# **Deloitte.**



# Regulatory context

This Audit Transparency Report (Report) has been prepared in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 (the Instrument), made by the Professional Oversight Board (POB) of the Financial Reporting Council (FRC) on 3 April 2008. The Instrument came into force on 6 April 2008 and requires the publication of certain information by transparency reporting auditors<sup>1</sup>, such as Deloitte LLP<sup>2</sup> (Deloitte or the firm). This Report relates to the firm's principal activities in the UK for the year ended 31 May 2017, unless otherwise stated.

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

In January 2010, the Institute of Chartered Accountants in England & Wales (ICAEW) published the Audit Firm Governance Code (Code), which sets a benchmark for good governance and applies to firms auditing 20 or more listed companies. A revised Code was published on 27 July 2016, applicable for financial years beginning on or after 1 September 2016. Whilst adherence to the revised Code is not required for this year's Report, we include relevant disclosures throughout the Report and a reconciliation to the revised Code in Appendix 6.

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

<sup>2</sup> Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee. DTTL – also referred to as Deloitte Global – and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

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# Section 1 Introduction

# 1.1 Foreword, our purpose and priorities

#### **Foreword**

Welcome to Deloitte's Audit Transparency Report for the year ended 31 May 2017.

Quality is, of course, of paramount importance to Deloitte. This Report plays a critical role in communicating our transparency around audit quality to regulators, investors, audit committee chairs and other stakeholders and reflects the requirements of the revised Audit Firm Governance Code, which was published last year.

The last few months have been a period of great change for Deloitte. 1 June 2017 heralded the creation of Deloitte North West Europe (NWE), combining the UK, Swiss, Nordic, Belgian and Dutch firms to serve globally connected clients. I chair the new NWE Board, which ensures the governance and stewardship of the NWE firm, working with the NWE Executive to set and approve our long-term strategic aims. While this Transparency Report is focused on our UK operations in the year to 31 May 2017, we also reflect on the changes resulting from NWE throughout the report, including our new governance structure (in section 3.2).

Our purpose and priorities are set out below. On these and much else, I remain ever grateful to our Independent Non-Executives – Ruth Markland, Sir Gerry Grimstone and Sir Michael Peat – for the effective external perspective, challenge and wise counsel they provide.

#### **Our purpose**

Our purpose, to make an impact that matters for our clients, our people and society, remains the foundation of what we do, day in, day out. As set out in our annual Impact Report, which seeks to bring it to life, our purpose is shaped by the work we do to provide trust and confidence, support inclusive growth and build skills.

We recognise that the general level of trust in business has declined in recent years.

Addressing this is critical to foster investment and drive growth in the UK, and the government's focus on Industrial Strategy and Corporate Governance will provide critical platforms for opportunity and change. In providing robust, high quality audits and other business services, we are an important contributor to, and enabler of, trust and confidence.

We strive to remain at the forefront of innovation in the profession and deliver solutions every day that help our clients unlock possibilities and navigate complexities. We must also ensure that Deloitte remains a dynamic, diverse and inclusive place to work, open and attractive to people from all backgrounds, and that we support our clients to do the same. Inclusive behaviour and respect are expected of all our people and form a key part of our talent strategy.

We are proud of the progress we have made on social mobility, for example our 'blind' and 'contextualised' recruitment practices<sup>3</sup> and growing apprentice and school-leaver programmes. We continue to prioritise the recruitment and retention of senior women, are working to a plan that we put in place in 2014 to improve gender balance at all levels and engage in the debate on gender diversity with government, our clients and through the media. We have published data on the proportion of our partners who are black, Asian or from an ethnic minority (BAME) and are working towards targets to increase these numbers. We are also supporting increased diversity at board level through the Deloitte Academy 'Women on Boards' and 'BAME on Boards' programmes designed for senior business leaders aspiring to take on their first board role.

The services we provide and the training of those who deliver them must also adapt and remain 'future-fit'; section 2.1 sets out how we are evolving the audit and section 2.3 looks at some of the priority risks we ourselves face and the actions we are taking to mitigate them.



Nick Owen Chairman

3 Blind recruitment seeks to prevent unconscious bias and ensure that job offers are made on the basis of present potential, not past personal circumstance; interviewers do not have access to applicants' school or university details until an offer has been made. Contextualised recruitment provides recruiters with a range of standardised data on candidates' economic backgrounds and personal circumstances, allowing them to consider the context in which their academic achievements have been gained.

#### **Our priorities for FY18**

Over the coming year we will focus on:

# Driving further improvements in audit quality

We have made significant progress to date, but there is still more to do. As set out in detail in this report, we are undertaking a number of initiatives to shift the dial ever further. The FRC's 2016/17 Audit Quality Inspection Report on Deloitte highlighted many areas in which we have further improved audit quality, but we were disappointed that two audits were identified as requiring significant improvement. We accept those findings and have taken swift action to respond. We are firmly committed to achieving and exceeding the FRC's objective that, by 2019, 90% of FTSE audits reviewed will be assessed as requiring no more than limited improvements. We believe our continued investment in audit quality will allow us to do this. Furthermore, quality remains our focus within the NWE audit practice and, reflecting this, the leadership structure includes a quality leader for the whole of NWE.

