b>661</b>
Non-audit services provided to entities we audit <sup>8</sup>	171	173
<b>Total revenues from entities we audit</b>	<b>977</b>	<b>834</b>
Non-audit services to entities we do not audit	3843	3449
<b>Total UK revenue</b>	<b>4820</b>	<b>4283</b>

	<b>FY2023 £m</b>	<b>FY2022 £m</b>
<b>Operationally separated Audit &amp; Assurance business</b>		
<b>Gross statutory revenue<sup>9</sup></b>	<b>869</b>	<b>723</b>
<b>Expenses and disbursements on assignments</b>	<b>(96)</b>	<b>(73)</b>
<b>Revenue attributable to the UK Audit &amp; Assurance business</b>	<b>773</b>	<b>650</b>
Employee costs	(407)	(332)
Other operating charges	(234)	(199)
<b>Operating profit</b>	<b>132</b>	<b>119</b>
Net finance income/(expenses)	(1)	(3)
<b>UK Audit &amp; Assurance business profit</b>	<b>131</b>	<b>116</b>

### Basis of preparation

In line with the requirements of Principle 20 of the [FRC's operational separation principles](#), we have produced a separate profit and loss account for our UK Audit & Assurance business which is consistent with our published statutory [financial statements](#). As part of this we have complied with Principle 16 which sets out that such a profit and loss account should reflect overhead absorption on an equitable basis.

We have undertaken a detailed review of the allocation basis for all overheads and ensured that all such costs are allocated equitably across the firm's businesses based on the most appropriate drivers. For example (a) learning costs are charged based on a full-time employee basis, (b) real estate and facilities costs are charged based on 'square footage occupied' and (c) take on process costs are charged based on usage. The vast majority of overheads are, however, allocated based on revenue or profit, whichever is deemed the most appropriate.

The firm has charges in relation to its closed defined benefit scheme and its partner annuity scheme. The charges recognised with respect of these items are (a) joint and several obligations of the entire firm and are not the responsibility of any particular business and (b) unrelated to current trading activity. Such charges, which are largely driven by actuarial assumptions, have not been allocated to the Audit & Assurance profit and loss account.

The profit and loss account includes gross statutory revenue in a manner consistent with our published statutory financial statements, reflecting the total revenue generated by our Audit & Assurance practitioners. The analysis of revenues as required to be presented by transparency reporting requirements will not reconcile to this as that analysis considers all revenue generated by the firm from entities we audit. This will include, for example, revenue generated by practitioners from outside the Audit & Assurance business that supported audit engagements and those that provided non-audit services to our audited entities in the period.

<sup>7</sup> Of which revenue from audits of EEA regulated entities is £122m in FY2023 (£116m in FY2022). In addition, £3.2m relates to local audit work in both FY2023 and FY2022.

<sup>8</sup> Of which £0.0m relates to local audit work in both FY2023 and FY2022.

<sup>9</sup> Revenue attributable to the audit business being a sub-set of the 'Total UK revenue'.

# Appendix 3:

## 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, as retained in Gibraltar law, and are reflected in this Report as set out below.

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### Provision of Article 13.2

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(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.
(b) where the statutory auditor is a member of a network:	See:
(i) a description of the network and the legal and structural arrangements in the network;	(i) <a href="#">Appendix 13: The Deloitte network</a>
(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): <a href="#">Appendix 14: EU/EEA audit firms</a>
(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 one locally-based partner <sup>10</sup> 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.

<sup>10</sup> Note: there are no equity partners in Gibraltar.

# Appendix 3:

## Deloitte Gibraltar

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### Provision of Article 13.2

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(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: <a href="#">Audit Governance Board and UK Oversight Board report</a>
(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 October 2021: <a href="#">Annual Report on Audit Supervision (fsc.gi)</a>
(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;	Admiral Insurance (Gibraltar) Limited Advantage Insurance Company Limited Bank J. Safra Sarasin (Gibraltar) Limited Bray Insurance Company Limited Douglas Insurance (Gibraltar) Limited London & Colonial Assurance PCC PLC 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: <a href="#">Ethics, independence and conflicts</a>
(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;	See: <a href="#">Appendix 5: Audit quality</a>
(i) information concerning the basis for the partners' remuneration in audit firms;	See: <a href="#">Appendix 12: Governance and legal structure</a>

# Appendix 3:

## Deloitte Gibraltar

### Provision of 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)<sup>11</sup>;

See: [Appendix 5: Audit quality](#)

(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:

#### Total turnover of Deloitte Limited by category:

	Year ended 31 May 2023	Year ended 31 May 2022	Year ended 31 May 2021
	£'000s	£'000s	£'000s
Statutory audit of EU PIEs and entities belonging to a group of undertakings whose parent undertaking is an EU PIE	1178	788	442
Statutory audit of other entities	1594	969	1350
Permitted non-audit services to audited entities	185	213	203
Non-audit services to other entities	1556	1418	1824
	<b>4514<sup>12</sup></b>	<b>3388</b>	<b>3819</b>

(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.

To note: the transparency report shall be signed by the statutory auditor or the audit firm:



<sup>11</sup> 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.

<sup>12</sup> Difference is due to rounding.

# Appendix 4:

## 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 set out below.

In June 2022, we notified Public Sector Audit Appointments Ltd (PSAA) of our decision not to tender for the latest round of English local government audit contracts. The final year of our contract covers audits for periods ending 31 March 2023. We engaged extensively with stakeholders such as the PSAA, FRC and the Department for Levelling Up, Housing and Communities (DLUHC) to communicate the factors that informed this decision. We committed to remain engaged in discussions about strengthening the local government audit market and financial reporting system – even where we are not providing audit services – to ensure we continue to play a role in developing positive and effective reforms. Details are included in our submission to the Public Accounts Committee review.

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### Provision per the schedule to the Regulations

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- |                                                                                                                                                                             |                                                                                                                                   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| (a) A description of the legal structure, governance and ownership of the transparency reporting local auditor;                                                             | See: <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a> ; <a href="#">Appendix 13: The Deloitte Network</a> |
| (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: <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a> ; <a href="#">Appendix 13: The Deloitte Network</a> |
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# Appendix 4:

## Local audit disclosure requirements

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### Provision per the schedule to the Regulations

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(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;

In accordance with the schedule of the Local Auditors (Transparency) Regulations 2020 and based on the practice review carried out in 2022 and the status of the 2023 practice review that will be finalised in November 2023, 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.

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 SQM. The results of local audit practice review are presented within the overall practice review results for the firm. During the 2023 practice review, two local audits were selected for our internal review (2022: one).

Consistent with other elements of work by the firm, where there are findings from internal and external inspections of audit work, causal factor analysis is undertaken, and action plans implemented to address factors identified. In response to inspection findings, and the challenges over the quality of accounts preparation by local authorities, we introduced an additional independent review by an experienced public sector auditor for remaining 2021 or earlier major local audit council accounts, to focus on local government specific areas of the accounts to reinforce other quality review processes.

We have completed root cause analysis into the findings identified in the FRC local audit inspection cycle for 2021/2022 and have implemented robust action plans to respond that are on-going. The FRC local audit inspection cycle for 2022/2023 was delayed and did not select any Deloitte audits for inspection. The inspection of major local audits is published in a separate annual report to be issued later in 2023 by the FRC.

We have provided engagement teams with training and supporting working papers on the audit of infrastructure assets.

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 our shared values.

A statement regarding the effectiveness of the firm's system of internal control is included in [Audit Governance Board and UK Oversight Board report - Risk management and internal control](#) and also covers local audit.

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# Appendix 4:

## Local audit disclosure requirements

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### Provision per the schedule to the Regulations

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|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (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; | <p>See: <a href="#">Ethics, independence and conflicts</a></p> <p>Also:</p> <ul style="list-style-type: none"><li>• The specific independence requirements applicable to local audits include the requirements of the <a href="#">National Audit Office's Code of Audit Practice</a> and <a href="#">Auditor Guidance Note 1 'General Guidance Supporting local audit'</a>. The local audits we have made an audit report upon during FY2023 include audits conducted in line with the previous version of the Code (March 2019 and March 2020 year ends) as well as the Code of Audit Practice 2020 (March 2021 and March 2022 year ends).</li><li>• 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.</li></ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| (e) Confirmation that all engagement leads are competent to undertake local audit work and staff working on such assignments are suitably trained;                                                   | <ul style="list-style-type: none"><li>• 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 into account the nature of the engagement and the skills and experience of the individual.</li><li>• The resourcing of our public sector audit teams, and in particular local audits, has been a key area of focus for our audit practice. An experienced corporate audit partner has been supporting the public sector audit team by taking on roles not requiring a Key Audit Partner, to increase capacity for working on local audits. An active programme of recruitment in FY2022 and the first half of FY2023 has resulted in significant increases in headcount in our public sector audit practice (including recruitment at manager, senior manager, and director levels). We have also used experienced auditors from other sectors to strengthen engagement teams.</li><li>• The key audit partner accreditation process remains a key risk to both audit quality and delivery of local audits, as it restricts audit firm capacity and flexibility. Although revised guidance was issued in June 2022 by the FRC, in the absence of available FRC-approved specialist training, in practice the situation is unchanged.</li></ul> |
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# Appendix 4:

## Local audit disclosure requirements

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### Provision per the schedule to the Regulations

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- Staff working on local audit assignments receive suitable training. In addition to the audit-wide learning programmes such as TechEx, discussed in [Appendix 5: Audit quality - Learning and development](#), 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 assistant managers and above discussing emerging issues and guidance. During the year, specific training was provided on infrastructure assets, and team members had access to recordings of previous 'deep dives' into specific technical issues and areas.
  - Our audit teams are supported by relevant specialists with sector knowledge, including actuarial and property valuations specialists, to address areas of greater risk and complexity in local audits.
  - Sector-specific training and briefing calls are delivered during the year, and recorded sessions are available for staff to access throughout the year. Sector specific work papers are prepared covering relevant auditing and accounting issues, including those highlighted in guidance from the FRC, National Audit Office, NHS England and CIPFA, as well as relevant considerations from internal risk assessment of the impact on each sector.
  - In relation to climate change and sustainability, for March 2021 year-end audits onwards, we have increased the consideration of the impact of climate change on property valuations, with engagement teams encouraged to challenge how valuers have taken this into account, in particular for modern equivalent asset valuations.
  - 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 are communicated to partners and staff working on local audits.
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# Appendix 4:

## Local audit disclosure requirements

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### Provision per the schedule to the Regulations

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(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;

- All local audits are included within the scope of our audit quality control system, including practice review. We are required to practice review every Responsible Individual (RI) who signs local audits in England once every three years on one such engagement. We regularly refresh the list of applicable RIs to check which individuals are due to sign English local audits so we can be sure all relevant RIs are subject to this review.

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(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;

The organisations below are the only relevant authorities:

- 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)
- b) Or which Deloitte LLP signed an audit report on its annual financial statements during the year ended 31 May 2023.

Imperial College Healthcare NHS Trust  
Royal Borough of Windsor and Maidenhead  
South Yorkshire Pensions Authority

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# Appendix 4:

## Local audit disclosure requirements

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### Provision per the schedule to the Regulations

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|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (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; | A statement regarding the continuing education of statutory auditors is included in <a href="#">Appendix 5: Audit quality</a> , which also covers persons eligible for appointment as a local auditor. Further details on local audit specific policies and practices are detailed in (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: <a href="#">Appendix 2: Financial information</a>                                                                                                                                                                                                                                                                                                                     |
| (j) Information about the basis for the remuneration of partners.                                                                                                                                                                                                                    | <ul style="list-style-type: none"><li>• Local audit partners were included in the FY2023 audit appraisal process. The Audit Quality Remuneration Committee plays a key role in partners' audit quality evaluation.</li><li>• See: <a href="#">Appendix 5: Audit quality - High-quality outcomes</a>; <a href="#">Appendix 12: Governance and legal structure</a></li></ul> |
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# Appendix 5:

## Audit quality

Audit quality, and the value of audit, is at the heart of helping us to deliver on our purpose. **Our commitment to excellence**, our **mindset and behaviours**, and our **controls and processes** are critical to us achieving the **high-quality outcomes** that we expect from both our audit and assurance services.

In our audit quality story we set out examples of the actions that have contributed to our integrated approach to maintaining and driving quality over the last financial year.



# Appendix 5:

## Audit quality

### Commitment to excellence



### The importance of governance and controls

At least annually, we review each entity we audit to consider their strength of control environment and remediation of deficiencies, together with management and board integrity, attitude and engagement, and governance processes.

The quality of the control environment, and the attitude and governance of management around the importance of controls is fundamental to responsible corporate behaviours and reporting. We have clear expectations of management and boards in respect of required preconditions for an effective and high-quality audit:

- Risk management
- Governance and internal controls structures
- Process for considering the effectiveness of controls, including: indirect, business process, and IT controls
- Process for addressing control deficiencies on a timely basis.

### Governance and controls in practice

We operate a yellow and red card system to encourage the right improvement behaviours and focus by entities on their governance, controls and processes. An entity falling significantly short in these areas is issued a yellow card and given clear expectations on what improvements are required within a set time frame. In the vast majority of cases where a yellow card is issued, we find companies respond well and take the necessary steps to make improvements. In the rare cases where the company does not want to make improvements, or where change does not happen at an appropriate pace, we may issue a red card and ultimately resign from an engagement. We set out our reasons for resignation in a letter which is publicly filed with Companies House.

We expect our engagement teams reporting to Those Charged With Governance to include a clear description of our understanding of the control environment, our internal controls audit approach and any significant deficiencies we have found. We expect our enhanced audit opinions to report clearly and boldly on significant deficiencies noted, to highlight where improvements are required, and to call out where companies are operating with a control environment that does not appropriately reflect their size and complexity.

# Appendix 5:

## Audit quality

### Operational separation

In July 2020, the FRC published its [principles for operational separation](#) for 'Big 4' audit firms which were established to ensure audit practices are focused above all on delivery of high-quality audits in the public interest and do not rely on persistent cross-subsidy from the rest of the firm.

While the changes must take effect from 1 June 2024, we started operating an operationally separate audit business on 1 June 2021, clearly separating audit and assurance from advisory work and independently governed by the AGB. This has provided the opportunity to improve the transparency of our Audit & Assurance business and provide greater oversight of, and clarity on, the role of audit within our multi-disciplinary firm.

The firm is using the transition period to 1 June 2024 to fine tune the operating model, controls, reporting and transparency mechanisms, and to refine and embed the principles, policies and processes that have been developed.

In the last 12 months we have substantially completed the transition to a business-as-usual ring-fence model. This has resulted in the growth of our business as we have placed more of our audit practitioners in the ring-fence and thus primarily focused on delivery of quality audits in the public interest. Moreover, we have transitioned our assurance offerings to be substantially

compliant with ring-fence principles through robust controls over the work we take on and completion of legacy pre-ring-fencing engagements.

**We firmly believe our interpretation of the scope of the operationally separate audit business best supports audit quality by creating a broad based, integrated audit and assurance business. The breadth of our assurance services drives the ability of our auditors to meet the expectations of stakeholders for enhanced audit and assurance procedures over the annual report and accounts, and the creation of a sustainable audit and assurance business for the future.**

The Ring-Fence Review team continue to oversee the operation of the ring-fence elements of the Assurance Risk Appetite Statement. This is a mature process, having been in place since June 2021. The Assurance Principles, which define the parameters for operational separation, have been updated to reflect the roll-off of the transitional provisions by the end of the calendar year 2023 ensuring full adoption of the ring-fence principles by 31 May 2024.

### Audit Governance Board (AGB)

We formally established the AGB, chaired by Non-Executive Baroness Ford, on 1 January 2021. In line with the principles for operational separation, the

AGB provides independent governance over how the objectives and desired outcomes of operational separation are being delivered.

It is responsible for providing independent advice and recommendations to management regarding the UK Audit & Assurance business, and for considering management's responses to such advice and recommendations, with a focus on improving audit quality by ensuring people in the Audit & Assurance business are focused above all on the delivery of high-quality audits in the public interest.

### Audit & Assurance Quality Board (A&AQB)

Our A&AQB comprises partners and directors from across our Audit & Assurance business. Each of the Non-Executives attend at least one A&AQB meeting during the year. The A&AQB's remit is to:

- Govern activities that will achieve sustainable improvements in audit quality
- Drive implementation of these improvements across the Audit & Assurance business
- Be informed on audit quality issues raised by regulators and stakeholders, including the FRC's AQR team, the ICAEW's QAD and the PCAOB, and on progress of quality enabling initiatives and activities such as the Audit Quality Plan.

# Appendix 5:

## Audit quality

The A&AQB meets every second month and items discussed by the Board during 2023 included archiving, audit quality milestones, consultation requirements and partner rotation.

### Monitoring the risk landscape and responding to emerging issues

Our Emerging Issues Group (EIG) aims to identify emerging issues that could have a significant impact on audit quality in the future, looking at industry, political, economic, technology and regulatory or inspection related matters. The group includes partners from across the audit business, including industry specialists and those from our national office. The EIG also monitors a range of external data sources to identify indicators of potential audit risk.

This year we have continued to see high levels of risk and uncertainty. The EIG has focused attention on areas including geopolitical uncertainty, inflationary pressures and energy market instability, as well as considering the implications of AI on business risk.

The data analysis that EIG performs on areas such as the effects of consumer spending on rising interest rates, higher indebtedness and eroding purchasing power is developed into guidance to raise awareness across our audit practice and support tailored discussions with audit teams.

In the second half of 2022, energy and power prices rose rapidly across the UK and continental Europe with a range of implications including rising input costs for many companies. We responded by assessing the energy intensity of individual entities, the potential impact of higher power prices on industries. We provided guidance to engagement teams on when to consult internally, how to incorporate events into our risk assessment, including fraud risk factors and the impact on internal control and financial reporting processes at the entity.

In addition, EIG assembles a broad array of data on climate related risks that feed into a climate watchlist, as well as developing innovative tools to help identify the risk of greenwashing.

### Recruitment and developing our resources

#### Recruitment

We have continued to grow our business over the past 12 months, ensuring our people continue to be representative of society and the companies we work with, and deliver the right blend of skillsets required to respond to emerging risk areas. During FY2023 we recruited 879 people into our early careers programmes, for graduates and school leavers, 37% up on our 2022 intake. We also recruited 1,057 experienced hires, including 496 audit practitioners.

48% of our early careers joiners in the last 12 months were female, and 56% from an ethnic minority

47% of our experienced hires in the last 12 months were female, and 70% from an ethnic minority

The high percentage of ethnic minorities represented in our current year intake reflects our ongoing recruitment from both the domestic and international markets, as well as the relative levels of overseas students studying to degree level in the UK.

Comprehensive skills mapping has allowed us to assess the current and future skills needed within Audit & Assurance and, therefore, better target headcount growth in key locations in the UK with the aim of reducing time and cost to hire, driving a 'right skills, right location, right time' approach to resourcing. This allows us to continue to design our early careers recruitment marketing strategy using data from Local Authorities in England for school leavers to understand more about localised student populations, particularly around diversity, equity and inclusion (DE&I) related to gender, ethnicity, and social mobility.

#### New joiner support and development

We have a significant number of support mechanisms in place for experienced hires, as well as training programmes. This includes the [Assistant Manager \(AM\)](#)

# Appendix 5:

## Audit quality

[Growth Programme](#) introduced to identify key areas of skills growth and development in our AM population. It provides them with the tools, resources and coaching to develop with a growth mindset. All AM experienced hires are immediately included in this programme.

All new joiners have access to a specific learning pathway delivered through Co-Pilot, our online learning platform which was launched in FY2023.

Co-Pilot is Deloitte UK's personalised learning site, providing a seamless digital learning experience and enabling all our people to access the learning and resources they need, when they need them. In addition, we have [support mechanisms and training programmes tailored for experienced hires](#) to ensure they have access to appropriate training which supports their integration and ensures they are appropriately equipped to perform high-quality work.

Owing to the high proportion of hiring from overseas, we have recently performed a review on how best to support international new joiners who are living and working in the UK, appreciating there may be different cultural starting points for international experienced hires. We are enhancing the induction training and support that we provide for our international joiners, holding integration events to assist in building networks within the firm, as well as introducing tools to support both our international new joiners and their people leaders.

We have added to our learning curriculum for all staff training on cross-cultural collaboration to increase awareness of cultural differences and the need to consider this within our teams to ensure we are avoiding misunderstandings.

We are investing in new models to support the development and transfer of knowledge and skills in emerging areas, in turn supporting varied career paths and bespoke career models. This includes embedding dedicated subject matter experts on ESG and analytics into our Audit & Assurance business to drive consistency, connectivity and challenge across emerging risk areas.

We hold regular listening sessions to ensure we continue to hear what our people need and can therefore respond on a timely basis identifying any further solutions required.

### Reward

Our reward strategy is such that we continue to offer our people market-based reward matched to their progression centred around the following principles:

- Competitive
- Fairness
- Higher reward for our best performers
- Transparency
- Choice

In response to hearing our people want greater transparency regarding their pay, in July 2022 we improved our communication around bonus plan. The level of bonus that people can expect to receive being communicated to them at the start of the financial year, expressed as a percentage of annual salary. Forward guidance is also provided on pay progression as part of year-end reward communications.

### Delivering our audits

Involvement in audits by grade captures and measures the hours charged to the engagement split by partner, senior engagement team, engagement team below manager and specialists<sup>13</sup>, as a percentage of total audit hours charged. While this indicator considers the portfolio on an aggregated basis, the blend of team on each individual engagement will be dependent on the complexity and structure of that engagement.

### Involvement in audits by grade<sup>14</sup>:

	FY2023	FY2022	FY2021
<b>Audit partner</b>	2.8%	3.0%	3.2%
<b>Audit director, senior manager, and manager</b>	20.1%	18.9%	21.0%
<b>Audit team below manager grade</b>	67.9%	68.7%	65.5%
<b>Specialists</b>	9.2%	9.4%	10.3%

<sup>13</sup> A specialist is an individual who has spent time on the audit engagement to assist the auditor on obtaining appropriate audit evidence but sits outside the core team. This individual may sit inside or outside of the ring-fenced audit business.

<sup>14</sup> The definition of audit services has broadened to include 'directly related services' and, as such, we have changed the classification of some services from non-audit to audit services as they now fall into this category. Prior year numbers have also been adjusted accordingly.

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## Audit quality

We review the number of senior engagement team hours to ensure they are appropriate to support the delivery of a high-quality audit on every engagement. We also consider the levels of tenure and turnover as an indicator of the consistency of the firm's engagement teams. Consistent teams assist in improving audit quality and maintaining professional knowledge within the firm, while recognising our desire to maintain a balance between retaining staff and adding new staff to promote fresh ideas, ultimately improving and maintaining high-audit quality.

Note, some of our opinions are signed by Responsible Individuals (RIs) at director level, as partner equivalents. Time spent on such engagements is included in the total audit hours, and the relevant director RI time is recorded in the line for Audit director, senior manager and manager. The FRC is conducting an audit quality indicator pilot during FY2024 which will require disclosure of combined partner and partner equivalents' involvement in audits as a percentage of total audit hours. As a result, our basis of preparation for this indicator will change in next year's Transparency Report.

The decreasing trend in specialist hours reflects the change in the composition of the Audit & Assurance business as we have gone through our ring-fence transition, meaning some members of the Audit team that have previously been considered specialists are now considered part of the core audit team.

### Average tenure in years of audit partners:

**FY2023: 20.0**, FY2022: 20.1, FY2021: 20.0

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. Partners with the most experience are encouraged to mentor the next generation of partners.

### Average partner and staff turnover:

**FY2023: 12.96%**, FY2022: 18.3%, FY2021: 11.7%

This metric measures the annual staff turnover for our Audit & Assurance business in the UK, including all grades of staff and partners. Attrition was low in FY2021 due to the impact of COVID. The attrition in FY2022 reflects the job market reopening after that period as well as the build up of people with a desire to leave. Lower attrition this year reflects the significant investment in the reward for our people made at the end of last year as well as the wider economic conditions impacting us all.

We believe our staff turnover appropriately reflects the profile of our business. We have huge pride in the exceptional talent of all our people - current and alumni.

## Learning and development

The growth and development of our partners and staff is of paramount importance to us as a firm and equips all of our practitioners to deliver a high-quality audit. We continue to deliver a learning curriculum tailored by grade via face-to-face immersive classroom learning, e-learning and engagement team based learning.

Our annual TechEx programme is held in-person, on a community basis, allowing for rich discussions, interactions led by partners, directors and subject matter experts to ensure the highest quality, consistency and the greatest impact. TechEx is a mandatory requirement for all our people at assistant manager grade and above.

Our latest TechEx training took place in June 2023 with two main focus areas:

- ESG, with modules on embedding ESG in our audits, climate impact on financial statements, Green Finance, offsetting carbon emissions, emission trading schemes and negative low emission vehicle credits
- Culture, behaviours and purpose, focusing on career pathways, the importance of purpose, cross cultural collaboration and how we can all contribute to our cultural ambition.

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## Audit quality

We also delivered modules on:

- Quality management
- Professional scepticism and related party transactions
- Evolving the audit of today
- Auditing areas of focus

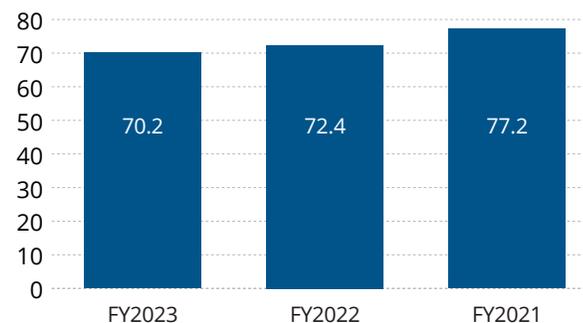
.....  
“We have invested significantly in our in-person learning and development offerings over the last year, both for our new hires joining the business but also for those already in the business. We’ve focused on bringing people together to further enhance the quality of our workforce, our cultural ambition and our commitment to excellence.”