# Capitalising on the opportunities arising from NWE

Combining across the markets in North West Europe will increase our ability to positively influence the growth of our clients and provide positive impact for our people and the communities we work in. It will also improve our ability to drive a consistent approach to audit and, as a result, to drive further quality improvements.

# Engaging proactively with regulators and other key stakeholders

This remains critical at local, national, regional and international levels. Moving to NWE, the uncertainty around what shape Brexit will take, the shifting corporate governance landscape and other factors will make this particularly important in the coming years.

# Driving international consistency improvements and enhanced network collaboration

Our strategy is to deliver services to clients as one seamless global network. Challenges in certain parts of the world require us to focus ever more on this. As section 2.1 sets out, we now have additional guidance for group auditors.

#### Culture

The firm's culture is critical to engendering and preserving trust, and leadership has a vital role to play in setting the right 'tone from the top'. Next year we will continue to assess our current culture and to build on and drive our ethical values and principles across the firm.

#### **One Million Futures**

The aim of our five-year responsible business strategy is to support and inspire a million people get to where they want to be – in the classroom, workplace or board room. During the first year, we aligned all of our fundraising, pro-bono and volunteering activity across our offices. As the programme enters its second year, we are working with 51 society partners – including schools, charities and social enterprises – helping people, whatever their background, to improve their education, skills and employability.

Please do get in touch via atr@deloitte.co.uk to share any feedback; we sincerely welcome your views.

# 1.2 Report from the Independent Non-Executives

#### Introduction

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

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

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

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

We also meet regulators, investor groups and representatives from professional bodies on a regular basis.

#### **Audit quality**

We pay particular attention to audit quality. This is done in four main ways:

- Involvement with the assessment of any audits which are being investigated by the regulator or which otherwise do not meet the standard required; as well as helping to ensure that the root cause analysis is comprehensive and rigorous, and that required changes are introduced.
- Reviewing the results of internal and external audit inspections with the Audit leadership team and external inspectors.
- Discussions with audit partners and staff to assess other issues such as the balance between professionalism and commercialism, and workplace stress.

We also consider developments in the Deloitte global audit practice.

#### **Reputation and continuity**

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

There is regular discussion at Board and other meetings about how the firm can protect and enhance its reputation, in the UK and globally. The Board is kept informed about any global reputational issues, with the global CEO and chairman attending meetings periodically.



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

The INEs receive (and discuss) reports from two UK working groups which assess the appropriateness of potential engagements: the Tuesday Group (for Audit, Consultancy and Financial Advisory) and the Tax Review Panel.

The INEs also consider the firm's financial position and risks, as members of the

In addition to the one-to-one meetings referred to above, the INEs see the Ethics Partner as members of the A&RC and review the firm's ethics policies, training and awareness raising. People management policies and procedures, whistleblowing, HR and disciplinary reports are also reviewed by the INEs as members of the A&RC and/or the Board.

Increasing emphasis is being placed by the Board on systematic assessment and monitoring of the firm's corporate culture. The INEs have encouraged this work.

There is strong emphasis on fair, well aligned and transparent reward and recognition and the Board devotes considerable time to reviewing and discussing proposals on a partner by partner basis (including for the chairman and CEO). The INEs are closely involved with this process.

#### The North West Europe firm

As described elsewhere in this
Transparency Report, a key development
during the past year has been the decision
to create the Deloitte NWE firm. Needless
to say this has involved a significant
amount of detailed work: to assess
opportunity and risk and to address and
resolve the practicalities of integration. This
has necessitated a number of additional
Board meetings. As members of the Board,
the INEs have advised, encouraged and
warned.

With effect from 1 June 2017, the enlarged firm will have five INEs. Three are members of the Board of the NWE firm, including Sir Gerry Grimstone from the UK; and three (Ruth, Gerry and I) are members of the UK Oversight Board. The other members of the UK Oversight Board are the UK CEO, the UK Head of Audit and three UK partners who are also elected members of the NWE Board.

#### **Looking forward**

The role and responsibilities of the INEs will remain the same as we move forward with the new governance structure, not least including compliance with the provisions of the UK Audit Firm Governance Code. The remit of the NWE Board will cover all the matters which are the normal responsibility of a main Board. The UK Oversight Board will focus on UK matters including, in particular, audit quality, public interest, ethics and culture, people management, risk management, internal controls and external and internal audit.

#### Conclusion

We believe that we have had full visibility of the entirety of the firm's business and have been appropriately involved with the oversight of the firm's operations during the year. We are satisfied that the firm has had good focus on audit quality and on its reputation more broadly across all service lines and that an appropriate framework is in place to reduce the risk of the firm's failure. In addition, the extent and quality of the firm's due diligence, decision-making and internal communication with respect to the NWE transaction have been impressive. In short, there are no particular concerns that Ruth, Gerry and I believe should be brought to the attention of readers of this report. We continue to have confidence in Deloitte's corporate governance and in the firm's commitment to good stewardship and the public interest.