**Katie Houldsworth**

**Audit & Assurance People & Purpose Lead**  
.....

### Investment in training:

Number of hours training undertaken per person (partners & qualified staff) in the Audit & Assurance business<sup>15</sup>



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 in the Audit & Assurance business. Audit professionals are deemed to be any individual from qualified assistant manager through to partner.

There is an expected degree of fluctuation year on year, depending on the volume and complexity of our learning focus areas and the regulatory changes that we need to update our people on. In FY2022 and FY2023, we have reviewed the mandatory annual compliance and technical learning curriculum for all grades to identify

whether there is content that could be removed, either due to repetition elsewhere in the syllabus or simply no longer being critically relevant. By doing so, we are able to prioritise the learning and development that is most relevant and impactful.

Post-COVID, we have recognised the impact of remote working on our practitioners, and we have transitioned to a greater proportion of face-to-face learning, to strengthen connectivity, engagement and interactivity. This has resulted in a £17m investment in FY2023 (FY2022: £11m).

Structured learning includes:

- All classroom, e-learning and virtual classroom our audit professionals complete as part of their mandatory annual curriculum
- Mandatory training for personnel accredited to work on PCAOB audit engagements
- TechEx (our flagship annual technical training event), mandatory for all qualified audit professionals
- Mandatory firmwide training, for example on financial crime, ethics and data privacy regulations
- Formal Engagement Team-Based Learning (ETBL).

<sup>15</sup> This metric does not include any of the exam training provided to non-qualified staff under training contracts, nor does it include any additional hours of industry-specific learning or personal learning undertaken to fulfil Continuing Professional Development requirements. Additionally, this does not include audit specialists who have a tailored and bespoke learning curriculum based on their role.

# Appendix 5:

## Audit quality

In addition, all qualified staff are required to view regular technical webinars, and this is monitored. These one-hour long sessions provide regular updates on corporate and financial reporting, auditing and regulatory information to audit partners and staff in the UK. Nine webinars (FY2022: 12) were made available for professionals during the year.

### **Continuing education of statutory auditors**

Staff working on statutory audits receive training through the learning programmes detailed in this Report to maintain their knowledge, professional skills and values at a sufficiently high level. 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.

### **Experienced hires**

In FY2023, we recruited heavily across both experienced hire and student populations, bringing in over 2000 new practitioners. We support all our new employees with a tailored induction program (for experienced hires, this is delivered every two weeks) and learning and development to equip them to do a high-quality audit.

Acknowledging the risks associated with bringing in such a high volume of new recruits, we have put in place a number of measures to support a smooth transition, including: face-to-face student inductions; allocated buddies to all new joiners; identified and appointed experienced hire champions within each community; and provided extensive support through our early careers' coaches.

Our experienced hires participate in a mandatory firmwide induction event as well as an Audit & Assurance tailored induction and audit technical induction. These events focus on our shared values and purpose, inclusion and how we work together, and quality and risk.

.....  
"Upon joining the firm two years ago as an international experienced hire I have felt greatly supported by both leadership and the wider support network, allowing a smooth transition into the firm and onto my audit engagements."

**Audit manager**  
.....

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## Audit quality

### Skills Academy

As part of our students' induction, they attend a two-week rotation, Skills Academy. Working in small groups of seven to eight, supported by a dedicated Team Leader, participants are trained in the Deloitte Way (standardised audit work packages to drive consistency and quality) and hone their foundational audit skills working on live audit and assurance engagements in collaboration with the Regional Audit Delivery Centre (RADC). In addition, participants receive training in other parts of the core curriculum in a concentrated training environment. The key purposes of Skills Academy are:

- Accelerated learning curve in year one – supports aim of leveraging more challenging work earlier
- Trains core team members in audit testing areas now routinely sent to Extended Delivery Teams (i.e., the Deloitte Way)
- Optimises onshore/offshore staffing mix whilst also delivering a standardised and centralised approach.

### Assistant Manager Growth Programme

As a firm we were cognisant of the impact that COVID-19 had on our teams' ability to provide coaching and mentoring to practitioners or the risk of a skills gap was developing. To remediate this, in September 2022, we launched the Assistant Manager Growth Programme.

The programme's core objective is to facilitate continuous development to support assistant managers in identifying future skills' needs through direct engagement with the engagement team, the [People Leader](#), and the firms' tools and resources.

### Manager Development Programme

Our recently launched development programme for managers and senior managers focuses on non-technical growth and development areas and supports them in taking the next steps in their Audit & Assurance career at Deloitte.

### Future Leaders Programme

In summer 2022, we launched our Future Leaders Programme. Our first cohort has successfully completed the Future Leaders Programme – providing equity of opportunity through sponsorship for our under-represented diverse groups of managers and above. The programme is continuing to focus on these under-represented candidates in FY2024 before expanding out in future years to all colleagues who have leadership potential within the firm.

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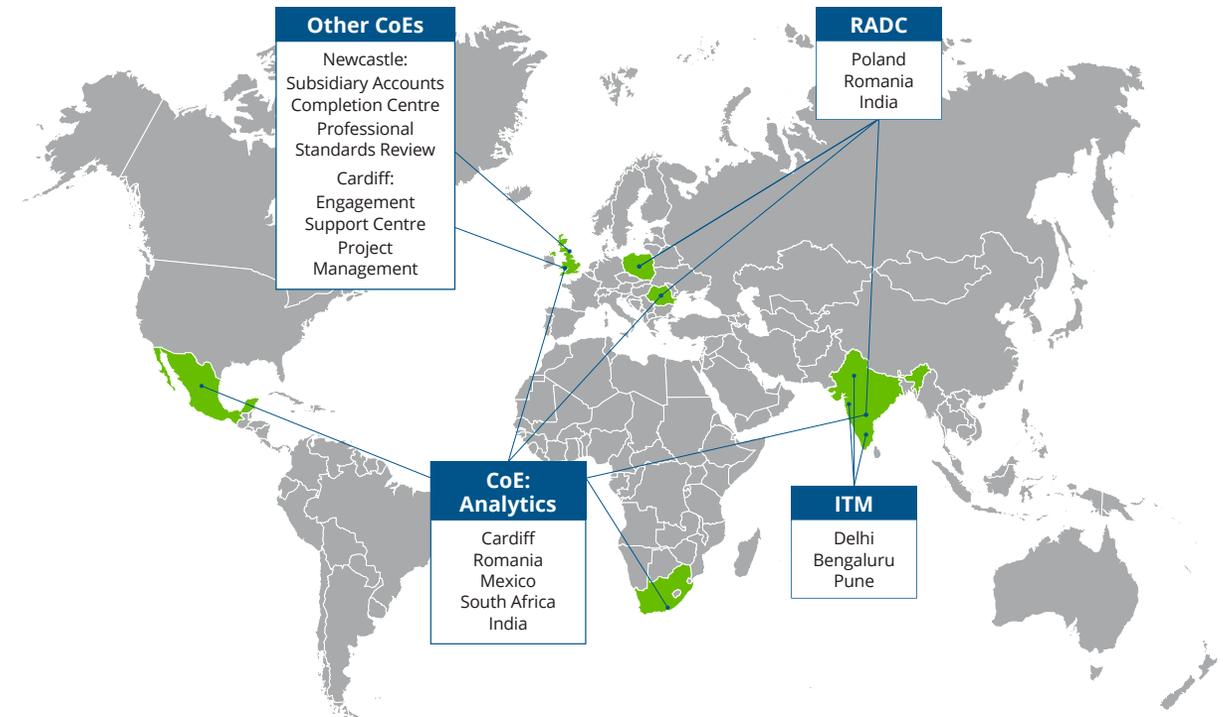
## Audit quality

### Extended Delivery Models (EDMs)

At Deloitte we utilise three extended delivery models to support in the execution of our Audit & Assurance engagements.

The maturity of our three core EDMs has enabled us to fully embed them into our audits across our UK business. The increased use of our EDMs is fundamental to our audit resourcing strategy and integral to our audit quality agenda. They provide deep subject matter expertise, specialist knowledge and are drivers of standardisation and centralisation to improve the consistency and quality of audit execution.

### Deloitte UK EDM locations



### Regional Audit Delivery Centres (RADCs)

As part of a globally consistent operating model, RADCs perform routine audit procedures in areas of low risk and complexity, working on standardised Global Deloitte Way Workflow templates designed and approved by our Audit Excellence team.

### Centres of Excellence (CoEs)

Highly specialised teams in specific areas of the expertise, providing services including support relating to: pensions, data analytics, project management, UK financial statement disclosures and Engagement Quality Review (EQR).

### Integrated Team Model (ITM)

Offshore audit professionals working as integrated members of engagement teams. Team members execute entire sections of the audit file and, amongst other skills, bring expert knowledge of controls testing.

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## Audit quality

### Enhancing quality through our EDMs

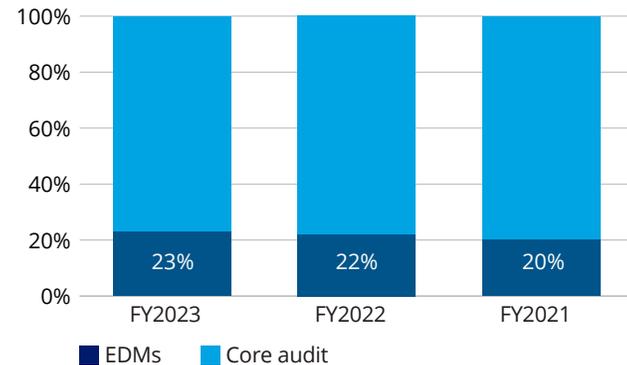
Skills and training in RADCs	Skills and training in CoEs	Skills and Training in ITM
<p>Trained through the RADC Global Audit &amp; Assurance Learning curriculum with supplementary learning in UK specific regulatory requirements. Additional training needs are derived from quality checks and feedback through a team working environment.</p>	<p>Learning for CoEs depends on the specificities of the role undertaken. Certain roles require the centre to follow the full UK audit curriculum such as the Professional Standards Review (PSR) CoE.</p> <p>Centre specific training is provided for specialist roles with annual assessment of changes in roles, scope of work and changes in the UK regulatory environment. Annual refresher training for audit learning is provided, as appropriate, to the role.</p>	<p>Trained through the full Audit Learning curriculum based on Deloitte Global Audit &amp; Assurance standards. As appropriate, ITM audit professionals also receive engagement specific training alongside UK team members.</p>
Why we use the RADCs	Why we use CoEs	Why we use ITM
<p>To improve the consistency and the quality of the work being delivered through standardisation and centralisation, whilst enabling a faster and more effective route to automation. This in turn supports change management through rapid deployment of new tools and technology in a consistent and centralised environment.</p> <p>Our RADCs provide increased opportunities for our entity facing teams to spend more time on areas of the audit that require the most interaction with management and Those Charged With Governance, providing greater focus on areas of high risk and judgement and exceptional audited entity service.</p>	<p>To provide access to dedicated teams who have over time developed specialist skills and experience and are experts in their field.</p> <p>The use of CoEs enhances the depth of knowledge in particular areas of the audit, from project management to technical audit and accounting areas, enabling improved audit quality in these specialist areas.</p>	<p>To support our teams delivering on our largest and complex audits, including but not limited to PCAOB companies through access to additional capacity of fully trained audit professionals.</p> <p>This provides these large and complex audit teams with access to additional capacity of skilled resource, which supports high-quality audit delivery.</p>

# Appendix 5:

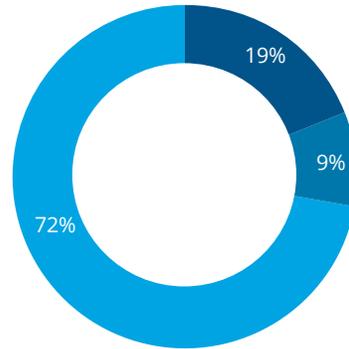
## Audit quality

Maintaining and enhancing audit quality is at the forefront of the decisions we make and the processes we have in place. We have robust central oversight, led by a UK partner, in relation to the use of overseas EDMs. The UK central oversight team is responsible for monitoring the performance of the extended delivery teams, ensuring policies and procedures are appropriate for the UK Audit & Assurance business, liaising with overseas EDM leadership and setting and agreeing UK resourcing levels at the delivery centres. Over the last few years, we have been gradually increasing the amount of audit work done by our extended delivery models.

Extended Delivery Team hours as a percentage of total hours charged on audit engagements



Split of Extended Delivery Team hours by type for 2023



■ CoEs ■ RADCs ■ ITM

Across our EDMs, we have applied a robust SQM governance and monitoring framework to maintain compliance with the International Standard on Quality Management (ISQM) 1 standards, and to support the consistent delivery of high-quality work.

### Investment in national office resources

The work of the national office includes accounting, corporate reporting, audit technical, audit quality, assurance, risk, and technology and implementation teams.

**National office as percentage of total audit staff:**  
**FY2023 3.4%, FY2022: 3.7%, FY2021: 3.3%**

This indicator measures the number of our central personnel available to provide engagement teams with advice on complex, unusual, or unfamiliar issues.

### Preparing for the future

With continued economic pressures across the markets, it is more important than ever that we focus on ensuring our audit business remains relevant and valued. Part of being fit for the future is having a forward view on where we need to grow our business – both in the scope of our products and in the skillsets of our people.

Areas of focus include:

#### Climate and sustainability

Urgent climate and sustainability issues are leading to new, extensive disclosure requirements and expectations by society as to how business should respond. Sustainability matters are therefore increasingly at the heart of business risk, business decisions, operations and financial performance.

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During the year we continued to advocate for a comprehensive global baseline for sustainability reporting based on the ISSB's standards. We welcomed the ISSB issuing its first IFRS Sustainability Disclosure Standards, IFRS S1 and S2, in June 2023.

.....  
"I am proud that Deloitte is actively supporting the moves to achieving a global baseline of sustainability information, based on the ISSB's standards. This is essential to enable the flow of capital to resilient business in a lower-carbon economy. Deloitte is pleased to be playing a leading role in global alignment of sustainability disclosure requirements through our work with the international business-led coalition convened by the World Economic Forum."

**Veronica Poole**  
**Vice Chair Deloitte UK and Global IFRS and Corporate Reporting Leader**

.....

Just as for financial audits, assurance over sustainability information helps to enhance trust in reporting. We have been scaling our climate and sustainability assurance capability, building capacity and skills and knowledge across our partners and our ring-fenced business, as well as increasing the knowledge of our audit teams to bring these important considerations into audit engagements. This year, we ran a specific session on climate and

sustainability, delivered by industry partners alongside climate and sustainability specialists. This training focused both on the technical requirements, and their practical application in the market. This was in addition to the firmwide global learning on sustainability and climate launched in September 2022, designed to enhance the skills and capabilities of all our people to help address this global societal challenge.

See the [sustainability reporting section](#) for more details.

### **Broader assurance**

The forthcoming changes that are being proposed to the Corporate Governance code, and the proposals from the government for new reporting requirements for directors, are an important steppingstone towards corporate governance and corporate reporting reform. As non-financial information is becoming increasingly important in integrated reporting, and central to business models, this is driving the direction of assurance needs and shaping the future of audit.

Greater confidence will be needed around business resilience, strength of governance and material business controls (financial and non-financial) with the market shift to reporting of broader sustainability measures and the need for businesses increasingly to articulate how they embed their values. These developments will allow readers of annual financial statements to gain greater insight into corporate culture, accountability and responsible decision making.

### **Attractiveness of the profession**

Audit and assurance play an important public interest role in the capital markets and as the breadth of assurance needs from the market continues to increase, this presents a great opportunity for those entering the profession to gain diverse skillsets and enjoy a fulfilling career. The current environment for talent is extremely competitive, and attraction and retention of our people is one of our strategic objectives. We recognise the challenges our people are facing and recognise our part to re-establish the connections that so many have missed during the COVID-19 pandemic. We are focused on transforming the Audit & Assurance talent experience by continuing to invest new ways of working, supporting the wellbeing of our people and further advancing the DE&I of our people. We believe this focus on our people and retention of top talent enhances our ability to deliver high-quality audits.

### **Convening and connecting stakeholders**

We remain strongly committed to driving meaningful and proportionate reform across corporate reporting, corporate governance and the audit market. Successful reform requires all stakeholders to play their part and we recognise our responsibility and voice in helping inform and shape the direction of travel. We are doing this in a number of ways:

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### **Investor engagement**

The investor community is a key and influential group in the audit ecosystem and we continue to engage with buy-side firms on a wide range of topics. These include seeking investors' views on audit, discussing the macro risk outlook and educating investors, at a high level, regarding the process of conducting an audit and interpreting audit reports. During the year we held calls with representatives from prominent asset management firms to listen to their views on issues related to reporting, corporate governance and sustainability. We have also met with portfolio managers and investment analysts to discuss and answer questions on how our audits are carried out, are robust and fit for purpose.

### **Annual stakeholder event**

The Deloitte Audit AGM took place in November 2022 and again provided us with an opportunity to set out a retrospective of the year and to shine a light on public interest matters relevant to our Audit & Assurance business, the wider firm, profession and overall governance and reporting landscape. In addition to Deloitte directors and partners, a range of stakeholders joined the event, including investors, regulators and professional and business body representatives.

The AGM is also a key way in which we seek to bring to life the matters raised in our annual Transparency Report, as well as to encourage stakeholders to raise questions on matters of interest and concern.

At the event, we heard reports from – and Q&A with – both the Deloitte Audit & Assurance Executive and the AGB. We also hosted a panel discussion with Deloitte and external speakers which covered a number of areas including key drivers for change in corporate reporting, notably sustainability reporting. Our next AGM and panel discussion takes place as part of our Annual Audit Forum event on 29 November.

### **Encouraging voluntary action**

We recognise the continued need for the market to be ready to introduce high-quality reporting in emerging areas and believe it is important that momentum around reform is maintained. We are focused on driving best practice sustainability reporting with our high-profile audit entities. We are actively working with our stakeholders to ensure new forthcoming reporting developments on fraud, resilience, controls, distributions and the Audit and Assurance Policy are on the audit committee chair and board agenda so the market can push ahead in developing best practice.

Ensuring reform drives the right outcomes and is sustainable is critically important. We are encouraging the companies we work with to share case studies and illustrative examples to help inform thinking as regulation and guidance is developed, ensuring there is more representative engagement across all corporates in consultations.

We are also developing thought leadership, setting out an overarching vision for how piecemeal reform activity can lead to the integrated audit of the future.

### **Proactive approach to market challenges**

As a firm we are committed to driving coordinated market change and have taken a proactive approach to a number of market wide challenges. One area of activity has been hosting stakeholder workshops to share thinking on opening market measures including how to attract more audit firms to operate on a long-term basis in the PIE audit market whilst maintaining and enhancing quality.

We have consistently played a leading role in the global discussion on sustainability reporting, from being a day one partner in the ISSB's Partnership Framework to our ongoing activities supporting stakeholders as they prepare to use IFRS Sustainability Disclosure Standards. We regularly publish podcasts and articles on topics related to sustainability reporting and the importance of global standards as part of our Deloitte Insights programme, including thought leadership launched at COP27.

# Appendix 5:

## Audit quality

### Investment in assurance quality framework

The scope of assurance services and the Deloitte risk appetite are encompassed in the Deloitte Assurance mission statement:

To deliver a high-quality and broad set of assurance services, which:

- Meet emerging regulatory and stakeholder requirements
- Are carefully reviewed and approved before they are undertaken to ensure permissibility within the ring-fence
- Have the internal capability and capacity to deliver to the highest quality
- Are aligned with our risk appetite

The Assurance Quality & Risk Management Leader is responsible for all quality and risk matters across the Assurance Business, and reports into the UK Audit & Assurance Quality and Risk Leader and Deloitte UK Risk Leader.

Critical to the effective roll out of the Assurance Quality and Risk plan has been the training of over 400 partners and staff across the UK in ISAE 3000 (Revised) 'Assurance Engagements Other Than Audits' over the last 12 months, the development of firmwide greenwashing training, and the inclusion of operational separation ring-fence training as required learning for all Assurance professionals.

We have responded to the challenges noted in the section on [preparing for the future](#) by creating a more integrated audit and assurance capability. This has had the benefit of reinforcing the focus on audit quality, by providing access to and close working with our skilled assurance practitioners.

Assurance services require a diverse and deep technical expertise (i.e., ESG, accounting, governance and controls). It is important that professionals within the ring-fence have avenues to maintain their expertise and acquire depth of knowledge of latest market insights. This enhances the quality of their contribution in their own assurance area. The variety of work also helps us to attract and retain the technical expertise within the ring-fence.

This is core to our multi-disciplinary model at Deloitte, where assurance practitioners provide technical expertise on engagements working with teams outside the ring-fence. This strengthens their knowledge and skillsets in their area of expertise to enhance audit and assurance capabilities and in turn, the quality of these audit and assurance services. While they work on a variety of assurance and appropriate parts of broader projects, they are required to maintain an 'auditor's mindset'<sup>16</sup> in all that they do.

<sup>16</sup> An auditor's mindset includes: a commitment to quality, being aware of one's biases, being independent from the entity, being objective, critically evaluating evidence obtained and maintaining an attitude of professional scepticism.

# Appendix 5:

## Audit quality

### Mindset and behaviours



### Tone at the top – our purpose-led culture

We keep it simple – the tone from the top is honest, consistent and clear. Our culture is defined by an understanding of our purpose, along with collective behaviours that reflect our shared values and the underlying organisational structure in which we operate. Deloitte’s purpose is to make an impact that matters with the entities we work with, people and society. Within our ring-fenced Audit & Assurance business we are focused on delivering high-quality audit and assurance work with a sceptical mindset, that protects the public interest and builds trust and confidence in business.

Our purpose-led culture provides the foundation for inclusivity and diversity in our audit and assurance teams. This supports diversity of thought and gives our people the confidence to be themselves in the workplace, engaging and motivating them to work together for a quality audit. We mandate respect and inclusion learning 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 all dimensions of contributions to our desired purpose-led culture. One of the questions we ask all partners to prepare for in their year-end reviews is what they have done to create a more inclusive working environment.

.....  
“Inclusion involves treating all members of a team as intelligent and contributing individuals. Individuals aligning on this mindset can create an inclusive environment, enabling teams to come together to deliver quality audits. In addition, having diversity in our audit teams helps us reduce bias and consider a variety of perspectives as we assess potential risks and issues on our engagements.”

### Audit manager

.....  
Our culture and shared values drive the behaviours of our people and are a significant contributor to audit quality and therefore critical at every level, from our leadership through to our newest joiners. We highlighted last year our culture journey and following the review by our Risk Advisory practice, and the participation of our people in the 2022 inaugural Global Audit & Assurance Culture of Quality survey, we have identified focus areas. These include professional scepticism and a culture of challenge which have been incorporated into our [SQP](#).

The appointment in January 2023 of our Audit & Assurance Executive Culture Lead was an important step forward which has brought further focus and momentum to drive us towards our cultural ambition.

# Appendix 5:

## Audit quality

The UK firm's Culture Council has been established, and is co-chaired by the UK Managing Partner for People & Purpose and UK Managing Partner for Quality & Risk. The Culture Council supports the development of the UK culture strategy for our people and both advises and supports on the execution of the overall firm culture work programme. Through inclusion of our Audit & Assurance Executive Culture Lead on the Culture Council, we ensure that we are aligned with the UK firmwide culture programme of work while tailoring this where required for an Audit & Assurance-specific approach, as demonstrated through the development of Audit & Assurance behaviours.

.....  
"It's important that what we've co-created becomes more than words that just sit on paper – we want them to be seen and heard in every action, in every person and every team. This starts with us. I may be leading the focus on culture, but we all share the responsibility and opportunity of bringing our ambition and behaviours to life."

**Kate Darlison,**  
**Audit & Assurance Culture Lead**  
.....

### Our cultural ambition

Audit quality can sometimes be impacted, both positively and negatively, by the behaviours within the team. Following engagement with people across the breadth of our Audit & Assurance business and wider stakeholders, we have now developed a set of aligned Audit & Assurance behaviours, which build on our global shared values to bring our cultural ambition to life. These behaviours reflect our shared purpose, our inclusive nature, the standards we uphold and the pride in our role in protecting the public interest.

Find out more about our [cultural ambition in Appendix 6](#).

### Continuous listening

We are committed to understanding the views and sentiments of our people and will continue to obtain feedback, including views on resourcing levels and utilisation in upcoming surveys. The next Global Audit & Assurance Culture of Quality survey is planned for 2024, however in October 2022 we launched a new firmwide people experience survey, Engage for Change. This new survey seeks to gather feedback bi-annually, so we can understand what matters most to our people and take action to improve their experience. The survey has introduced a new overall measure of effectiveness, the employee Net Promoter Score, which is a globally recognised metric to measure employee advocacy. A score above 0 is considered 'good', meaning more people would recommend Deloitte as a great place to work than

not. The latest survey Score for Audit & Assurance was +12. We will monitor this metric over time, but this is a great starting point for us to build upon.

Results from the latest Engage for Change survey highlighted a few key findings. Our people appreciate our approach to hybrid working, with 82% feeling their choices around flexibility are respected, and 86% feel our firm is a respectful, supportive and inclusive place to work.