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

# 1.3 Report from the Chairman of the Audit & Risk Committee

#### Introduction

Following my first year as Chairman of the Audit & Risk Committee (A&RC), I am pleased to provide an overview of the work that the A&RC has undertaken during the year and the issues it has considered.

For FY17 the A&RC comprised five partners, all elected members of the UK Board, with the INEs and the firm's Chairman in attendance. The Chief Financial Officer (CFO), external auditors (BDO LLP), internal auditors, members of the Quality & Risk teams and others attend at my invitation. The A&RC members, including myself, were appointed by the UK Board.

The A&RC met eight times during the year ended 31 May 2017 (FY16: six times). At each meeting, it met in closed session prior to the attendance of the invitees.

The A&RC's activities and findings are reported to the UK Board and are critical in enabling us to conclude on the effectiveness of the firm's system of internal control and on the firm's compliance with the Code. I would like to thank the members of the A&RC for their contribution and hard work during the year.

#### NWE

From 1 June 2017, a new A&RC has been created to operate at a North West Europe level with the UK Oversight Board being established to oversee specific aspects of the management of the UK firm. This includes some matters that fell under the remit of the UK A&RC during FY17 such as overseeing risk, regulatory, internal control and financial reporting matters that relate to the UK business. The terms of reference of the UK Oversight Board allow it to meet the requirements of the Audit Firm Governance Code and other UK legal and regulatory responsibilities.

During the year the UK A&RC reviewed the Transition Plan that had been developed with the purpose of enabling the establishment of the NWE A&RC as a sub-committee of the NWE Board, and the establishment of the UK Oversight Board.

Section 3.2 sets out our new governance structure in more detail.

#### **Accounting matters**

We discussed updates from the firm's CFO and the proposed accounting treatments in the June 2017 and July 2017 A&RC meetings. This included the accounting policies to be adopted by the firm in relation to revenue recognition, and the accounting for various investments held by the firm; as well as the key judgements and estimates to be made in the financial statements in relation to the impairment of receivables, pension assumptions, onerous contracts and lease dilapidation provisions. In October 2017, the A&RC will review the draft FY17 annual report and financial statements, focusing on the remaining key accounting judgements and disclosures, in advance of the approval of the statutory accounts.

The A&RC also considered the financial impact of forthcoming changes to accounting standards, focusing on the impact of changes to the recognition of revenue and lease accounting.

#### **Statutory audit**

During the year we completed a performance evaluation of external audit and confirmed the reappointment of BDO LLP. In December 2016 we reviewed, discussed and approved BDO's statutory audit approach and plan which set out the nature and scope of work which would be undertaken.

At the July 2017 meeting, we reviewed an interim status report from the statutory auditor. This included the interim findings of the audit. A final report will be issued by BDO LLP in October 2017, in advance of the approval of the statutory accounts, with an emphasis on the significant risk areas, a summary of misstatements identified by the audit, and commentary on the design effectiveness of internal controls and adherence to risk management procedures relevant to the preparation of the financial statements.



**Steve Williams**Chairman of the A&RC

We monitored the provision of non-audit services and concluded that non-audit fees of £18,500 (FY16: £18,000) for additional assurance over certain environmental performance data in the Impact Report did not represent a threat to independence.

#### Narrative and other reporting

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

We discussed the overall purpose and content of this Audit Transparency Report and reviewed the content with particular emphasis on messages from leadership and changes from the last year.

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

#### Principal risks and uncertainties

The principal risks and uncertainties are set out and managed through the Enterprise Risk Framework (ERF) that is in place. This sets out the Executive's assessment of the risks facing the firm, and specifically those that could impact on the ability of the firm to meet its strategy and those that could impact upon the reputation of the firm.

In line with the firm's FY17 planning process, the Executive undertook a refresh of the ERF to: identify any new enterprise risks; remove, if appropriate, any of the existing risks no longer considered significant; validate or update the risk definitions; and consider any changes to risk owners.

The Executive Risk Owners updated the ERF in October 2016 and May 2017 and the Managing Partner for Quality & Risk reported the results to the November 2016 and June 2017 Executive meetings respectively. Through detailed discussion of the assessment of the firm's enterprise risks, the Executive satisfied itself that the risk profile accurately reflects vulnerabilities and that appropriate mitigating actions, if any, are in place.

The results of the annual refresh and these six-monthly updates are discussed with the A&RC, which provides a further challenge to the Executive's assessments. We discussed in detail and challenged the Executive's assessment of the firm's enterprise risks including, for each, their rating of residual risk exposure, trending, speed of onset and the status of further actions, if any. In particular, this focused on the new risks that had been included in FY17 which related to integration in relation to the establishment of the NWE firm, and Audit Transformation; as well as the mitigating controls in place against these new risks.