We listened to feedback on better supporting our people with specific aspects of their wellbeing, and as a result held two events to better equip our people with reaching out for help at work and building personal resilience. We have also invested in our firmwide wellness advisory team to make getting support for [wellbeing](#) easier. We have made improvements to a number of our people policies..

During FY2023 we introduced The Funnel, a new listening forum. It was developed by the People & Purpose Forum (P&P Forum) to put in place a two-way formal listening and feedback function which allows timely discussion and debate of key topics, with feedback fed directly into the P&P Forum, which is led by the Audit & Assurance People & Purpose leader.

# Appendix 5:

## Audit quality

We also hold two types of discussion groups below partner level. The Director Advisory Group consists of a diverse group of 18 Directors from across Audit & Assurance who discuss key focus areas for the business and feed into Executive decision making. Often a member of the Executive will attend Director Advisory Group meetings to gain feedback on particular topics to build into our firm response. Topics discussed have included audit culture, operational separation, real estate strategy, hybrid working, the audit of the future and the regulatory landscape.

For our people below director level, we hold group discussion sessions on a monthly basis for each of our business units. Each group is made up of a range of roles from associate to senior manager and with representation from across all our regional offices. At these sessions, the group discuss business projects and initiatives, debating areas of challenge and pulling together feedback that the project sponsor can use to shape the direction of the project. Matters discussed this year include reward and recognition, ways of working, culture of challenge and the attractiveness of the audit profession.

### Workplace wellbeing

We continue to invest in the wellbeing of our people. The now-established Deloitte Works hybrid working approach empowers our people to choose when, where and how they do their best work, aligned to the firm's needs and the needs of the entities we work with.

The UK firm's new wellness advisory team saw the introduction of in-house clinical advisors, dedicated to supporting our people's physical and mental wellbeing, together with new digital smartphone app-enabled processes for our people to notify the firm of absence. Our people now have clearer, faster and more direct access to support via the firm when they need it for things like occupational health, neurodiversity support and workplace adjustments. In the last 12 months we have also enhanced firmwide policies on people issues such as maternity, adoption, surrogacy and paternity, and have introduced new policies on bereavement and the menopause.

Hearing the feedback that we have received from our people throughout the last 12 months, we have delivered webinars on topics such as building personal resilience and reaching out for help. Over 500 of our people attended each session and recordings taken which have both been watched by a further 150 people.

In January 2023 we held a webinar for Audit & Assurance co-hosted by Audit partners and an external wellbeing firm to provide guidance on the topic 'Reaching out for help at work' to assist individuals in having the confidence to seek support when required, whether due to well-being, workload, resource levels or other matters.

### People Leaders

Since its introduction in October 2021, the People Leader role has widened the previous appraiser role to incorporate development, reward conversations, personalised support, business partnering and workplace wellbeing, in addition to performance management. Over the last 12 months we have further invested in ensuring our People Leaders have the right level of experience and support to fulfil these important roles. We have introduced digital guides to clarify the responsibilities of the role, accessed via [Co-Pilot](#), together with just-in-time learning. Having listened to feedback from our People Leaders, we engaged an external psychologist and leadership expert during Spring 2023 to deliver a series of webinars to help increase the confidence and capability of our People Leaders.

# Appendix 5:

## Audit quality

### Diversity and inclusion

Our continued focus on diversity of talent has produced results, demonstrated by the following:

- 44.9% of our people are female, compared to 43.5% last year (+1.4%)
- 34.1% of our people declare they are from an ethnic minority, compared to 28.0% last year (+6.1%).

In our partner population:

- 29.9% of our partners are female, compared to 27.2% last year (+2.7%)
- 11.5% of our partners declare they are an ethnic minority, compared to 8.3% last year (+3.2%).

We know we still have much more to do to improve representation, particularly for Black partners, where we currently have 1% firmwide (1.7% in Audit & Assurance – with two new admissions last year and an external hire increasing our representation from one to four). Although this is slow progress, it is a positive and important step towards increasing the diversity of our leadership.

.....  
“While there is a lot of work to do, I have felt tangible change in the business over the last couple of years. The importance of diversity and inclusion is now much more widely understood and we are promoting a far broader range of role models for our people. As a Black partner, increasing Black representation, particularly at senior levels is important to me, as it is the firm. Together with leadership, the Deloitte Black Network and our people we are working to ensure we achieve our ambitions.”

### Stewart Cumberbatch Audit & Assurance partner

.....  
Diversity is much wider than our firmwide published targets – it encompasses a number of areas and as a firm we are fortunate to have 12 very active diversity networks:

- Proud at Deloitte
- Deloitte Multicultural Network
- Workability Network
- Deloitte Hindu Network
- Deloitte Muslim Network
- Working Families Network
- Deloitte Christian Fellowship

- Deloitte Sikh Network
- The Deloitte Black Network
- JNet
- Gender Balance Network
- Neurodiversity Network

To continue our progress in improving the diversity of our leadership we are focused on our director and partner pipeline for the next three years and the development needs of all individuals. We are taking action to ensure equity within this process, e.g., 66 individuals from these diversity networks (from manager to director grade) are participating in the firm's Future Leaders Programme.

We also have focused on increasing our dialogue and awareness around the circumstances that many of our people experience as a result of their race; our recent ‘Can you hear me?’ session is just one example of how we are doing this, and engaging a number of our people.

### Making time

We recognise the demands on our audit teams are increasing as we strive for the highest audit quality. Therefore, we continue to seek to identify areas to reduce inefficiencies within the audit process. The ‘Make Time’ functionality provides our people with the ability to capture ideas for solutions to efficiency and productivity challenges faced and to submit ideas to our developers across various of our in-house tools.

# Appendix 5:

## Audit quality

### Workplace awards

We are working hard to build a workforce that is reflective of society and are delighted by the awards we have received:

### Recent people awards and rankings (June 2023)

#### Workplace

 <p><b>5th</b> in the 2023 LinkedIn Top Companies list in the UK, and in the top five for the second year running</p>	 <p>Great place to work-Certified™ status <b>12th</b> in 2023 UK Best Workplaces (super-large category) <b>21st</b> in UK Best Workplaces for Wellbeing (2023) &amp; 39th for Women (2022)</p>	 <p><b>32nd</b> in Glassdoor Employees' Choice Award, honouring the top 50 UK Best Places to Work 2023</p>	 <p>The Times <b>Top 50</b> employers for Women (8th year running)</p>	 <p><b>9th</b> in Universum's 'Most Attractive employers for Students and for Professionals'</p>
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#### Early Careers

 <p><b>Most Popular</b> Graduate Recruiter in Accounting and Financial Management &amp; <b>Most Popular</b> Graduate Recruiter in Consulting</p>	 <p>Retained <b>4th place</b> overall in the top 100. <b>Employer of Choice</b> in the Consulting Sector – for the third year in a row. <b>Runners up</b> as Employer of Choice in the Accounting, Actuarial and HR Sectors</p>	 <p>Retained <b>6th place</b> in the top 100</p>
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# Appendix 5:

## Audit quality

### Controls and processes



Our audit engagement acceptance and continuance processes are underpinned by our assessment of risk and our consideration of the public interest. Where the risk profile of an entity is not consistent with our expected risk appetite and the public interest, we would not seek appointment or re-appointment as auditor. We consider both external factors and internal factors. Our UK policies in these areas are supplemented by the Global Audit & Assurance Acceptance Consultation (GAAC).



# Appendix 5:

## Audit quality

For assurance engagements, we do not use the GAAC process however we have created specialist deal review boards for areas of specific concern – for example, special purpose acquisition companies, AI or cyber – given the need for timely consideration of these emerging areas.

Related to the ongoing conflict in Ukraine, in 2022 we introduced a number of additional measures to identify and evaluate the acceptance and continuance of engagements impacted by the sanctions imposed on Russia. These additional measures and controls continue to operate.

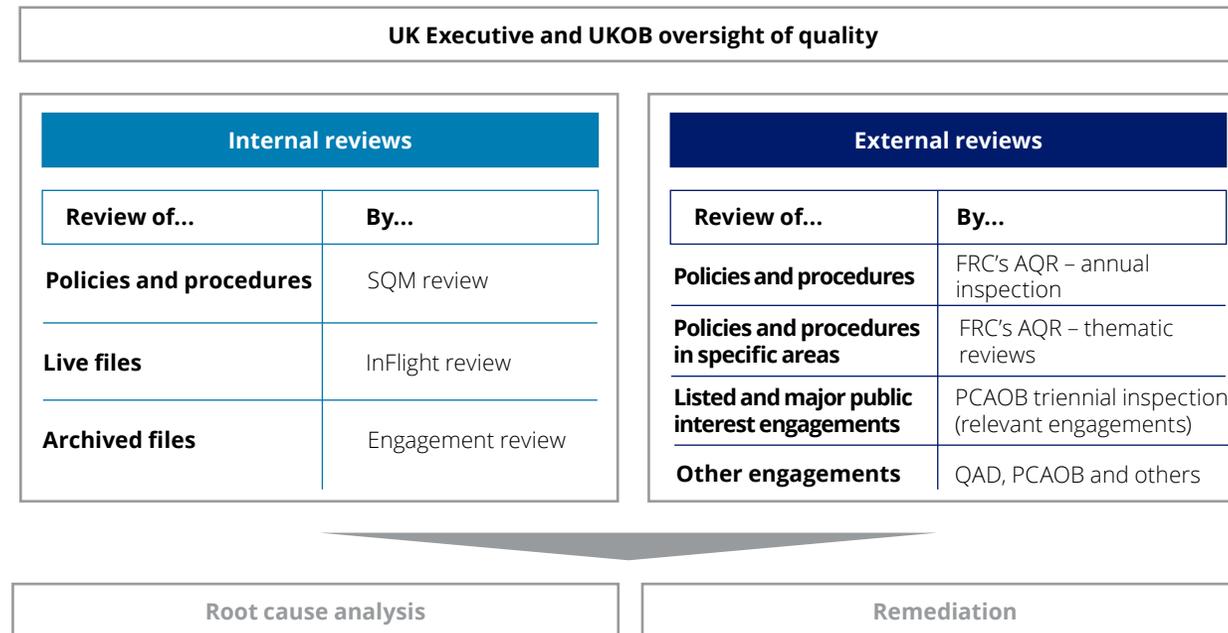
### Monitoring and measuring audit quality

To achieve our aim to be recognised as the standard of excellence for audit quality we are focused on continuous improvement and use the findings of internal and external reviews to swiftly identify gaps and put in place measures to enhance our system of quality control.

We have formal governance around audit quality, including the AGB, who hold leadership to account on how we perform high-quality audits in the public interest. We also have regular external inspections by the Audit Quality Review (AQR), the Public Company Accounting Oversight Board (PCAOB), the Quality Assurance Department (QAD) and others, and an internal review programme. We develop an audit quality plan (AQP) to monitor audit quality initiatives and the findings from these reviews.

Deloitte consistently reinforces the important role of auditors as independent evaluators who must maintain a mindset of professional scepticism and challenge throughout the conduct of our work. This approach to the audit is reflected in Deloitte policies, methods, procedures, and learning, and is reinforced through quality control and accountability measures. Two areas of importance to this are our consultation process and the Engagement Quality Review (EQR)<sup>17</sup>.

A continued focus on audit quality is of paramount importance to the Deloitte brand. It is critical that a Deloitte audit is consistently executed and of high quality, wherever in the world it is performed. We deliver this through our Global Monitoring & Remediation programme.



<sup>17</sup> In our last report, we referred to Engagement Quality Control Review (EQCR); following adoption of new standards, the same role is now called Engagement Quality Review.

# Appendix 5:

## Audit quality

### **InFlight reviews**

InFlight engagement reviews, which have been embedded in the quality monitoring function for a number of years, have been a fundamental pillar in our monitoring efforts. InFlight reviews are performed in a similar way to a review of an archived file, but are performed on a live engagement, with reviews taking place at the key stages throughout the audit.

As part of the InFlight monitoring programme we have also established a number of different options available under the umbrella of InFlight reviews, which range from a full review as described above to a more targeted review on certain subject matters, sometimes combined with coaching. We believe that offering these different levels of review allows for a more targeted and tailored offering to support the audit quality agenda of our engagement teams.

Whilst the number of InFlight reviews captured as part of the formal monitoring programme has not increased in FY23, it is notable that there are a large number of other inflight activities conducted, in addition to the EQR/PSR reviews, which have increased over the same period. These activities include various consultations and centres of excellence (for example, in relation to impairment and group audits), central quality-focussed reviews (QCR, climate reviews) and risk management programmes.

We intend to increase the number of InFlight reviews over the coming years and refocus our other inflight activities to capture a broader spectrum of our portfolio within the overall programme.

### **ISQM 1 implementation**

This year, led by senior UK leadership, the firm successfully implemented ISQM 1 to be effective as of the implementation date of 15 December 2022. The release and implementation of this standard will drive further enhancements in our audit quality management processes. Requiring a proactive, risk-based approach, ISQM 1 emphasises the importance of alignment of the firm's system of quality management (SQM) and its strategic decisions and actions, including financial and operational priorities, with audit quality. It is this alignment that enables the firm to serve in the public interest, through the consistent delivery of quality engagements supported by a robust SQM.

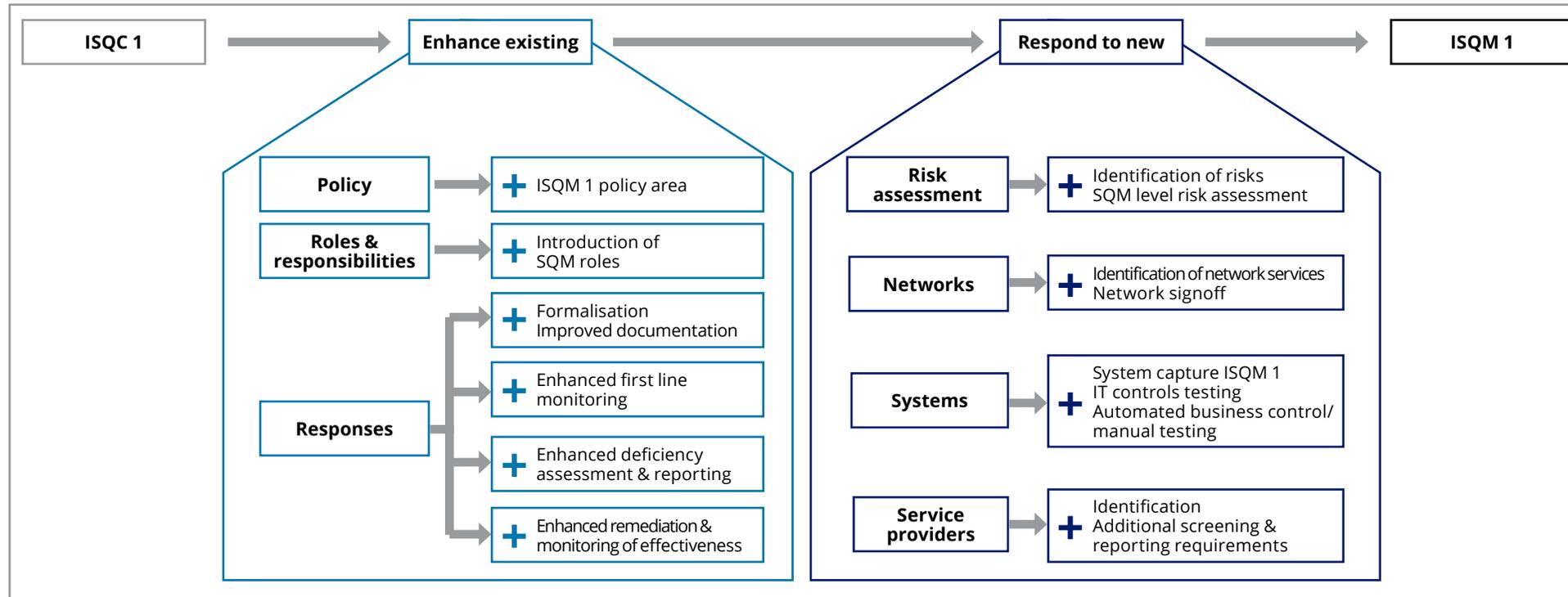
A number of processes were existing from the preceding international standard on quality control (ISQC 1) and these required enhancements to meet the more robust requirements of ISQM 1. This was primarily achieved through allocation of new key SQM roles, formalisation of controls and improved documentation. The monitoring and remediation processes were also enhanced to meet new requirements over deficiency assessment and reporting, and remediation and monitoring of effectiveness.

As part of the implementation of ISQM 1, quality objectives, quality risks and responses were formalised and brought together in a globally consistent technology platform. This facilitates the design and maintenance of the system, and the operation, through tri-annual self-assessments by business process owners and reporting capabilities, to support the required annual evaluation. An overview of our system is outlined in the following visual.

# Appendix 5:

## Audit quality

During implementation the existing SQM has been enhanced to meet ISQM 1 requirements:



# Appendix 5:

## Audit quality

### First ISQM 1 assessment

The first evaluation of the SQM is required to be performed within one year following 15 December 2022. Deloitte UK performed its first evaluation of its SQM as of 31 May 2023.

The assessment performed took into account the results of monitoring performed by the business, the monitoring and remediation function and the results of external reviews performed in the period. Any matters identified were assessed by an independent moderation panel and overall results reported to the Ultimate Responsible Party for the SQM, the AGB and UKOB for endorsement.

### Conclusion on the effectiveness of the System of Quality Management

Deloitte UK is responsible for designing, implementing, and operating a SQM for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that the objectives of the SQM are being achieved.

The objectives are:

- The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements
- Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Deloitte UK conducted its evaluation in accordance with the ISQM 1 and concluded the SQM provides the firm with reasonable assurance\* that objectives of the SQM are being achieved as of 31 May 2023.

\*Reasonable assurance is obtained when the system of quality management reduces to an acceptably low level the risk that the objectives of the SQM are not achieved. Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of a system of quality management.

# Appendix 5:

## Audit quality

### Data driven audit

We aim to have the data driven audit approach at the centre of our audit and assurance business. This means obtaining all the relevant data and embedding its use throughout the audit, helping our audit teams to assess and use data in the most effective way.

This has required us to embed relevant changes into our approach, our technology, including Omnia and Levvia, and into our teams, including more investment in our data specialists and in training our auditors.

### Deloitte Omnia and Deloitte Levvia

Following successful piloting of Deloitte's holistic global audit platforms, Deloitte Omnia and Deloitte Levvia, we continue to transition the delivery of our audits into these platforms. Deloitte Omnia is our cloud-based, end-to-end audit delivery platform for large and complex audits, including listed entities, while Deloitte Levvia delivers a streamlined, right-sized digital audit experience for our portfolio business. Both platforms support our people to consistently deliver high-quality audits including greater collaboration between group and component auditors, standardisation and consistency. We commenced the rollout of the two platforms during FY2023 and have set targets that, by the end of FY2024, 35% of our higher-risk and more complex audits will have transferred to Omnia, and 17% of low risk and less complex audits to Levvia.

.....  
"Embracing the new platform for audits has significantly elevated our audit quality. By meticulously documenting controls, we pinpoint the control steps that directly mitigate material misstatement risks. In project planning, the platform empowers us to distribute our workloads efficiently, enabling proactive management to meet our audit quality milestones."

### Audit assistant manager

.....  
More detail on our data-driven audit approach can be found in [Appendix 7: Deloitte digital audit](#).

### Ongoing investment in research and development

Given many of our people in Audit & Assurance contribute varying proportions of their time to our audit innovation agenda, it is difficult for us to quantify an absolute value for the audit quality indicator metric of 'investment in research and development'. We have instead elected to make qualitative disclosure in this area.

We are committed to the continued investment in emerging technologies and diversity of thought that enables the delivery of enhanced quality, insights, and value to the entities we audit and the markets. Development, enhancement, and deployment of our new audit platforms Omnia and Levvia will continue over the next few years. Deloitte is also developing and implementing innovative global data and analytics solutions, and our integrated suite of enabling innovation technologies which are all connected in the cloud.

In addition to these specific initiatives within Deloitte, a number of our people contribute externally to various committees and working groups, actively participating in research and development across the audit profession as a whole.

### Rotation of partners and key staff

We recognise the risk of a threat to independence from prolonged service of partners and key staff on an audit engagement team. We closely monitor the length of time partners and key staff spend on each engagement, including across different roles. We implement succession plans where appropriate, and our monitoring of key partner roles systematically facilitates this. Where possible we seek to gradually rotate key roles from year to year to avoid large scale change in one year, however we do also note that audit quality can be enhanced by a fresh pair of eyes.

# Appendix 5:

## Audit quality

We confirm key audit partners responsible for carrying out the statutory audit of an FRC PIE, Market Traded Company or listed entity (as defined by the FRC) serve for not more than five years, other than in exceptional circumstances as permitted by the FRC's standards. They do not participate again in the statutory audit of the audited entity before a further five years have elapsed. Partners leading other audits can serve for no longer than seven or ten years (depending on the nature of the entity) and cannot return for two years.

# Appendix 5:

## Audit quality

### High-quality outcomes



Our audit quality strategy includes a continued focus on fostering a purpose-led culture and commitment to excellence, supporting consistent execution of high-quality audits, and building a world-class system of quality management. Timely, effective monitoring activities are critical for identifying, understanding, and responding to risks to drive proactive and measurable improvements in audit quality.

### Quality reviews

#### Results of firm's internal audit quality reviews

Both the current year and comparative data includes the UK and Gibraltar. Any comparison of results year-on-year should recognise we continually seek to refine our approach to internal engagement monitoring and to make the reviews more challenging and robust. The firm performs retrospective remediation of all high and medium findings for an improvement required or non-compliant rated engagement, and prospective remediation on all findings regardless of the engagement rating in the subsequent year's audit.

### Metrics on audit quality reviews (internal)

Number of engagements reviewed in our internal audit quality reviews<sup>18</sup>:

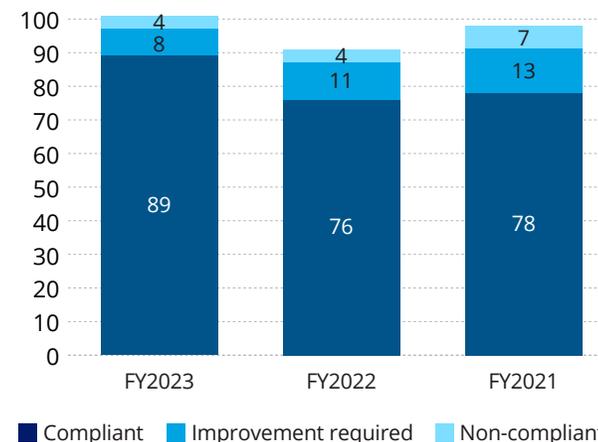
**FY2023: 101**, FY2022: 91, FY2021: 98

#### Results from our FY2023 internal audit quality reviews:

Compliant: 89 (88.1%)

Improvement required: 8 (7.9%)

Non-compliant: 4 (4.0%)



<sup>18</sup> In order to comply with the requirements of the new quality management standard ISQM 1, effective from 15 December 2022, the reporting date has been moved to 15 July 2023. Comparative data for FY2022 and FY2021 has been restated accordingly.

# Appendix 5:

## Audit quality

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

**FY2023: 32%**, FY2022: 23% (restated),  
FY2021: 29% (restated)

In FY2023, following the change in reporting date, we have adopted a continuous review cycle throughout the year. As a result, the restated annualised figures for FY2022 look comparatively low given the timing of reviews performed during 2022, where a large proportion of reviews were performed later in the calendar year.

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 Management (SQM) monitoring

The FY2023 SQM monitoring plan has fully transitioned and incorporated the requirements of the ISQM 1 standard following its implementation on 15 December 2022. Monitoring activities have been enhanced in both the first line (e.g., through the introduction of tri-annual self-assessments by business process owners) and in the second line.

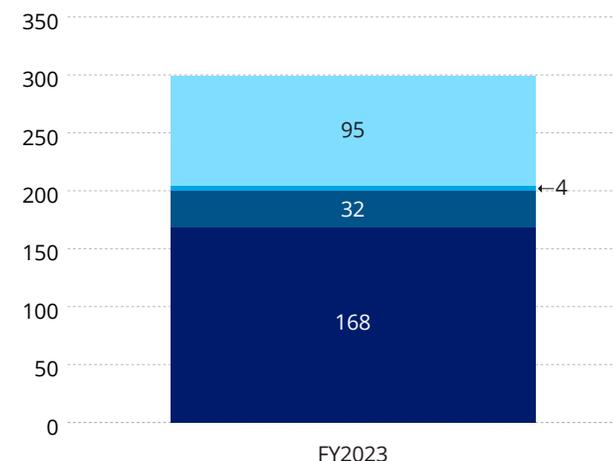
For second line, the scoping of the monitoring plan was conducted through a robust risk assessment of the firm's quality risks to identify which risks and responses were to be tested in FY2023. To monitor that the SQM is operating effectively, we planned to test responses addressing 204 risks (out of 299) across 45 (out of 48) business processes. The number of processes changed in FY2023 from 44 reported previously to 48 following the introduction of a new risk library.

It is the responsibility of the SQM monitoring team to identify observations during testing. Observations are reviewed by the SQM Monitoring Lead prior to discussion and agreement with the relevant business process owners. Once agreed, observations are evaluated by the SQM Moderation Panel to determine if the observation constitutes a finding or deficiency in line with the guidance set out in the International Auditing and Assurance Standards Board (IAASB) ISQM 1 First Time Implementation Guide.

In FY2022, we identified eight areas that needed improvement (FY2021: 15) of which three (FY2021: 3) needed significant improvement. During the year, alongside our work to implement ISQM 1, we undertook actions to address those areas. In FY2023, across 36 risks, there were 23 findings and one deficiency identified, which did not have an impact on the evaluation of the SQM.

It is important to note, as part of the transition to ISQM 1, we no longer rate business processes and the terminology of finding is not applicable until the moderation stage of our SQM review. This should be considered when comparing results year on year.

### Results of SQM monitoring



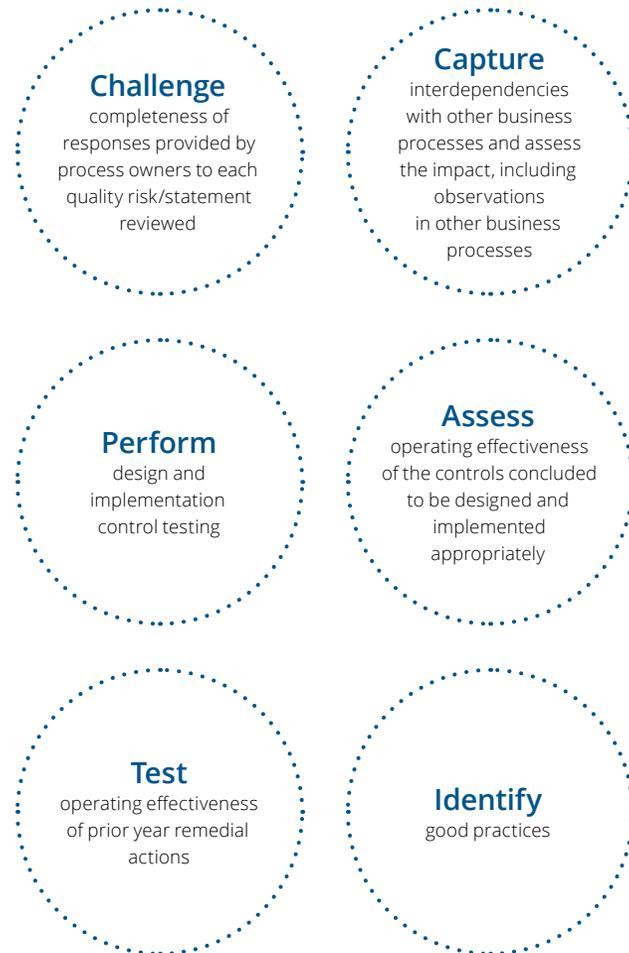
- Risks not tested this year
- Risks tested resulting in deficiency \*
- Risks tested resulting in findings, no deficiency
- Risks tested with no findings or deficiencies

\* There was one deficiency relating to four risk areas which did not have an impact on the evaluation of the SQM.

# Appendix 5:

## Audit quality

The review activities are performed by the SQM monitoring team and involves the following actions:



Action plans are required to address all findings raised during the FY2023 review. Responsibility for developing and delivering the actions against the findings and deficiencies arising from SQM activities lies with the owner of the relevant business process but can also include additional action owners if required. The SQM lead performs an initial evaluation of design of remedial actions to ensure that developed actions mitigate the risk. This is subsequently challenged and approved by the firm's Monitoring & Remediation Leader.

There continues to be an additional centralised monitoring process where action status is reviewed with the process owners on a monthly basis and reported in the AQP to the Audit Quality Board and FRC. On a quarterly basis, we also report the action status to leadership through the audit quality indicator (AQI) reports to highlight where leadership support is required. All actions are subject to operating effectiveness testing during the subsequent SQM review to confirm both implementation and effectiveness.

### Results of inspection by the AQR of the FRC

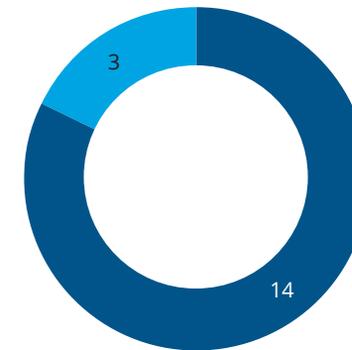
The FRC's AQR focusses primarily on the audits of PIEs. They review a sample of individual audits and assess elements of our quality control systems. Separately, they provide thematic reviews of certain areas, which provide useful insights for our continuous improvement.

### Number of Audit engagements reviewed:

2022/23: 17, 2021/22: 17, 2020/21: 19

2022/23 results are:

- Good or limited improvements required (Grade 1 and 2) – 14 (82%)
- Acceptable overall with improvements required (Grade 3) – 3 (18%)
- Significant improvements required (Grade 4) – 0 (0%)



- Good or limited improvements required
- Acceptable overall with improvements required

# Appendix 5:

## Audit quality

We are proud that the percentage of our PIE audits rated 'good' or 'limited improvements required' by the FRC has a five-year average of above 81%.

The FRC's full 2022/23 report of the AQR on Deloitte can be found at: [FRC Deloitte LLP Audit Quality Inspection and Supervision Report, July 2023](#)

### Results of inspection by the QAD of the ICAEW

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 in the [FRC public report on the firm](#).

### Number of engagements reviewed:

**FY2023: 10, FY2022: 10, FY2021: 10**

FY2023 results are:

- Satisfactory or generally acceptable – 10 (100%)
- Improvements required – 0 (0%)
- Significant improvements required – 0 (0%)

We have reflected on each of the key findings arising on individual audits and, following an assessment of the root cause themes arising and actions already taken during the inspection cycle in these areas, determined where further action is required. All findings have also

been communicated in our monthly partner and director briefings on areas of regulatory focus. Actions are incorporated and monitored through the AQP and, where deemed necessary, as priority focus areas within the SQP.

In relation to the findings on revenue, there are some common areas of findings between the AQR and QAD inspections and we have appointed a partner to develop a revenue centre of excellence. The approach which is being developed will involve experienced partners and directors within Audit covering a variety of industries. The involvement of the centre of excellence will focus on the overall approach to revenue testing, including an end-to-end view of revenue, the risk assessment, planned controls and IT and substantive work, and will take place during the key stages of the risk assessment, planning and execution stages of an audit. We intend on using best practice examples identified in inspections alongside the root cause analysis we have performed to drive continuous audit quality enhancements in this area.

We took action early during the inspection cycle in order to respond to the findings identified and primary root causes relating to cash equivalents and cash flow statements. Our actions focused on clarifying existing guidance, upskilling and coaching less experienced team members and ensuring that appropriate focus was given to the review of the audit work performed on cash and cash equivalents by more experienced members of the engagement team.

Provisions is often a judgemental and complex area of an audit, and we acknowledge that findings were raised in this area in both the current and previous inspection cycle. The findings raised in the current and previous inspection cycles are varied in nature, and in many cases relate to entity specific areas, or to certain specific aspects of a provision. We have seen examples of findings arising in lower risk balances or assertions and therefore our focus has been on reiterating the importance of evidencing challenge and stand back assessments across all material provisions, regardless of risk assessment.

We are pleased to see examples of good practice highlighted by the FRC for our robust procedures over provisions. We have seen improvements in our work in this area, particularly where a significant risk has been identified, which reflect the positive impact of previous actions taken to address identified root causes. The actions we have taken this year reflect our drive for consistency in execution, particularly where balances have been identified as lower risk.

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## Audit quality

### Number of Part 1 references in the latest PCAOB inspection report

The most recent triennial inspection report on Deloitte UK was published by the PCAOB on 11 February 2021 and contained one Part 1A reference. The full report can be found at:

[2019 Inspection Deloitte LLP: PCAOB Release No. 104-2021-055](#)

(The previous report was issued on 30 October 2017 and contained one Part 1 reference.)

We have evaluated the PCAOB's comment on the one audit identified in Part 1A of the 2021 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.

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. The PCAOB's next report on our UK audits is due in 2023/24.

### Root cause analysis (RCA)

RCA is a tool that helps drive continuous improvement in audit and assurance quality. It is critical for us to identify potential or actual weaknesses in the SQM and to implement effective corrective actions on a timely basis. The process to understand the factors that caused or contributed to an audit quality outcome such that actions can be implemented that will prevent or reduce the likelihood of future occurrences of that issue, as well as others occurring or that could occur from the same factor(s), is generally defined as RCA.

### The scope of audit quality outcomes for which we perform RCA includes:

- Internal and external inspections results
- Prior year adjustments
- Findings and deficiencies within the system of quality management
- Other ad hoc quality events such as matters that are subject to regulatory enquiries or investigation.

We also perform RCA for positive quality outcomes to ensure that leading practices and behaviours that lead to high audit quality are regularly shared with partners and staff to facilitate continuous improvements in audit quality.

In conjunction with the ADG, actions are developed for any thematic findings or root causes that are thematic to the wider review population and such actions are included within the Audit Quality Plan and monitored for completion. The actions developed are reviewed and challenged by the CIG and subsequently the firm's Monitoring & Remediation Leader.

Analysis of the nature and severity of internal and external inspection findings demonstrates that progress has been made in a number of areas that had thematic findings in last year's inspections. There has been an overall decrease in the number and severity of findings in internal inspections relating to journal entry testing, fact based risk assessment and aspects of internal control testing and there have been no findings in external inspections relating to group audits, impairment and independence. Leading practices have been identified this year in a number of these previous thematic areas of findings.

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## Audit quality

The decrease in the number and severity of findings in these areas, and the decrease in the proportion of audits assessed as non-compliant or improvements required in internal inspections, is a result of audit quality actions taken previously. We continue to monitor and innovate our inspections programme to ensure it remains robust and fit for purpose to respond to the needs of our internal and external stakeholders.

The measures we have taken over the last 12 months to improve the effectiveness and efficiency of our resourcing model also mean that the workload and capacity challenges have eased and are no longer a root cause of adverse inspection results this year.

Root cause analysis on this year's engagement inspections results indicated that actions were needed to further improve the coaching and depth of engagement team management direction, supervision, and review to support staff who were new to the firm and also in relation to assumed knowledge or familiarity with judgements or conclusions from previous audits that continued to be relevant.

Root causes that lead to audit quality outcomes are reported to Audit & Assurance leadership, Audit practitioners and SQM process owners. Where necessary root causes of thematic, significant or pervasive audit quality issues are also discussed with the ADG. The

actions developed are reviewed and challenged by the CIG.

Engagements that were identified as high quality during internal and external file inspections highlighted that early and regular senior team involvement, consultative and coaching mindsets at all grades, and the use of available technical guidance and practice aids contributed to the quality of audit procedures and evidence. Our efforts to communicate and encourage positive behaviours, coupled with actions taken on thematic findings, has resulted in a gradual overall increase in the compliance rate of our internal inspections (2023: 88%, 2022: 84%, 2021: 80%) and our external inspections by the AQR (2023: 82%, 2022: 80%, 2021: 79%) and the QAD (2023: 100%, 2022: 80%, 2021: 90%) over the past three years.

### **The Actions Development Group (ADG) and Continuous Improvement Group (CIG)**

In response to FRC recommendations and in order to address recurring findings and root causes, the firm established its CIG on 1 June 2022 alongside the ADG in Autumn 2022.

Since its inception, the CIG has focused on reviewing and challenging audit quality actions developed by the ADG, reviewing and challenging the SQP and reviewing progress made in respect of actions taken in respect to the FRC's Annual Supervisor Letter and actions associated with non-financial sanctions.

The CIG will continue to review and challenge the actions taken in response to investigations, case matters and other contentious matters, as well as key and thematic findings from both internal and external inspections. The CIG has been heavily involved in reviewing and challenging responses to the 2022/2023 inspection cycle, including detailed review of RCAs, meeting with inspection support teams and ensuring that actions developed are clearly responsive to the findings. The CIG will also review, monitor and challenge the SQP, challenging whether key remedial actions are given sufficient priority and performing a rolling review of the high priority areas identified in the SQP. The CIG has reviewed the progress made and effectiveness of initiatives taken by the firm following sanctions imposed on Deloitte LLP by the FRC.

The remit of the ADG is to support continual improvement to audit quality through review and challenge of initial actions developed by the action owner(s). The ADG brings together a panel of partners and directors from national office and from the business with representation from learning and development, people and purpose, IT audit, extended delivery teams and business unit quality leaders. The ADG is facilitating a more timely response to emerging areas of focus.

Work is currently ongoing to assess the quality of audit work performed in testing goodwill and impairment following the findings in respect of the Mitie audit in 2016 and the root cause analysis that was performed

# Appendix 5:

## Audit quality

with respect to the findings. During 2023, CIG has established a schedule of regular meetings with members of the AGB; the UK Managing Partner Quality Risk and Security; the Managing Partner Audit & Assurance; the NSE Monitoring & Remediation leader; and the NAA Risk & Regulation team to ensure they have a view of the outcomes from this activity. CIG also now receives all the monthly management information used by the UK Audit & Assurance Executive. A self-evaluation of the effectiveness of CIG will be conducted every two years, with the first self-assessment scheduled for Autumn 2023.

### Single Quality Plan (SQP)

The development of our SQP has been a key focus area during the year and seeks to drive measurable improvements in audit quality. Our SQP aims to prioritise and measure progress in specific identified areas that we consider are most critical to achieving our stated audit quality ambition. We have identified a number of priority areas, with each priority area having an Audit & Assurance Executive sponsor, identified KPIs to measure progress and means of measuring the effectiveness of key actions, which we continue to refine. Wider actions are tracked within our Audit Quality plan (AQP) and any high priority actions also reported in the SQP.

Our recently developed SQP tool is also now in place and enables effective analysis of the detailed actions contained within the SQP and AQP, which allows for real-time monitoring and provides a holistic overview of audit quality initiatives. The INEs have oversight over the SQP through regular AGB reporting as well as direct access to the SQP tool to aid ongoing oversight. We are committed to continuing to develop the SQP by further strengthening the focus and prioritisation of key initiatives and responding to ongoing feedback from the FRC.

### Current year matters

We engage regularly with the FRC on matters that are under enquiry or investigation. RCA is performed on those matters where the agreed facts indicate that there may be opportunities for improvement in audit quality. Root causes are discussed through ADG to develop actions to address any of those matters where firmwide action is considered appropriate to prevent similar issues arising on other audits. During the year we have performed RCA on three audits that were subject to investigation or enforcement and have developed and agreed actions with the FRC to address the root causes identified. We continue to monitor the effectiveness of those actions.

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## Audit quality

### Metrics on external investigations - audit

AQI definition	Deloitte metric FY2023 (FY2022)	Deloitte commentary
Number of cases in the last 12 months in which the FRC's Conduct Committee has found against the firm or one of its members	2 (1)	<p>During the year to 31 May 2023, there were two settlements of a matters with the FRC's Conduct Committee. One in relation to the statutory audit of an unnamed Crown Dependencies audit for the year ended 31 December 2018. The firm agreed to a regulatory penalty of £440,000 (adjusted for cooperation/mitigation to £330,000). One in relation to the statutory audit of the financial statements of SIG plc for the years ended 31 December 2015 and 31 December 2016. The firm agreed to a fine of £1.25 million (adjusted for admissions/early disposal to £906,250) and a severe reprimand; the engagement partner agreed to a severe reprimand and a fine of £50,000 (adjusted for mitigating factors and admissions/early disposal to £36,250).</p> <p>There are three ongoing matters which have been announced by the FRC relating to the audit work of the firm which are yet to be concluded and are therefore excluded from the FY2023 total for cases concluded:</p> <ul style="list-style-type: none"><li>• One ongoing investigation which commenced in March 2021 concerning the firm's audit work on Lookers plc's 2017 and 2018 financial statements</li><li>• One ongoing investigation which commenced in April 2022 concerning the firm's audit work on Go-Ahead Group plc's financial statements for FY2016 to FY2021, inclusive</li><li>• One ongoing investigation which commenced in March 2023 concerning the firm's audit work on Joules Group plc for the year ended 30 May 2021.</li></ul>
Number of cases in the last 12 months in which the disciplinary committee of any other regulatory body has found against the firm or one of its members	0 (0)	No such cases occurred during the year to 31 May 2023.

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## Audit quality

### Metrics on external investigations – non-audit

<b>AQI definition</b>	<b>Deloitte metric FY2023 (FY2022)</b>	<b>Deloitte commentary</b>
Number of cases in the last 12 months in which the FRC's Conduct Committee has found against the firm or one of its members	0 (0)	No such cases occurred during the year to 31 May 2023.
Number of cases in the last 12 months in which the disciplinary committee of any other regulatory body has found against the firm or one of its members	0 (0)	No such cases occurred during the year to 31 May 2023.

# Appendix 5:

## Audit quality

### Exam cheating

A topic which has received extensive coverage in the global press is that of answer sharing or exam cheating. As a firm we acknowledge the importance of integrity and ethical behaviour in our profession, as well as the critical role our Audit & Assurance practitioners play in society, protecting investors, and enabling and building trust in the capital markets.

Our ethics programme sets the expectation that we individually and collectively encourage people to:

- Serve with integrity
- Do the right thing
- Never compromise on quality
- Speak up
- Protect Deloitte's reputation as your own.

With that being said, we recognise as a firm with more than 27,000 partners and staff in the UK, we are not immune from inappropriate behaviour. It is a risk we treat seriously, and consequently we seek to improve continuously and to learn lessons where we can.

Our standard employment contracts include terms which make it clear cheating in a professional exam would represent gross misconduct.

### Measuring and rewarding quality

The four main areas against which audit partners and staff are assessed are:



Quality



Financial and operational resilience



People and purpose



Business transformation and change

### For all our people

Our appraisal process is designed to ensure that audit quality is at the core of performance review decisions. All our professionals working on audits set annual audit quality objectives, which are considered as part of their performance review discussions.

Engagement teams hold regular check-in meetings to encourage discussions around quality and the link to individuals' audit quality objectives. Individuals receive both 'snapshot' and written feedback throughout the year, with results discussed in their performance review.

We are committed to furthering our purpose-led culture and commitment to 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.

### For managers, directors and partners

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
- For Responsible Individuals (audit partners and signing directors) any independence breaches and other procedural breaches

# Appendix 5:

## Audit quality

- Additional partner review role(s)
- Individuals' own commentary (if relevant) on positive contributions to audit quality on a quarterly basis.

The audit quality dashboard is a key input into the appraisal and remuneration process for staff at manager level and above. For quality dashboard scores that are particularly low or high, justification for the reward decision is required to be made.

### **For Responsible Individuals (RI) and audit partners**

In addition to their audit quality dashboard, each RI 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 EQR roles on audit engagements.

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

- Inclusion in the Monitoring and Remediation programme
- Additional coaching and learning for the partner or director RI

- Financial penalties in the form of bonus or unit reduction
- Removing the individual from our group of RIs.

### **For partners**

Partners have an annual objective-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 are required to 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.

The Audit Quality Remuneration Committee (AQRC) reviews any negative quality events and, depending on the results, a partner may:

- i. Be required over the year to reverse the situation by making a positive quality contribution and if, as we hope, that contribution is meaningful the requirement will be removed at the end of a three-year period. If the situation is not reversed further requirements (ii below) and a financial penalty will arise

- ii. Receive additional monitoring and coaching, financial penalties and/or removal of signing rights as a partner.

When a negative quality event is of significance or represents a recurring quality failure, after consideration by the AQRC, a further penalty or reduction of partner units may be recommended.

The AQRC comprises a small group of experienced partners, independent of the Audit & Assurance Executive, who are respected for their own quality contribution. A Non-Executive also attends AQRC meetings as part of their independent oversight of the audit partner remuneration process. 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.

### **For partners in Assurance**

Partners who work in our Audit & Assurance business but solely on assurance engagements are not included in the AQRC evaluation process, but their remuneration remains aligned with the principles of quality. All Assurance partners are appraised within the ISQM 1 framework which includes a focus on quality and professional scepticism. In the next year we will be developing and implementing a refreshed suite of metrics to more

# Appendix 5:

## Audit quality

effectively measure the Assurance partners' commitment to quality.

### **Audit & Assurance quality awards**

We believe it is important to recognise and celebrate those that seize the moment, support a culture of development and well-being, and do something that makes a real impact on the entities we work with, their stakeholders and our quality agenda.

[By recognising and rewarding those who demonstrate exceptional positive quality behaviours we will encourage others to do the same.](#)

Our initiative for recognising and rewarding exceptional contributions to quality across all of Audit & Assurance has this year awarded 303 individuals (FY2022: 154) and 48 teams (FY2022: 24).

Nominations are reviewed by a committee of senior practitioners from audit teams and the quality team, who determine the quality awards. We celebrate stories from the quality awards as part of our internal communications, and we continue to listen, acknowledge and reward our people throughout the year.

### **Who we work with**

As a firm, we assess [risk and continuance](#) using four metrics:

- Strength of governance (capability, empowerment, willingness to act)
- Strength of the finance function (capability and capacity)
- Strength of the underlying control environment
- Strength of the underlying business model – longevity.

We also consider the audit environment, including company attitudes towards audit and governance, and the wellbeing of our staff. We have resigned from audits where the company does not take the audit seriously or treat our staff with the appropriate respect.

Some of the most challenging audits are those where we identify concerns regarding the control environment 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 Those Charged With Governance where we identify such matters. We give advance notice to entities where they have significant concerns which could impact on our ability to continue to act as their auditor. We request a formalised action plan to address our concerns

and actively monitor against this plan. We see this as an important part of our public interest role and in bringing challenge to management, and Those Charged With Governance, through our audits.

If improvements are not made in a timely and effective manner, we seriously assess whether we are able to continue as auditor. This is not something we do lightly, and there are a very small number of such cases in any given year. While the act of resigning from an audit is a last resort, it is the only mechanism at the current time available to us. Corporate reform - and in particular the strengthening of requirements around reporting and evidence on internal controls - is vital to address this challenge.

On a number of occasions, we have delayed our signing of the audit report until sufficient audit evidence could be obtained. All our RIs and audit partners have the support of the firm to do this, a message that continues to be reiterated.

# Appendix 5:

## Audit quality

### **The value of audit**

We are committed to continuing to invest and challenge ourselves to ensure that our controls, processes, mindset and culture all support consistent high-quality audits.

This quality appendix has provided examples of how we deliver and monitor against this priority.

Company management and boards are accountable for their own behaviours, controls and reporting but audit and assurance have an important role to play in bringing an additional layer of independent rigour and challenge to the increasingly broad and complex information that is reported to the market.

# Appendix 6:

## Our cultural ambition

Following engagement with people across the breadth of our Audit & Assurance business and wider stakeholders, we have now developed a set of aligned Audit & Assurance behaviours, which build on our global shared values to bring our cultural ambition to life.

These behaviours reflect our shared purpose, our inclusive nature, the standards we uphold and the pride in what we do as an Audit & Assurance business. We want our people to be proud of our role in protecting the public interest and that what we do matters.

Our cultural ambition is that we include everyone; we challenge and we rise to the challenge; and that we do the right thing.

### Our shared sense of purpose guides all that we do....



#### Lead the way

- We innovate to continually raise the bar and to shape the future of audit
- We commit to excellence, give our best effort in everything we do and take pride in our right-first-time mindset
- We take pride in the impact that we make to delivering quality outcomes in the public interest



#### Serve with integrity

- We deliver challenge by being curious, professionally sceptical and unwavering in our commitment to evidencing the facts before we reach a conclusion
- We do the right thing, never compromising our Shared Values
- We act ethically and with integrity and we feel safe to speak up



#### Foster inclusion

- We bring the right people in to our decision making and we build trust by explaining our decisions to the whole team
- We respect each other and therefore we create an environment where it is safe to challenge each other in a respectful way
- We acknowledge our susceptibility to bias and we embrace different viewpoints and diversity in all forms



#### Collaborate for measurable impact

- We challenge entity management and hold each other accountable to deliver high quality outcomes
- We use the knowledge and expertise of the whole of Deloitte to make a bigger positive impact
- We recognise and celebrate actions taken to enhance quality and to achieve continual improvement



#### Take care of each other

- We prioritise and embrace learning and we coach and develop each other to grow and improve
- We ask for help and we help each other, to support our own and each other's wellbeing
- We give and receive timely, honest, developmental feedback, which we recognise is fundamental to building trust

.... and we are proud that what we do matters

# Appendix 6:

## Our cultural ambition

We know evolving culture does not happen overnight. It will take some time to embed and there is not one single action we can take to get us there.

### Reinforcing our Audit & Assurance behaviours

We strive to embed our aligned Audit & Assurance behaviours into everything that we do, including our learning and development and reward and recognition structures.

TechEx is designed around our cultural ambition and these Audit & Assurance behaviours. The behaviours are also incorporated into our performance management process from 1 June 2023 through our balanced scorecards and objective setting process. The aim is to reinforce the importance of people's contribution to our culture by formally recognising these in our performance management process.

### Self-evaluation

Audit quality can sometimes be impacted, both positively and negatively, by the behaviours within the team. As part of our investment in culture we have developed a partner self-evaluation tool (with assistance provided for the partners to interpret the outputs).

The tool creates a stronger level of self-awareness about a partner's own behavioural tendencies and personas, which in turn can allow partners to create a development plan that allows them to mitigate such behaviours threatening the quality of their audit work. The tool is supported by an elective programme of learning and development tools that partners can access for support in their development.

We have piloted the tool and programme across a selection of partners of differing seniority and partner tenure over the course of the year. A second cohort of partners will be taking part in the programme in 2023 and it is our intention that by 2025 all Audit & Assurance partners and partner candidates will have taken part in the programme and will be invited to take part in reassessment at milestones in their partner life cycle. We will incorporate the aggregate results from this programme into our existing partner development programmes.