In considering the risks, specific attention was also paid to those risks that could impact the sustainability of the audit practice, in particular audit quality, regulatory compliance and engagement, talent and the attractiveness of the audit profession, financial viability and operational excellence. Consideration has also been given to the impact of the UK's withdrawal from the EU.

Details of the enterprise risks are in section 2.3.

#### Ethics, whistleblowing and fraud

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

We considered the implications to the firm and its stakeholders of any reported instances and whether the matters raised constituted fraud, breaches of firm policy (including the Ethics Code) and/or regulatory or legal requirements. This included a walkthrough of the new investigation process.

In December 2016, the A&RC considered a report from the Ethics Partner with regard to independence, conflicts and ethics, with a particular focus on independence as a result of the changes in EU audit regulation.

In particular, we considered the implications of the above matters on the desired values and ethics of the firm, as referred to in section 2.1 (1).

#### **Quality and Risk**

The firm's Quality and Risk teams play a vital part in ensuring quality is at the heart of everything we do and that risk is appropriately managed. The A&RC considered reports from:

- The firm's Managing Partner, Quality and Risk on any decisions taken by the firm's Executive Risk Committee that could materially affect the firm's risk appetite.
- The firm's Head of National Quality and Risk Management on the results of the firm's portfolio risk review.
- The firm's Head of National Quality and Risk Management on the status of the firm's regulatory compliance, covering: Financial Conduct Authority compliance, audit regulation and conduct, and other regulators (including the ICAEW practice assurance regime).
- The service line managing partners and quality and risk partners on the management of quality and risk across the firm.
- The firm's Money Laundering Reporting Officer, also the Anti-Bribery Officer, with regard to the firm's compliance with the Proceeds of Crime Act, Terrorism Act, Money Laundering Regulations, UK Bribery Act and financial sanctions regime.

- The firm's COO on the transformation that had occurred on the operation of our back office to respond to changes in our business, through targeted investments, restructuring, professionalising leadership and cost control. In particular, there was a discussion in relation to the finance function which had launched a multi-year programme of enhancements to ensure it remained fit for purpose. These enhancements encompassed governance, the target operating model, culture and day-to-day management and activities, including internal and external reporting, treasury and tax.
- The firm's Head of National Quality and Risk Management and the Contentious Matters Partner on claims, investigations, reputational issues and professional indemnity insurance.

A presentation was also provided to the A&RC in June 2017 on the new 'Member Firm Standard 4: Risk' and the firm's maturity against the model set out by the standard and the challenge and validation provided by Internal Audit and Deloitte Global. This initial review has concluded that the UK firm's risk management programme is mature relative to the size and complexity of the member firm's practice.

#### **Assurance**

The A&RC received reports during the year from the firm's 'second line of defence' assurance function, the Central Monitoring Group (CMG), and from the 'third line of defence' internal audit function.

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

Internal audit, led by a partner for the firm's Risk Advisory practice, provides assurance based on a three-year strategic plan, prepared with reference to the key risks set out in the ERF. The plan was reviewed at the start of the year and updated during the year to confirm that it remained appropriate and reflected both changes to the business and emerging risks. In reviewing and approving the internal audit plan, the A&RC ensured a balance between coverage of the highest priority risks, while maintaining appropriate coverage of core business processes.

The A&RC considered internal audit reports on a periodic basis and monitored management's responsiveness to internal audit's recommendations through follow-up reports received from the CMG.

The committee also reviewed the FY18 internal audit plan which is based on the third and final year of the Strategic Audit Plan which was approved by the A&RC in October 2015. The Strategic Plan was prepared on the basis that all key business processes would be considered over a three year period, with reference to the ERF at the time. While the FY18 plan remains consistent with the Strategic Plan, it includes a particular focus on delivery centres and managed services. Other areas of focus are IT Resilience and Cyber Security (see section 2.3, sub-section 2, for more information on our approach to cyber security), recognising the importance of these areas in the current environment.

We also continued to monitor the effectiveness of the firm's internal audit function through consideration of its audit reports, plans and updates to the A&RC.

We also requested that an Assurance Map be prepared, summarising how the 'three lines of defence' operate within the firm. This showed how the necessary assurance is provided to ensure that adequate internal controls, monitoring and independent assurance are in place to manage the business, mitigate risk and ensure that the firm meets its legal, regulatory, professional and ethical obligations.

#### Risk management and internal control

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

In relation to the internal control environment, the firm conducts an annual review of the effectiveness of the firm's system of internal control, including financial, operational and compliance controls and risk management systems as well as the promotion of an appropriate culture underpinned by sound values and behaviour within the firm. Following a recommendation from Internal Audit to the A&RC in June 2016, a plan of reporting to support the statement of internal control was agreed in October 2016. In accordance with this plan and utilising the approved criteria for reporting high priority matters/ internal control failings to the A&RC and the agreed definition of 'significant control failing or weakness', a schedule of evidence was prepared to support the required statement of internal control. This included a review of matters presented to the A&RC, including outputs from various monitoring activities within the firm.