### Measuring and monitoring our culture

Understanding where we are on our journey to achieving our stated cultural ambition is paramount. We are currently designing our approach for culture measurement and monitoring. This will be used to assess our progress towards our desired cultural ambition and inform decisions we make as a practice to continue to drive consistently high-quality audit work.

The UK Culture Council are overseeing the ongoing 'Measuring our Values' programme, a project to develop a UK firmwide reporting dashboard for our performance against the shared values and a measure of our culture.

The discovery phase has been concluded, which has informed an indicative measurement methodology. Within the methodology are a number of Value Indicators acting as high-level measures, each containing underlying metrics and calculations to inform the Indicator output. This programme will provide the basis for measurement of our cultural ambition and Audit & Assurance behaviours.

Embedding our purpose led culture and measuring and monitoring our progress against our cultural ambition is an important factor in ensuring the consistent performance of high-quality audit in the public interest. As such, it is a key area of focus for the AGB which provides oversight of the procedures for ensuring the culture in Audit & Assurance supports audit quality and the public interest by encouraging ethical behaviour, openness, teamwork, challenge, professional scepticism and judgement.

# Appendix 6:

## Our cultural ambition

The Audit & Assurance Executive reports to the AGB regularly on our culture. During the year, this included reporting on the culture review completed and the design of the cultural ambition and associated Audit & Assurance behaviours; interactions with the wider UK business, Deloitte NSE and Deloitte Global to influence and leverage their work on culture; and actions being taken to amplify our purpose and values, including through tone at the top.

The AGB will be closely following progress on the project to measure culture.

# Appendix 7:

## Deloitte digital audit

Our digital audit capabilities empower our audit practitioners to use cutting edge technologies and tools across the audit lifecycle, by embedding them within our global audit platform, Omnia, making our audits robust and efficient.

As the needs and expectations of investors and other stakeholders evolve, there is, quite rightly, ongoing intense scrutiny from regulators, politicians, and the media on the quality and robustness of assurance over company financial reporting.

At Deloitte, we are committed to continually improving the quality of the audits we deliver, and we are proud of our audit quality results from regulatory inspections. We have invested over US\$1 billion globally in our audit technology and capabilities over the past ten years and continue to make significant investment to drive further improvement.

Technology is at the heart of how our audits are delivered. Whilst emerging and disruptive technologies, such as Generative AI, will undoubtedly shape the future of the audit industry and many other sectors, our audit practitioners routinely use cutting edge technology throughout an audit.

From automated planning and scoping capabilities, through analytic-based testing, and the automated preparation of audit reporting, the way we deliver our audits is centred around technology, from start to finish.

This culture of technology driven audit is enabled through our two global audit platforms - Deloitte Omnia and Deloitte Levvia. Within Omnia and Levvia, we have brought together all our audit tools and technologies which empower our audit practitioners to deploy them across our audited entities, providing high-quality assurance and efficient audits. By using this approach, we ensure our audits are digitally enabled across the audit lifecycle, integrating all the various elements of the audit process.

By putting our tools and technology in the hands of our practitioners, we empower them to focus on the most risky areas of audit and spend more time on complex judgements. This also enables us to continually improve our audit quality and technology by gathering feedback from deployment of our audit technology. Every action we take in developing and deploying new technologies is centred around our relentless focus on improving audit quality.

### Smarter scoping and risk assessment drives audit effort in the right areas

Technology and data analytics help our audit practitioners to make informed and fact-based decisions in relation to risk assessment and scoping of our audit work. Omnia and Levvia have a range of tools from process mining, trend analytics and automated scoping. These tools inform our decision making and help us focus audit effort on the high risk and complex areas of the business, giving the best assurance to companies and their investors:

**Process mining** allows us to analyse actual flows of transactions through business processes. It helps us identify areas of potential deviations from standard business processes and where internal controls may not be effective. This ensures our audit effort is focused on areas of the greatest risk, and enables us to bring more robust and effective challenge to companies on the quality of their control environments.

**Automated scoping:** In order to ensure that we have sufficient coverage of financially material account balances, our practitioners use the Omnia and Levvia automated scoping tools. This reduces the manual effort involved in making scoping decisions, brings greater fact-based and objective decision making, and improves the resulting scope of our audits. This allows our audit teams to then focus on qualitative and judgemental areas of the audit.

# Appendix 7:

## Deloitte digital audit

### Technology-driven controls testing will become increasingly important given corporate reform plans

The UK corporate reform agenda has a significant focus on management and auditor responsibilities for internal controls. Although an auditor's attestation is not expected to be a mandatory requirement as part of the reform proposals, investors increasingly expect auditors to evaluate a company's internal controls and report any significant findings within the enhanced audit report. Our audit approach focusses on testing internal controls in key transaction processes, such as revenue, as well as the most significant judgements and estimates.

Our digital capabilities are essential to obtain assurance on manual and automated controls as part of our audits and controls assurance engagements. In addition to process mining capabilities that drive focus on anomalies and exceptions, technology drives an increasing proportion of our controls testing approach.

**Automated controls testing:** Omnia and Levvia have a range of technologies that digitalise the testing of internal controls, including an automated control testing program. Particularly for IT automated controls, this enables us to test configuration of the systems and applications and obtain assurance over them at any point in time, and regularly monitor changes to the control landscape.

**Controls benchmarking:** Our extensive control library within Omnia and Levvia enables us to benchmark control frameworks of companies we audit against industry standard, helping identify gaps in the control framework.

### Automated and analytics-based testing gives a greater level of assurance

Stakeholder expectations on the assurance provided by external audits continues to evolve, and we regularly engage with investor groups to understand their expectations. Our digital tools enable us to test 100% of certain transactions and account balances giving a far greater extent of assurance on underlying transactional balances, and focus audit effort on unusual transactions that have a greater risk of fraud or error.

**100% testing:** We use a suite of tools for testing certain balances with 100% coverage. For example, through a full reconciliation of individual sales transactions from ledger entry to invoice and to cash entries on the bank statement. We also use predictive analytics, using regression analysis to identify outliers within populations whilst testing the remaining population automatically. Omnia and Levvia automated recalculation analytic tools enable us to fully test balances such as depreciation. Routine transactional balances such as revenue, expenses, receivables, and payables can be tested through analytic-based procedures, enabling us to provide better quality assurance over these balances and focussing our efforts on judgements, estimates and complex accounting matters.

**High-risk transactions:** Our practitioners use the Omnia and Levvia analytic capabilities to help in responding to fraud risks, and to identify transactions with characteristics of potential fraud that would be subject to further investigation. We use automatic sampling tools to identify transactions prone to a high risk of a material error across account balances and journal entry testing. A risk-focused approach is embedded in our audit approach and every procedure we perform.

# Appendix 8:

## Sustainability reporting<sup>19</sup>

The foundations of business are changing rapidly. A company's ability to enhance resilience and create value over the long term is directly linked to how it reflects the values of and responds to the expectations of society. Transparency and accountability on how a company achieves this is therefore essential to building trust.

Investors and wider stakeholders are calling for greater insight into how organisations are creating, protecting, and enhancing value over time. They are demanding transparency around the effects of climate-related and broader sustainability matters on an entity's business model and strategy. Deloitte seeks to drive high-quality and consistent reporting on these matters in the market and in the execution of audit and provision of assurance in the public interest.

We recognise climate change poses a risk to financial stability and impacts businesses in many sectors. Regulators around the world are introducing requirements for increased disclosure on climate-related

risks and opportunities in annual reports. There are also increased calls for assurance over climate and other sustainability information.

Deloitte is taking action to educate our people on climate change and wider sustainability matters and their potential impact on audited entities. We have invested in equipping our people with the tools, methodologies and skills to execute high-quality audits and give appropriate consideration to climate-related risks and opportunities.

### Developments in corporate reporting

Corporate reporting is evolving at a rapid pace, bringing sustainability-related reporting into the mainstream. Globally, the ISSB has issued its first standards addressing general requirements for sustainability reporting and climate-related disclosures that incorporate and build on the recommendations of the Taskforce on Climate-related Financial Disclosures. The UK government has committed to consider endorsing those standards. There are other significant jurisdictional developments including European Sustainability Reporting Standards, which will need to be applied by many UK entities that fall within scope of the Corporate Sustainability Reporting Directive.

Deloitte welcomed the publication of the ISSB's first standards as an important milestone in achieving a global baseline of consistent, high-quality, and comparable sustainability information addressing the needs of capital

markets. To be effective, the ISSB standards need to be adopted globally in a consistent manner, supplemented by local requirements when necessary, for example in response to local policy priorities. We welcome the statement by the International Organization of Securities Commissions (IOSCO) calling on regulators to consider ways in which they might adopt, apply or otherwise be informed by the ISSB standards.

*ISSB standards will enable companies to provide greater insight into how they create value and more consistent reporting on the effects of sustainability matters on an entity's business model and strategy.*

This requires companies to integrate climate-related and other sustainability considerations into their governance, risk management and internal control policies and procedures, enhancing the maturity of systems and processes. In advance of standards becoming mandatory, Those Charged With Governance (e.g., audit committees, boards) are increasingly incorporating sustainability considerations in their oversight responsibilities of an entity's management, its reporting, and its data-collection processes and controls.

The ISSB's standards, consistent with many calls by investors and regulators, emphasise the need for

<sup>19</sup>For more information about Deloitte's own sustainability reporting, please refer to our [Annual Review](#).

# Appendix 8:

## Sustainability reporting

consistency and connectivity between financial and sustainability information.

We recognise some stakeholder expectations go beyond what is shown by financial statements prepared in accordance with existing accounting frameworks. In Deloitte's response to the IASB agenda consultation, and through engagement with the IASB, we have encouraged targeted amendments to the IFRS Accounting Standards to improve disclosures of estimation uncertainty that would help entities provide more relevant disclosures in line with the expectations of users of their financial statements.

Deloitte remains committed to engaging in a constructive and transparent way with investors, standards-setters, regulators, and other relevant stakeholders. We will play our role in supporting adoption of the ISSB's standards to achieve the global baseline of consistent and comparable sustainability information.

Adoption of the ISSB's standards will need to be accompanied by associated training, enhanced governance and controls, monitoring and enforcement. We are therefore pleased to support the ISSB's Partnership Framework for Capacity Building, announced at the 2022 UN Framework Convention on Climate Change (COP27).

### Audit and assurance

#### Watchlists

We continue to identify audits with a higher public interest impact related to climate and put in place an enhanced approach which provides appropriate specialist support to the relevant audit teams. Our aim is to focus the challenge and dialogue by audit teams with management and Those Charged With Governance around the way such entities reflect climate risks into their key judgements and sources of estimation uncertainty. This specialist support also helps in the process of challenging the clarity, completeness and connectivity of climate-related narrative information and financial statement disclosures.

#### Driving high-quality assurance

With the increased focus and scrutiny of sustainability reporting also comes the need for greater confidence over the quality of disclosures and calls for that information to be assured. In some jurisdictions the shift towards mandatory assurance requirements is already in train.

Standards-setters and regulators have emphasised the need for those providing assurance on sustainability information to follow a professional framework that addresses competence, independence and a system of quality management. The framework should be subject to oversight and inspection to ensure credible assurance is delivered to the market.

Below are specific actions that Deloitte is undertaking to support execution of high-quality assurance:

- Engaging in shaping the capital market infrastructure for sustainability reporting through collaboration on sustainability reporting and assurance standards-setting by the ISSB, the IAASB, and the International Ethics Standards Board for Accountants (IESBA)
- Leading on the workstream of the World Economic Forum (WEF) Stakeholder Capitalism Metrics project that supports global alignment in sustainability reporting requirements
- Actively participating in the COP27 and the UN Biodiversity Conference (COP15 for nature), and COP28 in 2023

# Appendix 8:

## Sustainability reporting

- Global deployment of enhanced guidance and methodology to deliver limited and reasonable sustainability assurance
- Enhancing knowledge and capacity through implementation of a structured global learning programme on sustainability
- Developing sustainability-related technology-enabled tools.

### **Deloitte's global commitment**

Globally, Deloitte has introduced a strategy to support the achievement of the goals of the Paris Agreement<sup>20</sup>. [WorldClimate](#) aims to drive responsible climate choices within the Deloitte network and beyond.

<sup>20</sup> The [Paris Agreement](#) is a legally binding international treaty on climate change. It was adopted by 196 parties at the United Nations (UN) Climate Change Conference (COP21) in Paris, France, on 12 December 2015 and was entered into force on 4 November 2016. Per the UN, its overarching goal is to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels.

# Appendix 9:

## Principal risks, uncertainties and mitigations

The principal risks and uncertainties of the UK firm are set out and managed through the Enterprise Risk Framework (ERF). This sets out the UK Executive's assessment of the risks facing the UK firm; specifically those that could impact on the ability of the UK firm to meet its public interest obligations and deliver its strategy, and those that could impact upon its reputation and resilience.

### How we manage our principal risks

In considering the risks, specific attention has been paid to operational separation and those risks that could impact the sustainability of the UK Audit & Assurance business. These include: audit quality, regulatory compliance and engagement, people and purpose, the restructuring of the audit market and the attractiveness of the audit profession, operational excellence and financial viability (particularly recognising the backdrop of heightened geopolitical and economic uncertainty). The UK ERF is aligned to, and is managed in a coordinated way with, the Deloitte NSE LLP ERF.

In line with the firm's FY2023 planning process, the UK Executive undertook a refresh of the ERF to: identify any new enterprise risks; remove, if appropriate, any of the existing risks no longer considered significant; validate and/or update the risk definitions; and consider any changes to risk owners.

In FY2023 the firm continued to adopt a process for updating the ERF that is timely, responsive to changes in the internal and external environment, and able to support decision making by risk owners and the Executive. The principal feature of this process is an ongoing dialogue between the Enterprise Risk & Monitoring (ERM) team, who facilitate the operation of the ERF, and risk owner teams. This ensures early identification and escalation of any matters requiring consideration by the risk owner and, or the Managing Partner for Quality, Risk & Security who is the firm's Chief Risk Officer. This dialogue is complemented by meetings, particularly for the firm's most significant risks, between the Managing Partner for Quality, Risk & Security, and, or the ERM team, and each risk owner. At these meetings the exposure to each risk (including operating effectiveness of controls) is assessed, emerging issues are discussed and additional mitigating actions, if required, are agreed. This process ensures that 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 for Quality, Risk & Security formally reports on the ERF to the UK Executive twice yearly so that the Executive can satisfy itself that the risk profile accurately reflects risk exposures and that appropriate mitigating actions are in place. The ERF dashboard assesses the firm's enterprise risks over a 12–18-month time horizon based on the strategic choices the firm is making as well as the external factors driving risk. In this way the discussion of risk is more directly framed in the context of the firm's risk appetite and more clearly focused on the complex and challenging matters impacting the firm and those risks with a higher residual exposure.

FY2023 was the first year the firm has assessed its compliance with the requirements of ISQM 1. In designing and implementing our response to ISQM 1 the firm has ensured its risk management processes are consistent with the requirements of the standard. The Executive has also initiated a programme, aligned to the methodologies developed for the implementation of ISQM 1, to more clearly document and assess the effectiveness of key risks and related controls more widely across the firm.

# Appendix 9:

## Principal risks, uncertainties and mitigations

### **The governance measures we have in place**

The results of the ERF updates are discussed with the UKOB, which provides a further challenge to the UK Executive's assessments. The UKOB discussed in detail and challenged the Executive's assessment of the firm's enterprise risks including, for each, their rating of residual risk exposure, trending and the status of further actions, if any. In particular, this focused on the risks related to audit quality and the future of audit, public interest, conduct, culture, people matters, cyber risks, and the mitigating controls in place against these risks.

### **How we are preparing for the future**

Looking to FY2024 there is continued exposure to economic and geopolitical risk as a result of the near-term economic uncertainty, stubborn inflation, high interest rates and low growth, coupled with the ongoing challenges caused by the Ukraine/Russia war and other global tensions. Climate change remains an important consideration for the firm and our clients, as do the implications of generative artificial intelligence, including concerns regarding privacy, ethical use, bias and accountability. Other themes for consideration as part of the ongoing updating of the ERF include future regulation, including of technology, and profession-wide issues of conduct, culture and confidentiality.

# Appendix 9:

## Principal risks, uncertainties and mitigations

The table below sets out the enterprise risks and related key mitigations that, at 31 May 2023, the UK Executive and the UKOB considered to have the most potential significant impact on Deloitte’s ability to realise its strategy, and protect the firm and the public interest, should they materialise. In light of their potential significance, the residual risks are rated as very high, high and medium based upon the firm’s established risk assessment methodology and the judgement of the risk owners.

Priority risks		Risk exposure and trend at 31 May					
 <b>Audit quality</b>	<b>Threat narrative</b> <ul style="list-style-type: none"> <li>Significant and/or systemic audit quality management issues</li> <li>Unsatisfactory regulatory inspection results</li> <li>Acting without appropriate regard to the public interest</li> <li>Inadequate or inappropriate response to emerging and shifting client and industry risks in the portfolio of audited entities, including sanctions compliance</li> <li>The firm and/or its people fail to comply with audit independence rules</li> <li>Addressing the challenges of the current high inflationary environment and geopolitical uncertainty to audit quality and delivery, and potential corporate failures</li> <li>Stakeholder expectations of auditors with respect to fraud identification, viability statements and ESG reporting</li> <li>Increased scrutiny of the profession arising from regulatory investigations in the sector</li> </ul>	<b>Mitigations</b> <ul style="list-style-type: none"> <li>System of Quality Management (ISQM 1) assessment of processes and controls to drive audit quality</li> <li>Individual engagement reviews to assess compliance with the audit approach manual</li> <li>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</li> <li>Audit Professional Standards Review (PSR)</li> <li>Audit quality indicators (AQIs) monitor audit quality</li> <li>Processes to capture significant economic, geopolitical and industry risks which have an impact on audit quality</li> <li>Audit Centres of Excellence</li> <li>Firm and personal independence systems and monitoring</li> <li>Annual certification of compliance with independence policies and procedures</li> <li>Increased consultation requirements, including threats to objectivity</li> <li>Increased communications to keep quality, risk management and professional scepticism “top of mind” with new flexible working arrangements; provision of specific guidance about increased risks</li> <li>Updated reward strategy and sustainable salaries</li> <li>Deloitte Future of Works programme</li> <li>Targeted learning and development programmes to address skills gaps</li> </ul>	<b>Residual risk</b> FY19 	FY20 	<b>Very High</b> FY21 	FY22 	FY23 
	<p>In recognition of ongoing scrutiny of the audit profession, audit market reform, increased expectations of stakeholders and emerging challenges and uncertainties arising from the economic environment, the audit quality risk remains very high but stable. The first ISQM 1 System of Quality Management assessment has been completed with no deficiencies identified. The firm remains focused on culture through a continued commitment and investment in people in order to stay ahead of the ‘quality curve’.</p>						

# Appendix 9:

## Principal risks, uncertainties and mitigations

Priority risks	Risk exposure and trend at 31 May																			
 <b>Confidentiality, privacy &amp; security</b>	<table border="1"> <thead> <tr> <th colspan="2">Residual risk</th> <th colspan="3">Very High</th> </tr> <tr> <th>FY19</th> <th>FY20</th> <th>FY21</th> <th>FY22</th> <th>FY23</th> </tr> </thead> <tbody> <tr> <td align="center"></td> <td align="center"></td> <td align="center"></td> <td align="center"></td> <td align="center"></td> </tr> </tbody> </table>					Residual risk		Very High			FY19	FY20	FY21	FY22	FY23					
Residual risk		Very High																		
FY19	FY20	FY21	FY22	FY23																
																				
<b>Threat narrative</b> <ul style="list-style-type: none"> <li>Substantial loss, unauthorised access to, or inappropriate use of client or firm data</li> <li>Supporting the evolving business models that threaten the firm's compliance with contractual, legal and regulatory requirements</li> <li>Increased number and sophistication of confidentiality/security risks including those arising from the Ukraine/Russia war, increase in flexible working and new collaboration tools</li> <li>Generative AI and tools such as ChatGPT presenting new risks to the firm</li> <li>Countries moving to more extensive privacy legislation</li> <li>Client expectations for assurance over Deloitte processes and controls</li> <li>Regulatory pressure on clients to improve supply chain assurance</li> <li>Greater use of insiders by threat actors</li> </ul>	<b>Mitigations</b> <ul style="list-style-type: none"> <li>A centralised security function in the form of the Deloitte Business Security group with defined data security and privacy responsibilities</li> <li>Defined security strategy including privacy, information security policies and processes</li> <li>IT technical solutions including, but not limited to, encryption, data leakage protection, privileged access management, event monitoring and incident management</li> <li>Framework for risk assessing third parties to ensure the firm meets regulatory and client requirements</li> <li>Physical security controls covering premises access and working areas</li> <li>Personnel security and vetting controls</li> <li>Security training and awareness programme</li> <li>ISO27001/Cyber Essentials Plus certification and audits</li> <li>ISO22301: Business Continuity Management certification</li> <li>Appointment of a Data Privacy Officer, mandatory training to all partners and staff and processes to enable GDPR compliance</li> <li>Increased communications to keep confidentiality and data management 'top of mind'</li> <li>Communication of specific guidance about increased risks due to flexible working arrangements, including use of approved collaboration tools</li> <li>Regular phishing drills</li> </ul>																			
<p>The risk exposure remains very high due to increasing cyber threat including a growth in the number and sophistication of ransomware and supply chain attacks. The firm is increasingly dependent on externally provided cloud services for which we are seeking greater assurance. Regulatory developments such as GDPR fines and uncertainties around the privacy and confidentiality of generative AI platforms all present increasing risk to the firm.</p>		<p>Balancing this, our current and planned cyber security initiatives continue to reduce aggregate risk and to enhance the firm's defensive posture.</p>																		

# Appendix 9:

## Principal risks, uncertainties and mitigations

### Priority risks



#### Our reputation, role and future public interest impact

##### Threat narrative

- Ability to respond and adapt to changes in policy, legislation and regulation, including non-audit and technology
- Increasing focus on the role of business, auditors and other public interest responsibilities such as gender pay gaps and diversity
- The firm is not perceived to be acting ethically and/or in the public interest across all services
- Reputational matters elsewhere in the Deloitte network or professional services sector negatively impact the firm and/or lead to significant regulatory intervention
- Failure to be agile to societal sentiment, including climate change, gender pay gaps and diversity, and continuing to play a constructive role in the audit reform debate

##### Mitigations

- Stakeholder Engagement Programme to deliver the public policy priorities
- Tone from the top and engagement with leaders of Public Policy, Ethics, Purpose Council and Quality & Risk
- Culture Council leadership of culture programmes
- 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 Non-Executive 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
- Process to identify and respond to public policy and regulatory consultations
- Contingency and resilience planning
- Proactive communication with stakeholders (regulators, audit committees, public investors, media, etc.) on the profession and more broadly the public interest

### Risk exposure and trend at 31 May

Residual risk		Very High		
FY19	FY20	FY21	FY22	FY23
↑	↑	—	—	—

Exposure remains very high but stable in light of the public and regulatory scrutiny across all of our businesses, of the Big4 more broadly and ongoing regulatory change including audit reform and the regulation of technology. Public interest crosses organisational boundaries and requires an aligned position on the company we choose to keep, how this relates to our purpose and the commitments we make.

The firm's infrastructure for managing this risk continues to mature and focus efforts on integrity throughout the firm and among our people.



# Appendix 9:

## Principal risks, uncertainties and mitigations

### Priority risks



#### Delivery risk of complex and large scale services

##### Threat narrative

- Inadequate understanding of, and response needed to address, the risks of new services (including technology/asset-enabled), alternative delivery models, and large-scale complex engagements
- Increasing demand for AI services
- Insufficient commercial models and contracting processes
- Client demand for complex deal structures and contractual terms
- Growing use of multiple delivery centres
- Inability to scale new offerings with suitable quality and commercial return, including as a result of capability constraints
- Increased collaboration with ecosystem and alliance partners increases challenges such as quality assurance, independence, security and contracting

##### Mitigations

- Firmwide Quality, Risk & Security community led and staffed by dedicated experts, including for contracting and commercial negotiations
- Established quality policies, processes and procedures on specific regulatory, legal, ethical and professional requirements
- Evolving Quality, Risk & Security processes, systems and training in response to changing nature of services delivered, including those involving generative AI
- System of Quality Management (ISQM 1) assessment of processes and controls to drive quality with respect to audit and assurance services
- Solution Review Boards and Strategic Asset Boards
- Delivery Excellence Programme managing risk across the programme lifecycle
- Asset-enabled offering certification
- Monitoring of delivery centre risk registers and mitigating actions
- Practice and portfolio reviews of engagements and clients
- Continual monitoring and management of pipeline and capacity and the repurposing of resources as necessary
- Communications to keep quality, risk management and professional scepticism “top of mind” as part of work flexible working arrangements; provision of specific guidance about increased risks
- Increased ‘in flight’ reviews of higher risk engagements
- Increased contract management capabilities

### Risk exposure and trend at 31 May

Residual risk		Very High		
FY19	FY20	FY21	FY22	FY23
—	—	↑	↑	—

The risk exposure remains stable as mitigations continue to be developed and implemented with regard to large-scale, complex and cross-border MDM technology and business transformation engagements.

Attaining consistently high levels of quality in both core and evolving services requires measured growth and continued investment to build skills and capabilities.

Priorities have been set to address current challenges of delivery centres and their usage as well as the scaling of new offerings such as Operate, sustainability and generative AI.



# Appendix 9:

## Principal risks, uncertainties and mitigations

Priority risks		Risk exposure and trend at 31 May				
 <b>Purpose</b> <b>Threat narrative</b>	<b>Mitigations</b>	Residual risk		Very High		
		FY19	FY20	FY21	FY22	FY23
<ul style="list-style-type: none"> <li>Activities across three pillars of Purpose (People/Clients/Society) are inconsistent and undermine each other</li> <li>Our people, external stakeholders and clients increasingly demand us to be socially responsible</li> <li>Reputation is at risk from the 'company we choose to keep' and the projects we choose to deliver</li> <li>Failure to change behaviours across the firm to meet societal impact targets, and support clients in meeting their targets too</li> <li>Ineffective communication of our Purpose to our people, clients and society</li> <li>Falling behind our competitors in responding to needs of clients with respect to purpose/responsible business</li> </ul>	<ul style="list-style-type: none"> <li>Assessment of the firm's purpose and action plan, ongoing monitoring of progress</li> <li>Established Purpose roles and governance</li> <li>More regular engagement with local leadership</li> <li>Training to leadership</li> <li>Work to embed our purpose in how we grow as a business, how we operate and how we deliver our products and services i.e. our purpose is key to how we evolve as a firm</li> <li>External brand campaigns</li> <li>UK social value model for Government &amp; Public Sector engagements as well as working to build the eminence of the other industries in this space</li> <li>Support our six businesses consider how our Purpose features in their strategies and planning</li> <li>Develop and showcase Purpose-specific propositions</li> <li>Connecting our people to our purpose through storytelling, performance experience and meaningful work</li> <li>Delivering and reporting on our social impact and WorldClass and WorldClimate initiatives</li> <li>Begin to explore what capabilities our future talent will need to develop to keep in line with evolving expectations of our clients regarding social and environmental impact and leverage the expertise we currently have within the firm to cascade</li> </ul>	—	—			
		<p>The Purpose risk is stable and remains at the centre of our ambition, as is the continued focus on shared values. Expectations from our people and external stakeholders for us to make a positive impact on society have been accelerated due to heightened anxiety about climate change, social responsibility and impact on future talent (wellbeing, mental health, inclusion). To help address this the firm continues to become more vocal with internal and external communications and commitments and is implementing an action plan to become truly purpose-led.</p>				

# Appendix 9:

## Principal risks, uncertainties and mitigations

### Priority risks



#### Client Portfolio

##### Threat narrative

- Inability to innovate and adapt our services with speed and at scale in a changing market
- Increase in large-scale technology and business transformation engagements
- Excessive industry, sector and client concentration, failing to adequately consider the public interest in planning our client and service portfolio
- Reputational risk arising from the client portfolio including the 'company we choose to keep', market sectors in which we operate and a significant quality or delivery failure
- Client demand for complex deal structures and contractual terms
- High inflation and interest rates impacting clients

##### Mitigations

- Client portfolio strategy aligned to market demand priorities, including monitoring of audit rotation, supported by industry and account plans
- Innovation programme
- Close monitoring and management of the pipeline, sales and capacity via tool
- The Lead Client Service Partner (LCSP) programme for non-audit entities focused on delivering change and support to the LCSP role with an overall objective of strengthening client relationships and thereby driving incremental growth in our priority accounts
- Client acceptance approval, including a Public Interest Review Group to assess the public interests risks of potential engagements
- KPIs that are aligned to the strategy and monitored, including regular monitoring of financial discipline through firm's Chief Operating Officer network
- Portfolio Risk Review, including the active review of the 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

### Risk exposure and trend at 31 May

Residual risk		Very High		
FY19	FY20	FY21	FY22	FY23
↑	—	↑	—	—

There is an increasing trend in large-scale technology and business transformation engagements including as part of the growth of MDM propositions which is aligned with the firm's strategy.

The risk exposure remains stable despite complex structures of client demands, the ongoing scrutiny around company we choose to keep and a more challenging economic environment.

# Appendix 9:

## Principal risks, uncertainties and mitigations

### Priority risks



#### Achieving the market potential of the multi-disciplinary model (MDM)

##### Threat narrative

- Actively competing for multiple large deals; consequential impact on business shape, portfolio risk and risk-reward models
- Failure to anticipate, identify, respond and comply with client independence requirements and regulations
- Insufficient alignment of the organisation to meet audited entity and client and market priority services at scale
- Maintaining the opportunity pipeline
- Demand and pricing management in a high inflation economy
- Balancing audit rotation and Operate opportunities
- Risk of possible market disruption as a result of artificial intelligence

##### Mitigations

- Firm and personal independence systems and monitoring
- Annual certification of compliance with independence policies and procedures
- Globally aligned client portfolio management governance process including the monitoring of audit rotation outlook for next 24/36 months
- Recognition of the MDM growth platforms in the firm's strategy
- Client portfolio strategy aligned to market demand priorities, including monitoring of audit rotation, supported by industry and account plans
- Annual sector strategy refresh
- Dedicated MDM growth platform and Innovation leadership tasked with identifying/monitoring target sectors/clients and providing support to LCSPs and Lead Audit Partners
- Monthly Growth Executive meetings focussing on market trends, including MDM engagements and opportunities, to ensure prioritisation and coordinated response pipeline monitoring and regular market sentiment analysis

### Risk exposure and trend at 31 May

Residual risk		Very High		
FY19	FY20	FY21	FY22	FY23
—	—	↑	—	—

The firm's strategy to actively compete for large, multi-year deals including large-scale technology and business transformation engagements and Operate opportunities continues. The impacts of this strategy on business shape and portfolio risk are acknowledged. The risk remains stable despite the demands of pricing management in an inflationary economy and the possible market disruption as a result of the rise of generative AI.

# Appendix 9:

## Principal risks, uncertainties and mitigations

Priority risks		Risk exposure and trend at 31 May								
		Residual risk		Very High						
		FY19	FY20	FY21	FY22	FY23				
 <b>Economic, political &amp; competitor shifts</b>	<b>Threat narrative</b> <ul style="list-style-type: none"> <li>Ability to adapt the strategy and business model to capitalise on emerging long term societal and commercial trends</li> <li>Ability to anticipate and respond to economic and political uncertainty</li> <li>Ability to adapt and respond swiftly to new market entrants and competitor moves</li> <li>Our ability to serve global clients may be challenged by wider geopolitical risks</li> </ul>	<b>Mitigations</b> <ul style="list-style-type: none"> <li>Four-year strategy, aligned to Deloitte globally, with annual planning and defined priorities addressing emerging risks and challenges to performance targets</li> <li>Market reviews assessing the macro trends driving our markets focusing on the near-and medium terms but with consideration also given to a longer-term '5-year view'</li> <li>Strategic actions designed to build greater agility into the operating model and enable us to be better able to respond to external trends more effectively</li> <li>Decision-making processes close to the market (e.g., sector strategy development)</li> <li>Economic and geopolitical scenario modelling, including down-turn planning, underpinning firm executive decision-making</li> <li>Scorecard and KPIs to measure and track progress of the strategy</li> <li>Competitor trend monitoring and strategic impact assessments</li> </ul>				—	—	—	↑	—
			<p>The risk exposure remains high but stable given the uncertain economic and geopolitical backdrop leading to an unsettled market, and the impact of competitor actions and issues.</p> <p>Mitigations in response to economic, political and competitive risks (and opportunities) regarding market developments and generative AI and its implications in the talent and client landscape are underway. Focus on the MDM and delivery model for greater profitability and differentiation in the market requires continuous effort.</p>							





# Appendix 9:

## Principal risks, uncertainties and mitigations

Priority risks		Risk exposure and trend at 31 May				
 <b>Ability to adapt and deliver future change</b>						
	<b>Threat narrative</b> <ul style="list-style-type: none"> <li>New assets-enabled and Operate market offerings, including those incorporating generative AI, increase our external risk exposure</li> <li>Capacity for complex change within current governance and operating model</li> <li>Interdependent operational ecosystems with Deloitte Global</li> </ul>	<b>Mitigations</b> <ul style="list-style-type: none"> <li>Transformation Portfolio Office operating under an Executive mandate</li> <li>Managing Partner Transformation sits on the UK Business Executive and Deloitte North and South Europe OTC</li> <li>Project review and approval governance processes</li> <li>Change assurance checklists and integrated change impact assessments</li> <li>Transformation projects led by relevant experts</li> <li>Improved reporting functionality and monitoring benefits realisation against original business cases</li> </ul>	<b>Residual risk</b> FY19 —	<b>Residual risk</b> FY20 —	<b>Very High</b> FY21 —	<b>Very High</b> FY22 —
		<p>Despite the increased external exposure and complexities surrounding NSE integration the risk remains stable with the help of improved governance process and strong leadership of transformation programmes. Adaptation to technology and transformation continues to be the main focus area.</p>				

# Appendix 9:

## Principal risks, uncertainties and mitigations

Priority risks		Risk exposure and trend at 31 May					
 <b>Operational Separation</b>	<b>Threat narrative</b> <ul style="list-style-type: none"> <li>Operational Separation does not maximise benefit for the whole firm</li> <li>Operational Separation at odds with FRC principles and expectations</li> <li>Transition timetable is not met</li> <li>Services required from outside the ring-fence to deliver the audit product of the future are not appropriately considered</li> <li>Ring-fence pricing concerns</li> <li>Unclear reporting arrangements</li> <li>Key performance indicators not timely or accurate</li> <li>Inability to deliver quality audits</li> <li>Insufficient focus on assurance services in a ring-fenced environment</li> <li>Accurate financial information reporting of the ring-fenced business</li> </ul>	<b>Mitigations</b> <ul style="list-style-type: none"> <li>Governance structure including AGB and UKOB implemented with clear Terms of Reference</li> <li>Robust controls mapped to each FRC principle</li> <li>Scope of services embedded as part of engagement take-on process</li> <li>Ring-fence permissible services training delivered</li> <li>Regular monitoring and reporting of scope of services and revenue split</li> <li>Arm's Length Pricing Policy and guidance in place including monitoring of compliance</li> <li>Objective Oversight Body in place to agree annual arm's length pricing rates</li> <li>Collaboration principles and behaviours developed for working across the MDM to maximise benefit for whole firm</li> <li>Leadership roles policy in place for Audit &amp; Assurance partners</li> <li>Controls around ring-fence operations embedded into the ISQM 1 framework</li> </ul>	Residual risk		Very High		
			FY19	FY20	FY21	FY22	FY23
			—	—	↓	↓	↓
			<p>The risk exposure continues to decrease as the governance, operational processes and controls developed as part of the operationally separate audit business established in June 2021 continue to embed. The operating model, controls and reporting will continue to be fine-tuned during the remainder of the transition period to 1 June 2024.</p>				

# Appendix 10:

## Confidentiality, privacy and security

We seek to deliver a secure, digital Deloitte and defend the firm against external and internal threats. To do this we work closely with all our partners and practitioners to instil security best-practices enabling us all to work safely and securely. Our aim is to protect confidential and personal data, and the availability and integrity of our systems.

### Who is responsible for maintaining confidentiality, privacy and security?

Mark Mullins is the UK Managing Partner for Quality, Risk and Security and a member of the firm's UK Executive Group. He chairs the UK Security Executive, which includes risk leaders from across the business and oversees the work of our confidentiality, privacy and security teams.

### Adapting to external threats and technology changes

We continue to remain vigilant of, and respond and adapt to, the evolving external threat landscape. We remain keenly aware of the increasing level and sophistication

of advanced persistent threat groups (APTs) and cyber criminals and how changing geopolitical tensions have increased and changed the threat landscape.

The evolution of our business, and the observable change of emerging technologies such as generative (AI) are continually prompting new security considerations. As we – and the entities we work with – digitise and move to evolving technologies, the scale, scope, and complexity of the data we handle grows, as does our exposure to potential data risk.

### Enhanced security culture

Through our firmwide confidentiality, privacy and security culture programme, we continue to sustain and improve security awareness, attitudes and behaviours across all our people including partners and our high volume of new joiners. We invest in bespoke, high-quality and innovative learning solutions, including mandatory digital training, multiple awareness campaigns on high and emerging risk topics, a 'Cyber Champions' network embedded across all business units and regular phishing drills reflecting the latest, sophisticated tactics. We measure our success through key metrics including phishing click rates and training completions. Our in-house developed cyber security campaign videos are award winning, being a category winner in the Financial Services Forum Awards for Marketing Effectiveness 2022.

### Improvements across our network

We continue to conduct crisis management exercises as part of our wider resilience programme. These are conducted at both UK and NSE-level and help to meet requirements from regulators.

Our multi-year Global 'Cyber NextGen' programme has launched and delivery of initial projects to continue enhancing global security posture is underway. We have also run a cross-NSE security control assessment to assure our internal security maturity and are using that to further strengthen our security posture where needed.

NSE Integration efforts continue to progress across both the first line of defence Information Security organisation and second line of defence Confidentiality, Privacy & Security function with a multi-year NSE Cybersecurity Strategy launching in June 2023.

### Addressing risks from supply chain and third parties

We have fully reviewed and are refreshing our existing Third-Party Risk Management framework and capability, including updating our supplier due diligence Initial Risk and Detailed Risk Assessment questionnaires to align to changes in technology, regulation and company requirements and in response to the increasing prevalence of supply chain attacks.

# Appendix 10:

## Confidentiality, privacy and security

### **Responding to the needs of the entities we work with and to regulator requirements**

Keeping data from the entities we work with safe remains of paramount importance. We continue to meet the security requirements of the entities we work with and the requirements of our regulators through a combination of questionnaires, security audits and thematic reviews. The firm was re-certified across several standards in the past year including Information Security (ISO27001), Business Continuity (ISO22301) and Cyber Essentials Plus. We have leveraged and mapped our existing ISMS and associated audit and compliance activities to the ISQM 1 Standard to evidence how we are meeting ISQM 1 objectives and managing ISQM 1 risks in relation to the Privacy & Confidentiality workstream of the Deloitte Global ISQM 1 project. We are also aware of the forthcoming changes in cyber regulations with respect of the EU Network and Information Security (NIS) 2 Directive and Digital Operational Resilience Act (DORA) and are assessing any preparation needed for those.

# Appendix 11:

## Ethics, independence and conflicts governance

### The role of Deloitte Global

Ethics, independence and conflicts are network-wide responsibilities, so we have a global framework in place set by Deloitte Global teams.

Our global and local leadership teams reinforce the importance of compliance with independence and related local and international quality management standards, thereby setting the appropriate tone and instilling its importance into the professional values and culture of the firm. Strategies and procedures to communicate the importance of independence to partners, other practitioners, and support staff are continuously evolving; they emphasise each individual's responsibility to understand and meet independence requirements. The Independence partner is responsible for overseeing independence matters and maintaining regulatory compliance within Deloitte UK, including the design, implementation, operation, monitoring, and continuous enhancement of the system of quality management related to independence.

Deloitte Global also provides us with technical independence expertise and global insights, supporting overall regulatory compliance and assisting in ongoing SQM monitoring activities.

Sets **policies and procedures** based upon the Code of Ethics for Professional Accountants and the independence standards of the US Securities and Exchange Commission and The Public Company Accounting Oversight Board

Delivers **global systems** to provide professionals with entity information to support compliance with personal and professional independence requirements, including financial interests and scope of service approvals



Performs **on-going monitoring** activities of firms, enabling continuous enhancements to global policies, quality controls, tools and practice support activities

**Promotes and supports awareness** across our network through active engagement with leadership groups, periodic communications and alerts, and development of guidance, learning and instructions

Our UK ethics, independence and conflicts teams collaborate with many other teams throughout our global network in a coordinated and multi-faceted approach to protect the quality of our services. The independence and ethics teams do not report to the business lines but rather to firm leadership directly; partners have both formal and informal channels of communication to the firm's risk committees and regularly engage with its members e.g., the Independence partner has a standing monthly meeting with the risk and reputation leader. Regular reporting to governing committees (the UK and NSE risk executives) is further supplemented by an Annual Report of the independence and ethics teams' activities, results, challenges and ambitions to the UKOB and on occasion the AGB.

These open and independent channels set a strong overall tone, actively encouraging and supporting Independence in both thought and action.

# Appendix 11:

## Ethics, independence and conflicts governance

### Systems, policies and practices

In [Ethics, independence and conflicts](#), we introduced global and local systems, policies and practices, which provide our people with frameworks and tools to address ethics, conflicts or independence concerns:



# Appendix 12:

## Deloitte UK: Governance and legal structure

### UK legal structure

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 a holding entity with the Deloitte NSE group). 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 set out in this appendix. Consulting services in the Middle East are provided through a joint venture entity in which Deloitte LLP has an interest. The Deloitte LLP group also has interests in India, Romania and Spain that do not provide services to clients.

### Governance structure

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](#).

<sup>21</sup> The elected partner members of the UKOB and AGB are also members of the NSE Board. Two are also members of the NSE Audit & Risk Committee. Baroness Ford is an Independent Non-Executive member of the NSE Board and sat on the Audit & Risk and People & Purpose Committees during the year.



# Appendix 12:

## Deloitte UK: Governance and legal structure

### NSE Audit & Risk Committee

The NSE Audit & Risk Committee (ARC) is a standing sub-committee of the NSE Board and meets bi-monthly. It comprises a selection of NSE Board members from across the NSE geographies, including Baroness Ford, Independent Non-Executive, and two partner members from the UK, who are both members of the UKOB and one of whom is also a member of the AGB. The common membership helps ensure the UKOB and AGB have sight of matters raised at the NSE ARC that are of specific relevance to the UK and vice versa. A mechanism for formal reporting from the NSE ARC to the UKOB and AGB has been put in place for FY2024 onwards.

The key elements of the role of the NSE ARC are to:

- Provide oversight and support to the NSE geographies in their delivery of audit quality and their compliance with local legal and regulatory requirements
- Oversee the level of acceptable risk for each business area across NSE
- Oversee the appointment of internal and external auditors for the NSE Member Firm and the preparation of the statutory accounts of Deloitte NSE LLP (including any associated financial year-end processes).

### Partnership Council

While not formally part of the governance structure of the UK business, the Partnership Council nevertheless plays an important role in ensuring fairness and equity between partners across the UK and Switzerland, and fairness in the implementation of Deloitte NSE policies and strategies. It is also the body that undertakes soundings to assist in the selection of UK/ Swiss candidates for election to the NSE Board and for appointment to the roles of UK CEO and Swiss CEO. One of the Non-Executives attends the meetings of the Partnership Council.

### The role of the Senior Partner and Chief Executive

The appointment of the UK Senior Partner and Chief Executive is subject to confirmation by a resolution of the UK equity partners, for a term not exceeding four years. Richard Houston began his second term as UK Senior Partner and Chief Executive on 1 June 2023. Richard has full executive authority for the management of the UK practice and is also Senior Partner and Chief Executive of Deloitte NSE, and a member of the Deloitte Global Executive. 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 town halls, 'Ask the CEO' webcasts, voicemails and email alerts. He is also a member of the UKOB.

### Non-Executives

#### Duties

The regulatory requirements for Non-Executive duties are set out in the FRC's principles for operational separation and in the Code. The Non-Executives participate fully in the activities of the AGB and UKOB (where appropriate), as set out in the [report on the work of those bodies](#).

The Non-Executives also meet privately as the Non-Executive Committee and invite members of the management team to attend, as appropriate, to discuss matters relevant to their remit. Additionally, the Non-Executives 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 as the 'Doubly Independent ANE' is to provide oversight of the UK Audit & Assurance business only. She is a member of the AGB but not of the UKOB.

# Appendix 12:

## Deloitte UK: Governance and legal structure

### Support from the firm

To assist the Non-Executives in discharging their duties, the firm provides them with:

- A Chief of Staff
- Access to 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
- Any other support agreed upon from time-to-time.

### Other directorships and business interests

The Non-Executives have various business interests in addition to those of the firm. By drawing on their external roles and experiences, they bring diverse perspectives and appropriate challenge to management.

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 Non-Executives declared their pre-existing assignments (including any appointments, directorships or posts) and any potential conflicts of interest apparent at the time of appointment and declare any changes to those interests at each AGB and UKOB meeting. The Non-Executives are required to consult with the UKOB Chair and obtain their consent prior to accepting further assignments with any third party. The Non-Executives are required to disclose to the UKOB Chair any actual or potential conflict of interest or any threat to the firm's independence as soon as it becomes apparent.

### Independence

In assessing the independence of the Non-Executives, we:

- Consider their (and their immediate family members') financial interests and business, family and employment relationships entered into and notified to the firm
- Apply the Code's principles and comply 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.

Non-Executives (and their immediate family members) are not permitted to have a directorship or other leadership role with 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 relationships for which the firm has to maintain its independence), nor can they (or their immediate family members) be a substantial shareholder of a restricted entity.

### Appointment

The Non-Executives are, subject to earlier termination, appointed for a period of three years, which can be renewed. We are mindful of the Code requirement for 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 Almira Delibegovic-Broome KC, Shirley Garrood and Baroness Ford were all appointed in 2020.

### Termination of appointment

In the event an appointment is not renewed at the end of the three-year term, the Non-Executive will cease to be a Non-Executive of the firm.

The appointment may be terminated at any time, by either the Non-Executive or by the firm, with three months' written notice. The appointment may also be terminated by the firm with immediate effect should any

# Appendix 12:

## Deloitte UK: Governance and legal structure

situation arise which amounts to a professional conflict of interest or breach of independence rules.

### Remuneration

The Non-Executives are paid a fixed annual fee for their work as members of the AGB (and, for Baroness Ford, as AGB Chair) and UKOB (where appropriate), and for other responsibilities they undertake for the UK business, based on an individually agreed number of days' service per annum. In the year to 31 May 2023, this amounted to:

	Total remuneration £'000
Jim Coyle	200
Almira Delibegovic-Broome KC	200
Baroness Ford	300
Shirley Garrood	200

### Other matters

Appropriate indemnity provisions are in place in respect of any legal action arising against a Non-Executive.

The Non-Executives have a right to report any fundamental disagreement regarding the UK business to the UK Executive and, if that does not bring resolution, to convene a meeting with the NSE CEO and NSE Chair.

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

### The basis for partners' remuneration How are equity partners appraised and remunerated?

The equity partners are the owners of the firm and, therefore, share in its profits. The value of each individual's share 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 annually and describes the skills, attributes and broad performance expected of them. Each equity group carries a wide band of profit-sharing units so relative contributions can be recognised. In assessing partner<sup>22</sup> 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

- **Financial and operational resilience:** Strong performance against key metrics and objectives

- **Leadership:** Demonstration of strong leadership skills and partner behaviours which reflect the firm's culture and values of its most senior leaders.

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 leadership, 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.

<sup>22</sup> The term 'partner' is also used by the firm to represent some of its most senior people who are employees and not equity partners. These individuals are also evaluated against the criteria set out above, however, their remuneration is comprised of salary (plus benefits) and bonus, as for other employees.

# Appendix 12:

## Deloitte UK: Governance and legal structure

Profit-sharing across NSE begins with the NSE Board's approval of the profit-sharing strategy proposed by the NSE Senior Partner and Chief Executive and concludes with the NSE Board's review and approval of the profit allocation and equity group recommended by the local CEOs for each individual partner in their respective geographies.

An NSE Board sub-committee of partners oversees the process with a focus on consistent and equitable treatment.

The performance and contribution of the UK Executive are assessed against the same criteria as all equity partners. Similarly, the value of their profit share is based upon a comprehensive evaluation of their individual and team contribution to achieving the firm's strategic objectives. The UK Chief Executive, the Chair of the NSE Board, and the Chair of the Partnership Council (who also represents the NSE Compensation & Partner Units Sub-committee) are involved in this process. Outcomes are then subject to NSE Board review and approval alongside all other equity partner outcomes.

Additional procedures for the remuneration of audit partners, and in particular its linkage to audit quality, are discussed in [Appendix 5: Audit quality](#).

### **Drawings and the contribution and repayment of partners' capital**

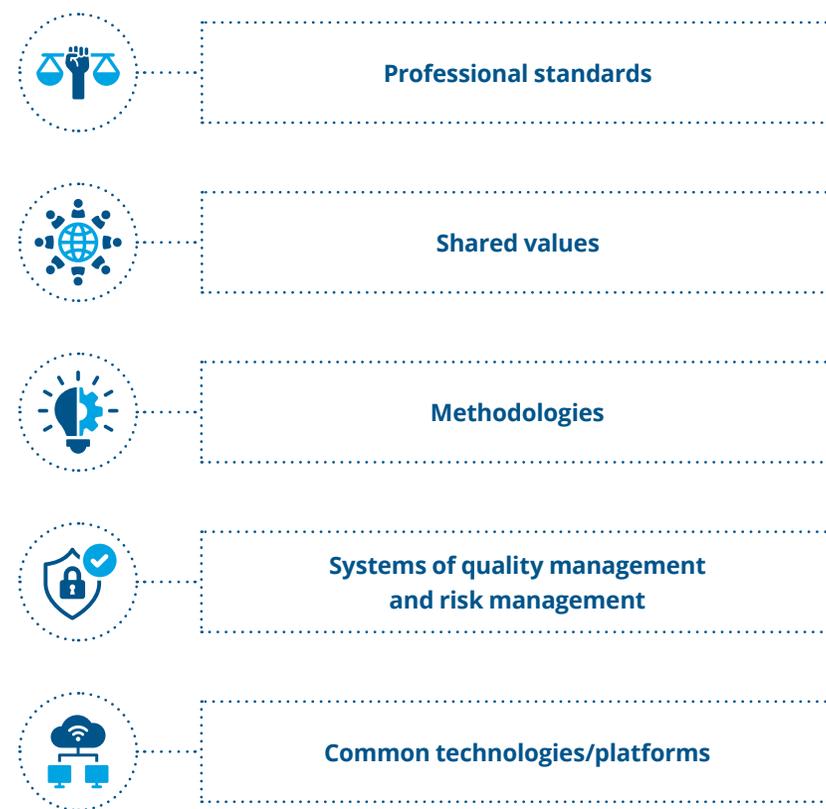
UK equity partners contribute the entire capital of Deloitte LLP. Each equity partner's capital contribution is linked to their share of profit and is repaid in full on ceasing to be an equity partner. The rate of capital contribution is determined from time to time depending on the financing requirements of the business. All Deloitte NSE equity partners share in the profits of Deloitte NSE. In the UK, equity partners draw a proportion of their profit share in 12 monthly on-account instalments during the financial year in which the profit is made, with the balance of their profit, net of a tax deduction and other costs, paid in instalments in the subsequent financial 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.