The schedule sets out a number of matters that had come to the attention of the committee during the year, including any issues highlighted through the various monitoring activities within the firm. In particular, we considered the internal control environment within the firm's central functions, and whether these remained appropriate. This focused on the Finance function, which has been subject to the new demands of NWE and the implementation of our new Finance SAP system.

Based upon this evidence, the A&RC considered whether any control failing or weakness or combination of these, having regard to both qualitative and quantitative measures, could seriously affect the performance, future prospects or reputation of the firm. This included whether any control failings or weaknesses reported to the A&RC over 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. Based on discussions and the evidence provided, we concluded that no significant failings or weaknesses exist which require disclosure. Although actions arise from both the ERF and internal audit reports, these are not of such significance that they individually or collectively undermine the system of internal control in place, rather they represent actions which we believe will further strengthen our system of internal control.

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

#### The Code (compliance with the revised Audit Firm Governance Code issued July 2016)

We reviewed a report on the extent of the firm's compliance with the Code's risk management principles. A revised Code was published by the FRC in July 2016, applicable for financial years beginning on or after 1 September 2016. While this revised Code does not apply to this year's report, we confirmed that we complied with the provisions of the revised Code as set out in appendix 6.

We continue to support the aims and principles of the Code.

# Section 2 **Providing trust**

# 2.1 Delivering quality audits

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

- 1. Culture
- 2. People
- 3. Systems and processes
- 4. Global consistency

We outline below the steps we have taken on each of these four elements.

#### 1. Culture

#### i) Introduction

Culture is an essential part of our business in engendering and preserving trust and we have, for some time, undertaken a number of activities to continue to develop our culture such as our Ethics Code, our work on Respect and Inclusion, and our Deloitte Leader initiative (which encourages leadership behaviour at all grades throughout the organisation). This is all underpinned by placing quality and our people at the heart of everything we do.

We are proud of our progress to date in establishing and promoting our culture, but recognise there is more to do. We have a continuing focus on building on and driving our ethical values and principles globally, in NWE and in the UK and acknowledge that culture is a subject of increasing importance to external stakeholders.

Our approach to ethics seeks to build and embed a culture of quality and integrity where people feel supported to raise their voice when something does not feel right. Having a sustained and continued focus on ethics and quality is a critical part of the culture of our audit service line, our overall firm culture and of fulfilling our public interest role. Our culture is described through our firm's purpose, values, strategy and competencies. Examples of some of our desired behaviours and symbols (being the inherent interpretations of what is important) supporting audit quality culture include:

 Tone from the top: bringing our Ethics Code to life for our leaders by setting the leadership behaviours which should be demonstrated at all times.  Communications and learning: making ethics visible in all aspects of our business by sharing real stories and

challenges to bring ethics to life.

- Professional scepticism and integrity: being paramount in our audit teams' handing of risk and issues.
- Protecting the firm's interests: not accepting work that is either not in the public interest or is not in the best interests of the firm.

#### ii) A focus on culture

Central to our approach to ethics is our Ethics Code, which was recently updated to incorporate the Global Principles of Business Conduct. These principles were developed to ensure a consistent approach to ethics across our member firms. The Global Principles of Business Conduct apply across the Deloitte Network and provide the foundation for how all our people behave. The Ethics Code also addresses new and emerging focus areas important to our firm, our people, clients and other stakeholders. Refreshed resources on our interactive Ethics Code website and firmwide communications seek to embed these principles and promote discussion on ethical issues.

Our firmwide ethics classroom courses seek to equip our people with the right skills and knowledge to make appropriate ethical decisions and to promote our desired culture. Ethical challenges are explored using a suite of ethics videos to demonstrate how ethical difficulties can be resolved through consultation with others.

A new interactive ethics eLearning course, which provides real-life examples of ethical challenges and practical problems, has also been developed this year and will be rolled out during FY18.

Positive actions have been taken to strengthen the linkages between the firm's motivational (incentives, rewards, performance management) and disciplinary systems and recruitment procedures so they align with the firm's purpose, values, expected behaviours, strategy and desired audit quality culture.

Deloitte expects high standards of all its people, especially in relation to conduct and integrity. Where the behaviour of our partners and staff falls short of the standards expected of them, it is dealt with through the firm's investigation procedures and commensurate action is taken.

### iii) Evaluating and overseeing our

The three INEs are proactive in their role in protecting the public interest. They are members of the UK Board, affording them the opportunity to challenge areas such as investment in audit quality, the outputs of our people survey and monitoring by our quality and risk teams.

To help improve the culture of continuous learning across the firm, we use surveys, key indicators and root cause analyses to measure and monitor people's perceptions of various audit quality culture influencers. For example, 'causal factors from people behaviours' is a root cause analysis category used in practice reviews, focus groups and systems of quality control reviews, including reviews of global shared services centres.

#### iv) Ongoing momentum

We recognise that we need to maintain a constant focus on culture. During FY18, we will continue progressing the initiatives set up to further develop, enhance and embed a quality culture including:

- Attracting and retaining talent, including providing additional options for longer term careers in audit.
- Embedding the FY18 Audit Imperatives.
- Continued interaction with Deloitte Global as part of its recently launched initiative focusing on integrity.
- Continued work by the Ethics Team to maintain the profile of the Ethics Code following the initial roll-out and training.
- Continued work to further strengthen the linkages between behaviours and reward.

#### 2. People

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

#### i) Recruitment

During the year ended 31 May 2017 we recruited 669 people to our Audit & Risk Advisory graduate and school leaver programmes. We maintain the high calibre of the people within our Audit practice through a rigorous recruitment process, including skills assessments and competency-based interviews.

## ii) Measuring and rewarding audit quality performance

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

Each audit partner and signing director receive an annual audit quality dashboard recording a variety of audit quality metrics, covering matters such as internal and external audit reviews, positive contributions to audit quality, Corporate Reporting Review Panel findings, personal independence, appraisal documentation and audit compliance. Certain key metrics, such as audit reviews, are given an increased weighting in formulating an overall audit quality performance score and graphic, together with an indication of movement from the previous year. The dashboard also enables individual partners and directors to provide their own narrative commentary on positive contributions to audit quality.

A similar dashboard is produced for other staff at manager level and above, which measures results from internal and external reviews, updates of personal independence and continuing professional development records, timely archiving of audit engagement files, and timely completion of essential professional updates and other e-learning, where applicable.

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

Both the audit quality dashboard and, where relevant, the audit responsibility rating are key inputs into the appraisal process for partners, signing directors and other staff at manager level and above.

Individual appraisals for FY17 also included feedback provided on specific engagements from fellow team members and from partners, to provide a rounded view of individuals' performance and development needs. The evaluation of professionals for promotion involves a detailed scrutiny of personal performance, with quality at its core, linked to our competency model. We use the annual bonus scheme to recognise the demonstration of exceptional audit quality.

During 2016 we set up an Audit Quality Remuneration Committee, comprising senior partners within the audit practice, to evaluate identified regulatory, internal practice review and other quality issues in order to provide an independent challenge to the audit quality contribution of each audit partner. The Committee uses the audit quality dashboards and audit responsibility ratings as key elements of their discussion. The Committee's recommendations are used by the Audit & Risk Advisory Executive to make final decisions on audit partner reward and promotion.

#### iii) Learning programmes

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

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

During the second half of 2016, the annual update training was followed by three mandatory, intensive Public Company Accounting Oversight Board (PCAOB) courses for people working on US Securities and Exchange Commission (SEC) engagements, with attendance based on grade of staff.

Later in 2017 we will be holding mandatory courses for current partners and staff starting to work on SEC engagements having not previously done so, and for new joiners who will be working on SEC engagements.

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

All of our partners and staff are also supported in their legal, ethical and quality responsibilities by appropriate learning programmes, including regulatory/policy compliance, personal independence, antimoney laundering and anti-bribery.

To specifically assist our partners' and staff's ability to understand and apply key aspects of the FRC's Revised Ethical Standard 2016 pertaining to personal independence and non-audit services, mandatory training sessions were rolled out in November 2016. These training sessions supplemented our mandatory webinars in May 2016, designed specifically to brief audit partners and director Responsible Individuals on the key changes to the FRC's Revised Ethical Standard 2016.

In addition, we run regular Essential Professional Updates for audit professionals, which cover current and emerging audit and accounting matters.

#### iv) On-the-job training

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

In the autumn of each year we run partner-led Engagement Team Based Learning, designed to help our people integrate their learnings from the Summer Technical Training, and other training courses, into their work on audit engagements. During autumn 2016 the focus of Engagement Team Based Learning was on implementing the enhanced methodology.

#### v) Developing the auditor of the future

As audit itself continues to evolve, we continue to invest in developing the Auditor of the Future. The introduction of analytics and other innovative technologies, as well as evolving regulatory requirements and client expectations, as discussed throughout this report, means we must also develop our people and foster the right skills to deliver high-quality audit work in a complex and changing environment. Our primary objective is to ensure that we recruit, train and develop our people and future leaders, continually growing their skills and competencies in line with the evolving audit.

We are also seeking to showcase the value of a career in audit more broadly, providing our professionals with the means to develop the skills this will entail through diverse qualifications and learning opportunities, supported by bespoke development and a range of career paths.

#### 3. Systems and processes

The steps outlined below demonstrate the investment we have made in our underlying audit methodology, tools and resources to enhance the effectiveness of our audit process as we look to the audit of the future.

#### i) Audit methodology and software

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

We continue to enhance our audit methodologies across all the member firms in our network. The focus of the enhanced methodology is to encourage a more robust, fact-based risk assessment and varying our audit response as a result of that risk assessment. This approach was first applied to audit engagements for years ending on or after 31 December 2016. During the coming year we will specifically focus on how to make better use of internal controls and embedding data analytics throughout the audit.