# Appendix 13:

## The Deloitte network

The Deloitte network (also known as the Deloitte organisation) is a globally connected network of member firms and their respective related entities operating in more than 150 countries and territories across the world.

These separate and independent member firms operate under a common brand and Deloitte policies concerning:



### Deloitte Touche Tohmatsu Limited (DTTL or Deloitte Global)<sup>23</sup>

Deloitte Touche Tohmatsu Limited is a private company limited by guarantee incorporated in England and Wales. DTTL serves a coordinating role for its member firms and their related entities 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 related entities.

### Network governance

#### The Deloitte Global Executive

The Deloitte Global Executive, currently composed of 21 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.

<sup>23</sup> "Deloitte" is the brand under which approximately 457,000 dedicated professionals and practitioners in independent firms throughout the world collaborate to provide audit and 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.

# Appendix 13:

## The Deloitte network

Deloitte Global Chief Executive Officer Joe Ucuzoglu, who began serving in the role on 1 January 2023, leads the Executive.

### **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 Donna Ward leads the Operating Committee. Members include Deloitte Global business operations and enabling area leaders, as well as chief operating officers from select DTTL member firms.

### **The Deloitte Global Board of Directors**

The Deloitte Global Board of Directors addresses Deloitte Global's most important governance issues, including approval of the global strategy, annual budget and investment plan, major policies, major transactions and the selection of the Deloitte Global CEO and Deloitte Global Chair. In addition, the Deloitte Global Board provides oversight of, and support for, the operation and performance of management.

Board composition has proportionate representation of Deloitte member firms, and reflects the geographic reach of Deloitte's operations. Diversity – including that of gender, race and ethnicity, thought and life experience, professional background as well as skills and capabilities are considered by DTTL member firms as they designate individuals to these positions. The Deloitte Global Board has 17 members, with women making up 35% of the Board (up from 19% in FY19).

Anna Marks began her four-year term of office as Deloitte Global Chair on 1 June 2023.

# Appendix 14:

## EU/EEA audit firms

Disclosure in accordance with Article 13.2 (b)(ii)-(iv) of the EU Audit Regulation.

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):

<b>EU/EEA member state<sup>24</sup></b>	<b>Name of audit firms carrying out statutory audits in each member state</b>
Austria	Deloitte Audit 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 BV/SRL
Bulgaria	Deloitte Audit OOD
Croatia	Deloitte d.o.o. za usluge revizije
Cyprus	Deloitte Limited
Czech Republic	Deloitte Audit s.r.o.
	Deloitte Assurance s.r.o.
Denmark	Deloitte Statsautoriseret Revisionspartnerselskab
Estonia	AS Deloitte Audit Eesti
Finland	Deloitte Oy

<sup>24</sup> 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).

# Appendix 14:

## EU/EEA audit firms

EU/EEA member state <sup>24</sup>	Name of audit firms carrying out statutory audits in each member state
France	Deloitte & Associés
	Deloitte Marque & Gendrot
	Deloitte Audit Holding
	BEAS
	Cisane
	Constantin Associés
	DB Consultant
	ECA 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

# Appendix 14:

## EU/EEA audit firms

EU/EEA member state <sup>24</sup>	Name of audit firms carrying out statutory audits in each member state
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 Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa Deloitte Audyt spółka z ograniczoną odpowiedzialnością Deloitte Assurance 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

### 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: €2.3 billion<sup>25</sup>

<sup>25</sup> 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 2023, except for a limited number of instances where a Deloitte audit firm has different financial year-end or has not finalised its reporting for such period. In these cases, turnover amounts are for the relevant financial year or preceding financial year. Where currency other than the Euro is used in the member state, the amount in Euros was translated using an average exchange rate in effect for the period 1 June 2022 to 31 May 2023.

# Appendix 15:

## Public interest entities

### Regulatory context

The following lists set out the entities that meet all the following conditions:

1. The entity is incorporated:
  - a) in the UK and is a Public Interest Entity as defined in UK law where the audit is a statutory audit as set out in s1210 Companies Act 2006<sup>26</sup>
  - b) anywhere and has securities admitted to trading on an EEA regulated market<sup>27</sup>
  - c) in Jersey, Guernsey or the Isle of Man and is a Market Traded Company
2. Deloitte LLP signed an audit report on the entity's annual financial statements in the period from 1 June 2022-31 May 2023.

### UK PIE definition

As set out in UK law the definition of a PIE includes:

1. UK incorporated companies with transferable securities listed on a UK regulated market
2. UK credit institutions (broadly banks and building societies)
3. UK Solvency II insurance undertakings authorised by EU member states.

### Market traded companies

The laws of Jersey, Guernsey and the Isle of Man define market traded companies as those incorporated in the relevant jurisdiction with (a) equity or (b) retail debt securities admitted to trading on a UK or EEA regulated market.

### UK PIEs

Entity name
A.G. Barr PLC
Aberforth Split Level Income Trust PLC
Admiral Group PLC
Admiral Insurance Company Ltd
AIB Group (UK) PLC
Airtel Africa PLC
Al Rayan Bank PLC
Aldermore Bank PLC
Alpha Bank London Ltd
Anglian Water (Osprey) Financing PLC
Anglian Water Services Financing PLC
Ashtead Group PLC
Assurant General Insurance Ltd
Assured Guaranty UK Ltd
Auction Technology Group PLC
Avon Insurance PLC
BA (GI) Ltd
Babcock International Group PLC
BAE Systems PLC

<sup>26</sup> This list is required by Article 13.2 (f) of the EU Audit Regulation as retained in UK law.

<sup>27</sup> This list is required by Article 13.2 (f) of the EU Audit Regulation as applicable to Deloitte LLP as a third country auditor registered in Ireland, the Netherlands, Germany, Sweden and Luxembourg.

# Appendix 15:

## Public interest entities

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Bakethin Finance PLC

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Bank of Beirut (UK) Ltd

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Bank of Scotland PLC

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Barratt Developments PLC

---

Berkshire Hathaway International Insurance Ltd

---

Biffa Ltd

---

BlackRock Income and Growth Investment Trust PLC

---

BlackRock Life Ltd

---

BOS (Shared Appreciation Mortgages) No. 1 PLC

---

BOS (Shared Appreciation Mortgages) No. 2 PLC

---

BOS (Shared Appreciation Mortgages) No. 3 PLC

---

BOS (Shared Appreciation Mortgages) No. 4 PLC

---

BP Capital Markets PLC

---

BP PLC

---

British Gas Insurance Ltd

---

Bruntwood Bond 2 PLC

---

Cadent Finance PLC

---

CAF Bank Ltd

---

Caledonian Environmental Services PLC

---

Canada Life Ltd

---

Canary Wharf Finance II PLC

---

Capital & Regional PLC

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Cardiff Auto Receivables Securitisation 2019-1 PLC

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Cardiff Auto Receivables Securitisation 2022-1 PLC

---

Castle Trust Capital PLC

---

Catalina Worthing Insurance Ltd

---

Centrica PLC

---

Charter Court Financial Services Ltd

---

Chesnara PLC

---

Churchill Insurance Company Ltd

---

CNA Insurance Company Ltd

---

Coats Group PLC

---

ConvaTec Group PLC

---

Countrywide Assured PLC

---

CT UK High Income Trust PLC

---

Cumberland Building Society

---

Currys PLC

---

Custodian Property Income Reit PLC

---

Deliveroo PLC

---

DF Capital Bank Ltd

---

Direct Line Insurance Group PLC

---

Domestic & General Insurance PLC

---

Dominion Insurance Co. Ltd

---

Drax Group PLC

---

DS Smith PLC

---

Dunedin Income Growth Investment Trust PLC

---

Eastern Power Networks PLC

---

Ecora Resources PLC

---

Electricity North West Ltd

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Elementis PLC

---

Elland RMBS 2018 PLC

---

EnQuest PLC

---

ENW Finance PLC

---

Equitas Insurance Ltd

---

Equitas Ltd

---

Equitas Reinsurance Ltd

---

Erm Funding PLC

---

Esure Insurance Ltd

---

Eversholt Funding PLC

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Family Assurance Friendly Society Ltd

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Foresight Enterprise VCT PLC

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Foresight Solar & Technology VCT PLC

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Foresight VCT PLC

# Appendix 15:

## Public interest entities

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Future PLC
Gatehouse Bank PLC
Genus PLC
Ghana International Bank PLC
Glaxosmithkline Capital PLC
Go-Ahead Group Ltd (The)
Great Portland Estates PLC
GSK PLC
Haleon PLC
Hampden & Co PLC
HBL Bank UK Ltd
HBOS PLC
Helical PLC
Helios Towers PLC
High Speed Rail Finance (1) PLC
Home Group Ltd
Hunting PLC
Ibstock PLC
ICBC (London) PLC
ICBC Standard Bank PLC
IMI PLC

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Inchcape PLC
Informa PLC
International Personal Finance PLC
Ithaca Energy PLC
Kingfisher PLC
Kyoei Fire & Marine Insurance Company (U.K.) Ltd
Law Debenture Corporation PLC (The)
Law Debenture Finance PLC
Leeds Building Society
Life Science Reit PLC
Lloyds Bank Corporate Markets PLC
Lloyds Bank General Insurance Ltd
Lloyds Bank PLC
Lloyds Banking Group PLC
London General Insurance Company Ltd
London General Life Company Ltd
London Power Networks PLC
London Steam Ship Owners' Mutual Insurance Association Ltd (The)
London Wall Mortgage Capital PLC
LondonMetric Property PLC

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M&G Credit Income Investment Trust PLC
Macfarlane Group PLC
Manchester and London Investment Trust PLC
Marks and Spencer Group PLC
Marks and Spencer PLC
Marsden Building Society
Marshalls PLC
Maven Income and Growth VCT PLC
Melrose Industries PLC
Mitsubishi HC Capital UK PLC
Molineux RMBS 2016-1 PLC
Morgan Advanced Materials PLC
Morgan Stanley Bank International Ltd
National Bank of Egypt (UK) Ltd
National Bank of Kuwait (International) PLC
National Express Group PLC
National Farmers Union Mutual Insurance Society Ltd (The)
National Gas Transmission PLC
National Grid Electricity Distribution (East Midlands) PLC
National Grid Electricity Distribution (South Wales) PLC

# Appendix 15:

## Public interest entities

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National Grid Electricity Distribution (South West) PLC

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National Grid Electricity Distribution (West Midlands) PLC

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National Grid Electricity Distribution PLC

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National Grid Electricity Transmission PLC

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National Grid PLC

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National House-Building Council

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Newbury Building Society

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Newcastle Building Society

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NGG Finance PLC

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Northern Electric Finance PLC

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Northern Electric PLC

---

Northern Gas Networks Finance PLC

---

Northern Powergrid (Northeast) PLC

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Northern Powergrid (Yorkshire) PLC

---

Northumbrian Water Finance PLC

---

Oban Cards 2021-1 PLC

---

Ocado Group PLC

---

Omnilife Insurance Co. Ltd

---

OneSavings Bank PLC

---

OSB Group PLC

---

Oxford Nanopore Technologies PLC

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---

Pacific Life Re Ltd

---

Penarth Master Issuer PLC

---

Pensionbee Group PLC

---

Permanent Master Issuer PLC

---

Pharos Energy PLC

---

Pod Point Group Holdings PLC

---

Primary Health Properties PLC

---

Principality Building Society

---

PRS Finance PLC

---

PZ Cussons PLC

---

Quadgas Finance PLC

---

RAC Insurance Ltd

---

Rathbones Group PLC

---

Rathbones Investment Management Ltd

---

Riverstone Insurance (UK) Ltd

---

RM PLC

---

Rotork PLC

---

Safestore Holdings PLC

---

Saltaire Finance PLC

---

Schroder Japan Trust PLC

---

Scottish Widows Ltd

---

---

Secure Trust Bank PLC

---

Severn Trent PLC

---

Severn Trent Utilities Finance PLC

---

Simplyhealth Access

---

Smithson Investment Trust PLC

---

South Eastern Power Networks PLC

---

South Staffordshire Water PLC

---

Spectris PLC

---

Spirax-Sarco Engineering PLC

---

Spirent Communications PLC

---

St Andrew's Insurance PLC

---

SuperDry PLC

---

Tenecom Ltd

---

Tesco Corporate Treasury Services PLC

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Tesco Personal Finance Group PLC

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Tesco Personal Finance PLC

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Tesco PLC

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Tesco Underwriting Ltd

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Tower Bridge Funding 2021-1 PLC

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Tower Bridge Funding 2021-2 PLC

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TP Icap Finance PLC

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# Appendix 15:

## Public interest entities

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Transfercom Ltd

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Trent Insurance Co. Ltd

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TT Electronics PLC

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Tyman PLC

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U K Insurance Ltd

---

Unite Group PLC (The)

---

Unity Trust Bank PLC

---

University of Oxford (The)

---

US Solar Fund PLC

---

Vanquis Bank Ltd

---

Vanquis Banking Group PLC

---

Videndum PLC

---

Wales & West Utilities Finance PLC

---

Wellcome Trust Finance PLC

---

Western Provident Association Ltd

---

Whitbread Group PLC

---

Whitbread PLC

---

WPP Finance 2010

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Yorkshire Water Finance PLC

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Yorkshire Water Services Finance Ltd

### Entities with securities admitted to trading on an EEA regulated market

---

#### Entity name

---

Albion No.4 PLC

---

Allfunds Group PLC

---

Avenell Property PLC

---

Avon Finance No.1 PLC

---

Bank of Scotland PLC

---

BP PLC

---

Canterbury Finance No.1 PLC

---

Canterbury Finance No.2 PLC

---

Canterbury Finance No.3 PLC

---

Canterbury Finance No.4 PLC

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Castell 2018-1 PLC

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Castell 2020-1 PLC

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Charter Mortgage Funding 2018-1 PLC

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CMF 2020-1 PLC

---

CRH Finance (U.K.) PLC

---

Delamare Cards MTN Issuer PLC

---

DS Smith PLC

---

Durham Mortgages A PLC

---

Durham Mortgages B PLC

---

E-Carat 10 PLC

---

E-Carat 11 PLC

---

E-Carat 12 PLC

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EnQuest PLC

---

Equinox (Eclipse 2006-1) PLC

---

EuroMASTR PLC

---

Ferguson Finance PLC

---

Friary No.5 PLC

---

Friary No.6 PLC

---

Greene King Finance PLC

---

Hercules (Eclipse 2006-4) PLC

---

Hobart Property PLC

---

ICBC Standard Bank PLC

---

International Finance Facility For Immunisation Company

---

International Personal Finance PLC

---

Kentmere No.1 PLC

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Kentmere No.2 PLC

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Morgan Stanley & Co. International PLC

---

Motopark Finance PLC

---

Northern Powergrid Holdings Company

# Appendix 15:

## Public interest entities

Oak No. 2 PLC
Oak No.3 PLC
Polaris 2019-1 PLC
Polaris 2020-1 PLC
Polaris 2021-1 PLC
Precise Mortgage Funding 2018-2B PLC
Precise Mortgage Funding 2019-1B PLC
Precise Mortgage Funding 2020-1B PLC
Principality Building Society
RAC Bond Co PLC
Spirit Issuer PLC
Stratton Mortgage Funding 2019-1 PLC
Student Finance PLC
Tesco Property Finance 1 PLC
Tower Bridge Funding 2020-1 PLC
Tower Bridge Funding No.2 PLC
Tower Bridge Funding No.3 PLC
Tower Bridge Funding No.4 PLC
Turbo Finance 8 PLC
Turbo Finance 9 PLC
Unite (USAF) II PLC

Wellcome Trust (The)
WPP Finance 2016
WPP Finance 2017
Yorkshire Water Finance PLC

### Market traded companies

#### Entity name

3i Infrastructure PLC
abrdn Property Income Trust Ltd
Blackstone Loan Financing Ltd
Chenavari Toro Income Fund Ltd
Ferguson PLC
Glencore PLC
ICG-Longbow Senior Secured UK Property Debt Investments Ltd
India Capital Growth Fund Ltd
JLEN Environmental Assets Group Ltd
Lamprell PLC
Macau Property Opportunities Fund Ltd
Man Group PLC
Real Estate Credit Investments Limited
Renewables Infrastructure Group Ltd (The)

Ruffer Investment Company Limited
Sherborne Investors (Guernsey) C Ltd
SLF Realisation Fund Ltd
Syncona Ltd
TP ICAP Group PLC
Triam Investors 1 Ltd
UK Commercial Property REIT Ltd
WPP PLC

### Additional non-regulatory disclosure

In addition, the following three entities audited by Deloitte LLP have transferable securities listed on a UK regulated market but do not meet the definition of a UK PIE or Market Traded Company (due to being incorporated in countries outside the UK, Channel Islands, Isle of Man and the EU). The revenue derived from the audit work carried out by Deloitte LLP in respect of these entities is included within the revenue for non-PIEs in the table in [Appendix 2](#).

#### Entity name

Gulf Keystone Petroleum Ltd
Southern Water Services (Finance) Ltd
Trafford Centre Finance Limited

# Appendix 16:

## 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 April 2022.

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### A Leadership

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#### Principles

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- |                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A. A firm's Management and governance structures should promote the long-term sustainability of the firm. To this end, the Management of a firm should be accountable to the firm's owners.                                                                                                                                                          | See: <a href="#">Leadership message; Audit Governance Board and UK Oversight Board report</a> ; our <a href="#">website</a>                                                                                                                                                              |
| B. A firm's governance arrangements should provide checks and balances on individual power and support effective challenge of Management. There should be a clear division of responsibilities between a firm's governance structures and its Management. No one individual or small group of individuals should have unfettered powers of decision. | See: <a href="#">Message from the Non-Executives; Audit Governance Board and UK Oversight Board report</a> ; <a href="#">Appendix 5: Audit quality – Controls and processes</a> ; <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a> ; our <a href="#">website</a> |
| C. A firm's Management should demonstrate its commitment to the public interest through their pursuit of the purpose of this Code and regular dialogue with the INEs. Management should embrace the input and challenge from the INEs (and ANEs).                                                                                                    | See: <a href="#">Message from the Non-Executives; Audit Governance Board and UK Oversight Board report</a> ; our <a href="#">website</a>                                                                                                                                                 |
| D. The members of a firm's Management and governance structures should have appropriate experience, knowledge, influence and authority within the firm, and sufficient time, to fulfil their assigned responsibilities.                                                                                                                              | See: <a href="#">Appendix 1: Executive Group, Audit Governance Board and UK Oversight Board members' biographies</a> ; <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a> ; our <a href="#">website</a>                                                            |
| E. The Management of a firm should ensure that members of its governance structures, including owners, INEs and ANEs, are supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.                                                                                          | See: <a href="#">Message from the Non-Executives; Audit Governance Board and UK Oversight Board report</a> ; our <a href="#">website</a>                                                                                                                                                 |
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# Appendix 16:

## Audit Firm Governance Code

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### Provisions

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|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. A firm should establish a Board or equivalent governance structure to oversee the activities of Management.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | See: <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a> ; our <a href="#">website</a>                                                                                                                                                                                        |
| 2. At least half a firm's Board should be selected from among partners who do not have significant management responsibilities within the firm.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | See: <a href="#">Appendix 1: Executive Group, Audit Governance Board and UK Oversight Board members' biographies</a> ; <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a> ; our <a href="#">website</a>                                                                      |
| 3. The chair of the Board should not also chair parts of the Management structure or be the managing partner.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | See: <a href="#">Appendix 1: Executive Group, Audit Governance Board and UK Oversight Board members' biographies</a> ; our <a href="#">website</a>                                                                                                                                                 |
| 4. A firm's Management and Board should have a clear understanding of their authority, accountabilities and responsibilities. The Board should have clearly defined terms of reference, with matters specifically reserved for its decision, detailing in particular its role in relation to firm strategy, risk, culture and other matters relating to the purpose of this Code. Management should have terms of reference that include clear authority over the whole firm and matters relating to the purpose of this Code. Terms of reference should be disclosed on the firm's website. Terms of reference for international management and governance structures taking decisions that apply to the UK should be disclosed on the UK firm's website in the same way as for UK-based structures. | See: <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a> ; our <a href="#">website</a> ; the roles and responsibilities of the relevant NSE management and governance bodies are contained in the Deloitte NSE Partnership Agreement and are currently not publicly available |
| 5. A firm should establish arrangements for determining remuneration and progression matters for members of the Board which support and promote effective challenge of Management.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Elected Partners' remuneration and progression, in their capacity as members of the UKOB/AGB, are taken into account in their individual annual appraisals                                                                                                                                         |
| 6. The individual 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | See: <a href="#">Appendix 1: Executive Group, Audit Governance Board and UK Oversight Board members' biographies</a> ; <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a> ; our <a href="#">website</a>                                                                      |
| 7. There should be a formal annual evaluation of the performance of the Board and any committees, plus the public interest body. A firm should consider having a regular externally-facilitated board evaluation at least every three years.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | See: governance KPIs in the <a href="#">Audit Governance Board and UK Oversight Board report</a> ; our <a href="#">website</a>                                                                                                                                                                     |
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# Appendix 16:

## Audit Firm Governance Code

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8. Management should ensure that, wherever possible and so far as the law allows, members of governance structures and INEs and ANEs have access to the same information as is available to Management.	See: <a href="#">Audit Governance Board and UK Oversight Board report</a> ; <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a> ; our <a href="#">website</a>
9. A firm should disclose in its annual transparency report:	See:
a. the names and job titles of all members of the firm's governance structures and its Management;	<a href="#">Appendix 1: Executive Group, Audit Governance Board and UK Oversight Board members' biographies</a> ; our <a href="#">website</a>
b. a description of how they are elected or appointed and their terms, length of service, meeting attendance in the year, and relevant biographical details;	As (9.a.) above, see also: <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a>
c. a description of how its governance structures and Management operate, their duties, the types of decisions they take and how they contribute to achieving the Code's purpose. If elements of the Management and/or governance of the firm rest at an international level and decisions are taken outside the UK, it should specifically set out how management and oversight is undertaken at that level and the Code's purpose achieved in the UK; and	As (9.a.) above, see also: <a href="#">Audit Governance Board and UK Oversight Board report</a> ; <a href="#">Appendix 13: The Deloitte network</a>
d. an explanation of the controls it has in place on individual powers of decision and to support effective challenge by Board members, how these are intended to operate and how they work in practice.	<a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a> ; our <a href="#">website</a>

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## B People, values and behaviour

### Principles

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F. A firm is responsible for its purpose and values and for establishing and promoting an appropriate culture, that supports the consistent performance of high-quality audit, the firm's role in serving the public interest and the long-term sustainability of the firm.	See: <a href="#">Leadership message</a> ; <a href="#">Appendix 5: Audit quality</a>
G. A firm should foster and maintain a culture of openness which encourages people to consult, challenge, contribute ideas and share problems, knowledge and experience in order to achieve quality work in a way that takes the public interest into consideration.	See: <a href="#">Appendix 5: Audit quality</a> ; <a href="#">Appendix 6: Our cultural ambition</a>
H. A firm should apply policies and procedures for managing people across the whole firm that support its commitment to the purpose and Principles of this Code.	See: <a href="#">Appendix 5: Audit quality</a>

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# Appendix 16:

## Audit Firm Governance Code

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### Provisions

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|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10. A firm's Board and Management should establish the firm's purpose and values and satisfy themselves that its purpose, values and culture are aligned. If a firm's purpose and values are established at an international level, the firm should ensure it has the ability to influence that decision-making process and the ability to tailor the output for the UK.                                                                                                                                                                                                                                                       | See: <a href="#">Leadership message</a> ; <a href="#">Appendix 5: Audit quality – Mindset and behaviours</a>                                                                                                       |
| 11. A firm should have a code of conduct which it discloses on its website and requires everyone in the firm to apply. The Board and INEs should oversee compliance with it.                                                                                                                                                                                                                                                                                                                                                                                                                                                   | See: our <a href="#">Ethics Code</a> on our website                                                                                                                                                                |
| 12. A firm should promote the desired culture and a commitment to quality work, professional judgement and values, serving the public interest and compliance with professional standards and applicable legal and regulatory requirements, in particular through the right tone at the top and the firm's policies and procedures.                                                                                                                                                                                                                                                                                            | See: <a href="#">Leadership message</a> ; <a href="#">Ethics, independence and conflicts</a> ; <a href="#">Appendix 5: Audit quality – Mindset and behaviours</a> ; our <a href="#">Ethics Code</a> on our website |
| 13. A firm should establish policies and procedures to promote inclusion and encourage people to speak up and challenge without fear of reprisal, particularly on matters relating to this Code and the firm's values and culture.                                                                                                                                                                                                                                                                                                                                                                                             | See: <a href="#">Ethics, independence and conflicts</a> ; <a href="#">Appendix 5: Audit quality – Mindset and behaviours</a>                                                                                       |
| 14. A firm should introduce meaningful key performance indicators on the performance of its governance system, and report on performance against these in its transparency reports.                                                                                                                                                                                                                                                                                                                                                                                                                                            | See: governance KPIs in the <a href="#">Audit Governance Board and UK Oversight Board report</a>                                                                                                                   |
| 15. A firm should assess and monitor culture. It should conduct a regular review of the effectiveness of the firm's systems for the promotion and embedding of an appropriate cultures underpinned by sound values and behaviour across the firm, and in audit in particular. INEs should be involved in this review and where a firm has implemented operational separation the ANEs should be involved in the review as it relates to the audit practice. Where it is not satisfied that policy, practices or behaviour throughout the business are aligned with the purpose of this Code, it should take corrective action. | See: <a href="#">Audit Governance Board and UK Oversight Board report</a> ; <a href="#">Appendix 5: Audit quality – Mindset and behaviours</a> ; <a href="#">Appendix 6: Our cultural ambition</a>                 |
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# Appendix 16:

## Audit Firm Governance Code

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16. A firm should establish mechanisms for delivering meaningful engagement with its people. This should include arrangements for people to raise concerns in confidence and anonymously and to report, without fear, concerns about the firm's culture, commitment to quality work, the public interest and/or professional judgement and values. The INEs should be satisfied that there is an effective whistleblowing policy and procedure in place and should monitor issues raised under that process.	See: <a href="#">Audit Governance Board and UK Oversight Board report: Ethics, independence and conflicts</a>
17. INEs should be involved in reviewing people management policies and procedures, including remuneration and incentive structures, recruitment and promotion processes, training and development activities, and diversity and inclusion, to ensure that the public interest is protected. They should monitor the firm's success at attracting and managing talent, particularly in the audit practice. Where operational separation is in place the ANEs should be involved in this process.	See: <a href="#">Audit Governance Board and UK Oversight Board report</a>
18. INEs and ANEs should use a range of data and engagement mechanisms to understand the views of colleagues throughout the firm and to communicate about their own roles and the purpose of this Code. One INE should be designated as having primary responsibility for engaging with the firm's people.	See: <a href="#">Message from the Non-Executives</a>
19. A firm should disclose in its annual transparency report a description of how: a) it engages with its people and how the interests of its people have been taken into account in decision making; and b) opportunities and risks to the future success of the business have been considered and addressed, its approach to attracting and managing talent, the sustainability of the firm's business model and how its culture, in particular in the audit practice, contributes to meeting the purpose of this Code.	See: <a href="#">Appendix 5: Audit quality – Mindset and behaviours</a>  <a href="#">Appendix 9: Principal risks, uncertainties and mitigations</a>

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# Appendix 16:

## Audit Firm Governance Code

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### C Operations and resilience

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#### Principles

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|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| I. A firm should promote a commitment to consistent high-quality audits and firm resilience in the way it operates. To these ends, a firm should collect and assess management information to evaluate the effectiveness of its policies and procedures and to enhance its operational decision-making. | See: <a href="#">Leadership message</a> ; <a href="#">Appendix 5: Audit quality</a>                                                                                                                                                         |
| J. A firm should establish policies and procedures to identify, assess and manage risk, embed the internal control framework and determine the nature and extent of the principal risks the firm is willing to take while working to meet the purpose of this Code.                                     | See: <a href="#">Appendix 9: Principal risks, uncertainties and mitigations</a>                                                                                                                                                             |
| K. A firm should communicate with its regulators in an open, co-operative and transparent manner.                                                                                                                                                                                                       | See: <a href="#">Leadership message</a> ; <a href="#">Message from the Non-Executives</a> ; <a href="#">Audit Governance Board and UK Oversight Board report</a> ; <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a> |
| L. A firm should establish policies and procedures to ensure the independence and effectiveness of internal and external audit activities and to monitor the quality of external reporting.                                                                                                             | See: <a href="#">Appendix 5: Audit quality – Controls and processes and Quality outcomes</a>                                                                                                                                                |

#### Provisions

- |                                                                                                                                                                                                                                       |                                                                                                                                                                                                        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 20. A firm should assist the FRC and its successor bodies to discharge its duties by sharing information openly.                                                                                                                      | See: <a href="#">Message from the Non-Executives</a> ; <a href="#">Audit Governance Board and UK Oversight Board report</a> ; <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a> |
| 21. A firm should take action to address areas of concern identified by regulators in relation to the firm's audit work, leadership and governance, culture, management information, risk management and internal control systems.    | See: <a href="#">Leadership message</a> ; <a href="#">Appendix 5: Audit quality – Quality outcomes</a>                                                                                                 |
| 22. A firm should develop robust datasets and effective management information to support monitoring of the effectiveness of its activities, including by INEs (and ANEs), and its ability to furnish the regulator with information. | See: <a href="#">Leadership message</a> ; <a href="#">Audit Governance Board and UK Oversight Board report</a> ; <a href="#">Appendix 5: Audit quality – Quality outcomes</a>                          |

# Appendix 16:

## Audit Firm Governance Code

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23. A firm should establish an audit committee and disclose on its website its terms of reference and information on its membership. Its terms of reference should set out clearly its authority and duties, including its duties in relation to the appointment and independence of the firm's auditors. Where a firm's audit committee sits at an international level, information about the committee and its work should be disclosed by the UK firm as if it were based in the UK.
- See: [Appendix 12: Deloitte UK: Governance and legal structure](#); the roles and responsibilities of the relevant NSE management and governance bodies are contained in the Deloitte NSE Partnership Agreement and are currently not publicly available
- 
24. A firm should monitor its risk management and internal control systems, and, at least annually, conduct a review of their effectiveness. INEs should be involved in the review which should cover all significant controls, including financial, operational and compliance controls and risk management systems.
- See: [Audit Governance Board and UK Oversight Board report; Appendix 9: Principal risks, uncertainties and mitigations](#)
- 
25. A 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 in the UK. INEs (and in firms with operational separation, ANEs) should be involved in this assessment.
- See: [Audit Governance Board and UK Oversight Board report; Appendix 9: Principal risks, uncertainties and mitigations](#)
- 
26. A firm should publicly report how it has applied the Principles of this Code, and make a statement on its compliance with its Provisions or give a detailed explanation for any non-compliance, i.e. why the firm has not complied with the Provision, the alternative arrangements in place and how these work to achieve the desired outcome (Principle) and the purpose of this Code.
- This Transparency Report is housed on [our website](#)
- 
27. A firm should explain who is responsible for preparing the financial statements and the firm's auditors should make a statement about their reporting responsibilities in the form of an extended audit report as required by International Auditing Standards (UK) 700/701.
- See: [our Annual Financial Statements](#)
- 
28. The transparency report should be fair, balanced and understandable in its entirety. A firm should disclose in its transparency report:
- a. a commentary on its performance, position and prospects;
  - b. how it has worked to meet the legal and regulatory framework within which it operates;
  - c. a description of the work of the firm's audit committee and how it has discharged its duties;
- See: [Appendix 2: Financial information](#)  
[Appendix 12: Deloitte UK: Governance and legal structure](#)  
As (28.b.) above

# Appendix 16:

## Audit Firm Governance Code

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|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|
| d. confirmation that it has performed a review of the effectiveness of the system of internal control, a summary of the process it has applied and the necessary actions that have been or are being taken to remedy any significant failings or weaknesses identified from that review;                                  | <a href="#">Audit Governance Board and UK Oversight Board report</a>         |
| e. a description of the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary;                                                                                                                                 | N/A                                                                          |
| f. an assessment of the principal risks facing the firm and explanation of how they are being managed or mitigated; and                                                                                                                                                                                                   | <a href="#">Appendix 9: Principal risks, uncertainties and mitigations</a>   |
| g. a description of how it interacts with the firm's global network, and the benefits and risks of these arrangements, with reference to the purpose of this Code. This should include an assessment of any risks to the resilience of the UK firm arising from the network and any action taken to mitigate those risks. | As (28.f) above, see also: <a href="#">Appendix 13: The Deloitte network</a> |

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### D INEs and ANEs

#### Principles

- |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                               |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| M. A firm should appoint INEs to the governance structure who through their involvement collectively enhance the firm's performance in meeting the purpose of this Code. INEs should be positioned so that they can observe, challenge and influence decision-making in the firm.                                                                                                                                                                                                                  | See: <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a> |
| N. INEs (and ANEs) should provide constructive challenge and specialist advice with a focus on the public interest. They should assess and promote the public interest in firm operations and activities as they relate to the purpose of this Code, forming their own views on where the public interest lies.                                                                                                                                                                                    | See: <a href="#">Message from the Non-Executives</a>                          |
| O. INEs (and ANEs) should maintain and demonstrate objectivity and an independent mindset throughout their tenure. Collectively they should enhance public confidence by virtue of their independence, number, stature, diverse skillsets, backgrounds, experience and expertise. They should have a combination of relevant skills, knowledge and experience, including of audit and a regulated sector. They owe a duty of care to the firm and should command the respect of the firm's owners. | See: <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a> |

# Appendix 16:

## Audit Firm Governance Code

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P. INEs (and ANEs) should have sufficient time to meet their responsibilities. INEs (and ANEs) should have rights consistent with discharging their responsibilities effectively, including a right of access to relevant information and people to the extent permitted by law or regulation, and a right, individually or collectively, 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.

See: [Appendix 12: Deloitte UK: Governance and legal structure](#)

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Q. INEs (and ANEs) should have an open dialogue with the regulator.

See: [Appendix 12: Deloitte UK: Governance and legal structure](#)

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### Provisions

29. INEs should number at least three, be in the majority on a body chaired by an INE that oversees public interest matters and be embedded in other relevant governance structures within the firm as members or formal attendees with participation rights. If a firm considers that having three INEs is unnecessary given its size or the number of public interest entities it audits, it should explain this in its transparency report and ensure a minimum of two at all times. At least one INE should have competence in accounting and/or auditing, gained for example from a role on an audit committee, in a company's finance function or at an audit firm.

See: [Appendix 12: Deloitte UK: Governance and legal structure](#)

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30. INEs should meet regularly as a private group to discuss matters relating to their remit. Where a firm adopts an international approach to its management and/or governance 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 jurisdiction. The firm should disclose on its website the terms of reference and composition of any governance structures whose membership includes INEs, whether in the UK or another jurisdiction.

See: [Message from the Non-Executives](#); our [website](#)

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31. INEs should have full visibility of the entirety of the business. They should assess the impact of firm strategy, culture, senior appointments, financial performance and position, operational policies and procedures including client management processes, and global network initiatives on the firm and the audit practice in particular. They should pay particular attention to and report in the transparency report on how they have worked to address: risks to audit quality; the public interest in a firm's activities and how it is taken into account; and risks to the operational and financial resilience of the firm.

See: [Message from the Non-Executives](#)

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# Appendix 16:

## Audit Firm Governance Code

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32. A firm should establish a nomination committee, with participation from at least one INE, to lead the process for appointments and re-appointments of INEs (and ANEs), to conduct a regular assessment of gaps in the diversity of their skills and experience and to ensure a succession plan is in place. The nomination committee should assess the time commitment for the role and, when making new appointments, should take into account other demands on INEs' (and ANEs') time. Prior to appointment, significant commitments should be disclosed with an indication of the time involved. Additional external appointments should not be undertaken without prior consultation with the nomination committee.	Deloitte UK does not have a nomination committee at a UK level – the UKOB Chair undertakes this role, in consultation with the UK Managing Partner and AGB Chair
33. A firm should provide access for INEs to relevant information on the activities of the global network such that they can monitor the impact of the network on the operations and resilience of the UK firm and the public interest in the UK.	See: <a href="#">Audit Governance Board and UK Oversight Board report</a>
34. INEs should have regular contact with the Ethics Partner, who should under the ethical standards have direct access to them.	See: <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a>
35. INEs should have dialogue with audit committees and investors to build their understanding of the user experience of audit and to develop a collective view of the way in which their firm operates in practice.	See: <a href="#">Message from the Non-Executives; Audit Governance Board and UK Oversight Board report</a>
36. Firms should agree with each INE (and ANE) a contract for services setting out their rights and duties. INEs (and ANEs) should be appointed for specific terms and have a maximum tenure of nine years in total.	See: <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a>
37. The firm should provide each INE (and ANE) with the resources necessary to undertake their duties including appropriate induction, training and development, indemnity insurance and access to independent professional advice at the firm's expense where an INE or ANE judges such advice necessary to discharge their duties.	See: <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a>
38. The firm should establish, and disclose on its website, well defined and clear escalation procedures compatible with Principle P, for dealing with any fundamental disagreement that cannot otherwise be resolved between the INEs (and /or ANEs) and members of the firm's Management and/or governance structures.	See: our <a href="#">website</a>

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# Appendix 16:

## Audit Firm Governance Code

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39. An INE (and / or ANE) should alert the regulator as soon as possible to their concerns in the following circumstances:

- the INE or ANE believes the firm is acting contrary to the public interest; or
- the INE or ANE believes the firm is endangering the objectives of this Code; or
- the INE or ANE initiates the procedure for fundamental disagreements.

See: [Appendix 12: Deloitte UK: Governance and legal structure](#)

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40. A firm should disclose in its annual transparency report:

- a. information about the appointment, retirement and resignation of INEs (and ANEs); 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 INEs in the way it has; and
- b. its criteria for assessing whether INEs (and ANEs) are: i) independent from the firm and its owners; and ii) independent from its audited entities.

See: [Appendix 12: Deloitte UK: Governance and legal structure](#)

As (40.a.) above

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### E Operational separation

#### Principles

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R. Where a firm applies the Principles for Operational Separation, has established an Audit Board with a majority of ANEs and is subject to regulatory monitoring of these arrangements, ANEs will fulfil the responsibilities of INEs under this Code in so far as these relate to the audit practice. A firm's INEs will focus on representing the public interest in high quality audit at the firmwide level as well as on the public interest in firm activities in non-audit parts of the business and the risks posed by these non-audit activities to the audit practice. In fulfilling their role ANEs should follow the Principles set out in section D as applied to the audit practice.

See: [Message from the Non-Executives; Audit Governance Board and UK Oversight Board report](#)

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S. INEs should rely on ANEs to provide independent oversight of audit quality plans, audit strategy and remuneration in the audit practice. ANEs should rely on the INEs to monitor activities at the firmwide and network levels for their potential impact on the audit practice.

See: [Message from the Non-Executives; Audit Governance Board and UK Oversight Board report](#)

# Appendix 16:

## Audit Firm Governance Code

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### Provisions

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41. ANEs should have the same obligations regarding time commitment, independence and objectivity as INEs. They should focus their attention on the audit practice in accordance with the Principles for Operational Separation. The Audit Board should have the authority to act independently of the firmwide public interest body. See: [Appendix 12: Deloitte UK: Governance and legal structure](#)
- 
42. INEs should participate in governance structures operating across the entirety of the firm and pursue the purpose of this Code at the firmwide level. They should: i) monitor the activities of the wider firm and global network for their potential to affect audit quality and the resilience of the audit practice; and ii) ensure the firm takes account of the public interest in its wider decision making. See: [Appendix 12: Deloitte UK: Governance and legal structure](#)
- 
43. INEs and ANEs should maintain open dialogue, consult on matters of public interest and share information with one another to the extent this is relevant for the Audit Board's oversight of the audit practice and/or the effective discharge of the INEs' responsibilities at the firmwide level. They should inform one another in the event they invoke the procedure for fundamental disagreements. See: [Message from the Non-Executives](#)
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# Appendix 17:

## 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 (as amended by The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019).

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### Provision of Article 13.2

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The annual transparency report shall include at least the following:

a) a description of the legal structure and ownership of the statutory auditor, if it is a firm;	See: <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a> ; <a href="#">Appendix 13: The Deloitte network</a>
b) where the statutory auditor is a member of a network:	See:
i. a description of the network and the legal and structural arrangements in the network;	<a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a> ; <a href="#">Appendix 13: The Deloitte network</a>
ii. the name of each member of the network that is eligible for appointment as a statutory auditor, or is eligible for appointment as an auditor in an EEA State or in Gibraltar;	<a href="#">Appendix 14: EU/EEA audit firms</a>
iii. for each of the members of the network identified under paragraph (ii), the countries in which they are eligible for appointment as auditors or in which they have a registered office, central administration or a principal place of business;	<a href="#">Appendix 14: EU/EEA audit firms</a>
iv. the total turnover of the members of the network identified under paragraph (ii) resulting from statutory audit work or equivalent work in the EEA States or Gibraltar;	<a href="#">Appendix 14: EU/EEA audit firms</a>
c) a description of the governance structure of the statutory auditor, if it is a firm;	See: <a href="#">Appendix 12: Deloitte UK: Governance and legal structure</a> ; <a href="#">Appendix 13: The Deloitte network</a>
d) a description of the internal quality control system of the statutory auditor and a statement by the management body on the effectiveness of its functioning;	See: <a href="#">Audit Governance Board and UK Oversight Board report</a> ; <a href="#">Appendix 5: Audit quality – Controls and processes</a>
e) an indication of when the last quality assurance review referred to in Article 26 was carried out;	See: <a href="#">Appendix 5: Audit quality – Quality outcomes</a>

# Appendix 17:

## EU Audit Regulation

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### Provision of Article 13.2

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|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|
| f) a list of public-interest entities for which the statutory auditor carried out statutory audits during the preceding financial year;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | See: <a href="#">Appendix 15: Public interest entities</a>                |
| g) a statement concerning the statutory auditor's independence practices which also confirms that an internal review of independence compliance has been conducted;                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | See: <a href="#">Ethics, independence and conflicts</a>                   |
| h) a statement on the policy followed by the statutory auditor concerning the continuing education of statutory auditors referred to in paragraph 11 of Schedule 10 to the Companies Act 2006;                                                                                                                                                                                                                                                                                                                                                                                                                                         | See: <a href="#">Appendix 5: Audit quality – Commitment to Excellence</a> |
| i) information concerning the basis for the remuneration of members of the management body of the statutory auditor, where that statutory auditor is a firm;                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | See: <a href="#">Appendix 12: Governance and legal structure</a>          |
| j) a description of the statutory auditor's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7);                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | See: <a href="#">Appendix 5: Audit quality – Controls and processes</a>   |
| k) where not disclosed in its accounts, information about the total turnover of the statutory auditor, divided into the following categories: <ul style="list-style-type: none"><li>i. revenues from the statutory audit of accounts of public-interest entities and members of groups of undertakings whose parent undertaking is a public-interest entity;</li><li>ii. revenues from the statutory audit of accounts of other entities;</li><li>iii. revenues from permitted non-audit services to entities that are audited by the statutory auditor; and</li><li>iv. revenues from non-audit services to other entities.</li></ul> | See: <a href="#">Appendix 2: Financial information</a>                    |

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### Provision of Article 13.3

The transparency report shall be signed by the statutory auditor:



For and on behalf of Deloitte LLP

# Glossary

Term	Description
Arm's length	A fair market basis used to determine the price for Deloitte specialists working outside of Audit & Assurance providing input to an audit.
Audit & Assurance Quality Board (A&AQB)	The A&AQB comprises partners and directors from across our Audit & Assurance business. Its remit is to: <ul style="list-style-type: none"><li>• Develop and govern activities to improve audit quality and the quality of our work on assurance engagements</li><li>• Implement these improvements across the Audit &amp; Assurance business</li><li>• Respond to audit quality issues raised by regulators and stakeholders.</li></ul>
Audit Firm Governance Code (the Code)	Published by the FRC and ICAEW in 2010 and revised in 2022, the Code sets a benchmark for good governance at the UK's largest audit firms, on a 'comply or explain' basis.
Audit Governance Board (AGB)	Established on 1 January 2021, the AGB comprises a majority of Non-Executives including the Chair. It is responsible for providing independent oversight of Deloitte's UK audit business, with a focus on the policies and procedures for improving audit quality. This includes ensuring people in the audit business are focused above all on the delivery of high-quality audits in the public interest; and oversight of the policies and processes for ensuring audit partner remuneration reflects their contribution to audit quality.
Audit Non-Executive (ANE)	Individuals who are independent of the management of the firm and who are responsible for providing independent advice and recommendations for management's consideration regarding the UK Audit & Assurance business. ANEs comprise a majority of the members of the Audit Governance Board and one of them is its Chair.
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 A&AQB to feed back their findings.
Audit Quality Plan (AQP)	A database used to capture and monitor actions arising from audit quality initiatives and the findings from external and internal reviews.
Audit Quality Remuneration Committee (AQRC)	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)	Independent reviews performed by the FRC to monitor the quality of the audit work of certain UK statutory auditors and audit firms.

# Glossary

Auditing, Reporting and Governing Authority (ARGA)	The government has proposed that a new regulator, ARGA, is established to replace the FRC. It is intended ARGA will have broader statutory powers. The legislative timetable for establishing ARGA has not been confirmed at the current time.
Deloitte Academy	Provides support and guidance to board and executive committee members through a series of webinars, seminars and discussions.
Deloitte Audit Forum	Annual two-part event - comprising an Audit AGM, with updates from our Audit & Assurance Executive and AGB, and a topical panel discussion involving Deloitte and guest speakers - with opportunities for audience Q&A with internal and external stakeholders.
Deloitte Way	Standardisation of audit processes supported by our global technology suite.
Deloitte Way Workflows	Part of the Deloitte Way, these workflows cover each area of the audit and aim to promote greater global consistency in audit methodology across all the member firms in the Deloitte network. They include a guided risk assessment, prescribed tasks and templates, and 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 business, including industry specialists and those from our central technical team, the EIG's objective is to identify emerging industry, political/economic, technology and regulatory/inspection related issues that could have a significant impact on audit quality in the future.
Engagement Quality Review (EQR)	Provides an objective and independent evaluation of the significant judgements made by the Engagement Team and the conclusions reached in formulating their report. The requirement for an EQR is met by EQR partners, the independent Professional Standards Review (PSR) team and, where appropriate, the independent Quality Corporate Reporting Centre of Excellence (QCR) team. In our last report, we referred to this role as Engagement Quality Control Review (EQCR); following adoption of new standards, the same role is now called Engagement Quality Review.
Engagement Quality Review (EQR) partner	An EQR 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.

# Glossary

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.
Independent Non-Executive (INE)	Individuals who are independent of the management of the firm and who are responsible for providing independent advice and recommendations for management's consideration regarding certain UK firmwide and non-audit matters. INEs are members of the UK Oversight Board and one of them is its deputy chair.
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 work is completed competently, ethically and appropriately.
International Auditing and Assurance Standards Board (IAASB)	An independent standard-setting body that sets international standards for auditing, quality control, review, other assurance, and related services, and facilitates the convergence of international and national standards.
International Standard on Quality Management (ISQM) 1	A new IAASB quality management standard focusing on quality management at the firm level. It was released in December 2020, and revised and published by the FRC as ISQM (UK) 1 in July 2021. It became effective on 15 December 2022.
International Sustainability Standards Board (ISSB)	An international body established to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities, to help them make informed decisions.
Multi-disciplinary Model (MDM)	Our MDM connects disciplines and capabilities across Audit & Assurance, Consulting, Financial Advisory, Risk Advisory and Tax & Legal under a single global Deloitte umbrella.
Non-Executive Committee (NEC)	A committee chaired by and comprising only Non-Executives to provide a forum for deeper dives into specific areas of public interest and to assist the Non-Executives in fully discharging their regulatory responsibilities.
Non-Executives	Collectively, the INEs and ANEs.
North and South Europe (NSE)	Deloitte NSE is the second largest member firm in the Deloitte network, spanning eight geographies (Belgium, Central Mediterranean, Ireland, Middle East, Netherlands, Nordics, Switzerland, United Kingdom), and 31 countries.
Operate	A cross-business service offering (excluding Audit & Assurance) whereby Deloitte takes responsibility for running and maintaining one or more of a client's business functions and/or end-to-end processes.

# Glossary

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, part of our EQR approach, 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)	As set out in UK law the definition of a PIE includes: <ul style="list-style-type: none"><li>• UK incorporated companies with transferable securities listed on a UK regulated market</li><li>• UK credit institutions (broadly banks and building societies)</li><li>• UK Solvency II insurance undertakings authorised by EU member states.</li></ul>
Public Interest Review Group (PIRG)	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.
Quality Assurance Department (QAD)	The QAD of the ICAEW monitors audit firms regulated by the ICAEW, for the audits of entities that are not covered by the FRC's monitoring.
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.
Single Quality Plan (SQP)	A plan that pulls together the numerous strands of audit quality actions, and monitors and prioritise those actions. In future years the FRC are planning to introduce formal reporting in respect of the SQP.
System of Quality Management (SQM)	Our systems and processes that provide us with reasonable assurance that we are complying with applicable professional standards and our own quality standards.

# Glossary

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System of Quality Management (SQM) findings and deficiencies

A finding is information about the design, implementation and operation of the system of quality management which indicates that one or more deficiencies may exist.

A deficiency exists when:

- i. A quality objective required to achieve the objective of the system of quality management is not established
- ii. A quality risk, or combination of quality risks, is not identified or properly assessed
- iii. A response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the response(s) is not properly designed, implemented or operating effectively, or
- iv. Another aspect of the system of quality management is absent, or not properly designed, implemented or operating effectively, such that a requirement of ISQM 1 has not been addressed.

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TechEx

Our year-round Technical Excellence programme, delivered through a multi-faceted mechanism consisting of, targeted workshops (TechEx on Tour), an experiential learning event (TechEx Live), and the opportunity to embed experiences and learning onto Audit engagements (TechEx Teams).

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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.

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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.

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