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

#### ii) Use of specialists and experts

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

During the year, we introduced a new consultation system to make it simpler to record when – and in what form – consultation on audit and accounting technical matters has taken place. This has helped us ensure consistency in response to consultations and to identify any trends where further guidance and training may be needed. We also released more guidance about timeliness and detail of consultation.

# iii) Audit project management and timing

Our audit milestones programme provides guidance to teams on objective completion dates for key activities. Following the milestones programme is mandatory for our larger audits, and is strongly recommended for smaller engagements. Milestone tracking is supported by bespoke diagnostic software that integrates with our audit software to provide real-time information to partners and staff on the progress of their audits.

#### iv) Audit reporting

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

We recognise that, in addition to focusing on the quality of our own audit reports, auditors also have an important role to play in raising the overall quality of the financial statements.

We established the Quality Corporate Reporting Centre of Excellence during the year, to assist our people in dealing with increasing complexity around financial reporting. The remit of the Centre of Excellence encompasses enhanced preissuance reviews on those audited entities that exhibit risk factors related to corporate reporting; performance of thematic reviews in targeted corporate reporting areas; and publication of both internal and external guidance to contribute to improving the production of insightful and accurate financial information by the entities we audit.

Effective, clear and timely communication with audit committees, and with others charged with governance, is also key to the quality of our audits. We aim to continually improve the quality of such reporting, including enhancing the clarity of our explanations of the audit process, for example when discussing materiality and the impact this has on the audit work undertaken.

During FY17, we produced a special assurance report for some of the FTSE 350 entities we audit covering a snapshot of the key risks they face, published at the same time as their preliminary announcement. This bridges the investor communications gap between publication of a company's preliminary announcement and the annual report, and improves the disclosure of the auditor's approach to testing areas of significant risk, increasing transparency and effectiveness of the audit.

#### v) Engagement Quality Control Review

For public interest entities, an independent engagement quality control review (EQCR) partner has responsibility for the whole of an engagement's EQCR process, supported by Professional Standards Review (PSR), together with other specialist support as deemed necessary. This further specialist support includes the dedicated technical specialists forming our Quality Corporate Reporting Centre of Excellence described above.

PSR supports our high standards of professional scepticism and audit quality by providing independent challenge on each of our audit engagements focusing on significant accounting, auditing and financial reporting judgements, appropriate audit documentation and disclosure areas.

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

The EQCR partner role is performed by appropriately skilled audit partners who would, in other circumstances, be eligible to act as audit engagement partner on the relevant audit engagement, such as FTSE 350 audited entities. EQCR partners are involved in our public interest entities and higher risk engagements, together with other entities where considered appropriate. For other engagements, the EQCR process is undertaken by the PSR team. Neither the EQCR partner nor PSR is part of the entity-facing team; they are therefore well-placed to bring independent challenge to the audit process.

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

#### vi) Driving continual improvement

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

#### vii) Causal factor analysis

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

- Engagements receiving adverse ratings in regulatory or internal inspections.
- Selected findings arising from inspections of our system of quality control.
- Recurring findings across a number of engagements or areas, regardless of inspection outcome.
- A selection of our highest quality audits assessed during inspections and selected examples of good practice.
- Other quality matters including a selection of first year audits and prior period adjustments.

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

Causal factors are reported as part of our inspection summaries to the Audit Leadership, AQB, Emerging Issues Group (EIG) and A&RC. Recurring themes, common pitfalls, good practice observations and causal factors are communicated on a regular basis to audit practitioners.

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

#### viii) Audit quality structures Audit Quality Board (AQB)

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

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

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

- Outcomes from external and internal inspections
- Strategic responses to the underlying causes of inspection findings
- Further enhancement of the content and delivery of our learning curriculum
- Improving the challenge from our Engagement Quality Control Reviewers
- Identifying priorities and creating a formal Audit Quality Plan for 2018

#### **Audit Quality Forum**

The AQB established an Audit Quality Forum in 2015, comprising junior staff from associate to manager grades, to give a voice to people at different stages of their careers to further improve audit quality. The forum meets four times a year. Matters discussed in the current year included the content and delivery of learning, the project management of audit engagements and the resourcing and structure of engagement teams. The chairperson of the forum sits on the AQB to feed back results for further action, as necessary.

#### **Emerging Issues Group (EIG)**

Our EIG was established during 2015 and includes partners from across the audit business and specialists from our National Accounting & Auditing technical team (NAA). Leveraging this wide range of experience, along with partnering with industry groups, the EIG's objective is to identify significant emerging industry, political/economic, technology and regulatory/inspection related issues that could have a significant impact on audit quality in the future. The EIG drives the development of actions to address these matters, working with Industry Groups, NAA and the network of Audit Quality Leaders who are embedded in the audit groups. The EIG reports directly to the Audit Executive.

#### ix) Developing the audit of the future

Our transformation programme helps us move towards our vision of the future of audit – a digitally enabled, agile environment, where low risk and standardised tasks are automated, and cognitive technologies support testing on areas of significant judgement.

As part of this programme, our Audit Innovation team conducts experiments and develops new technologies and tools to support the quality and effectiveness of our audits. Their focus is on analytic capability, client collaboration tools, automation and artificial intelligence.

We have a rigorous testing process for any new technologies and tools to ensure that data is secure and that they are properly embedded within our approved audit methodology.

Over the past year we have invested in developing document reading capability – which can read and extract key data from scanned documents such as contracts and invoices. Such advancements enhance the consistency of approach across large data sets and give the ability to review whole populations for items of audit interest.

We have also experimented with natural language generation capability, which turns structured numerical data into written analysis, ensuring that our written documents are consistently high quality.

We have continued to invest in and develop our global analytics platform. Within our Spotlight analytics tool we now have enhanced capability around data extraction and we have developed innovative non-invasive extraction tools which protect client enterprise resource planning environments without requiring any modification. We have also rolled out focused risk analytics as standard across our audits in addition to the integration of journal data which has been in widespread use for a number of years.

During FY17 we continued to embed our Audit Delivery Centres and Centres of Excellence into our audit practice – leveraging specialist skills to drive audit quality and increase efficiency and effectiveness through increased standardisation and automation.

#### 4. Global consistency

#### i) Global links

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

The Deloitte Network has adopted several measures to drive quality improvements across the world. We are guided and assisted by a range of Deloitte Global bodies to which we contribute and from which a number of our audit quality initiatives stem, including:

Body	Details including Deloitte UK involvement
Global Audit Oversight Committee (GAOC)	Deloitte UK is represented on the GAOC.
	<ul> <li>The GAOC was established in late 2015 to provide effective oversight of audit quality monitoring and audit quality continuous improvement at the global level and across Deloitte network firms. The GAOC is a cross-functional group of senior leaders from Deloitte Global and Deloitte network firms and has as its objective promoting consistent audit quality conversations across all markets. The GAOC works closely with Global Audit leadership as it executes its mandate and interfaces with both the Deloitte Global Executive and the Risk Committee of the Deloitte Global Board.</li> </ul>
Global Audit Quality Board	• Membership by the Audit Quality & Risk Partner, to drive the audit quality agenda for the Deloitte Network.
	<ul> <li>The production of an annual Audit Quality Plan by each member firm, which details its response to member-firm specific matters as well as the wider Deloitte Global strategic priorities related to audit quality and measures progress against this.</li> </ul>
Global Centre of Excellence for Audit Quality (GCoE)	• The EMEA Managing Director of this Centre of Excellence is based in the UK, and works closely with our PCAOB Audit Quality and Risk Management team.
	See more details below on its scope and activities.
Global Audit Quality Monitoring and Measurement	• This is mirrored in the UK by a similar local programme, to pull activities including the following into one centrally managed group:
programme	<ul> <li>Practice reviews (see above)</li> <li>The performance of 'health checks' (reviews of live engagements) using the findings from inspections and diagnostic tools, to drive the selection of engagements and file areas for review</li> <li>The measurement of Audit Quality Indicators (AQIs) by member firms. In the UK, these sit alongside the UK profession's AQIs (see section 2.2)</li> <li>The monitoring of audit milestones to support engagement teams in their project management responsibilities</li> <li>External regulatory engagement</li> </ul>
	• The UK has a leading role in this global transformation, following our own transformation of internal quality inspections in the past few years.
Audit Technical Advisory Board (ATAB)	Deloitte UK has a representative on the ATAB.
	It determines audit methodology and policies.
Global Audit & Assurance Leadership	GAALT supports the execution of the Deloitte Global Audit & Assurance strategy.
Team (GAALT)	• It is explained in more detail in section 3.3(4).

The Deloitte Network established the GCoE in 2015, with a focus on driving enhanced audit quality on global systemically important financial institutions and PCAOB engagements. The aim is to instil best practices from firms with extensive experience and expertise in PCAOB audits into other network firms by providing support based on their knowledge and lessons learned. The EMEA managing director of this Centre of Excellence is based in the UK, and works closely with our PCAOB Audit Quality and Risk Management team. Deloitte's actions to enhance audit quality on PCAOB engagements have included:

• The introduction and local implementation of a global PCAOB audit approach manual, in addition to our separate audit approach manual for International Auditing Standards.

- The introduction of internal inspections designed to replicate a PCAOB inspection, both in the style of the review and in the consequences of the results of the inspection.
- Deployment of a new learning syllabus focused on PCAOB requirements, for all staff working on PCAOB engagements.
- Appointment of a partner responsible for PCAOB audit quality and risk and the development of specific support within the UK team for PCAOB audits.
- Using professionals from the GCoE to provide support to engagement teams working on PCAOB engagements in preparing for an effective audit.
- Distributing global communications about the latest PCAOB auditing guidance and hot topics so that all relevant people in the global network receive the same information at the same time.

The Deloitte Network's Global IFRS Leadership Team is supported by nine International Financial Reporting Standards (IFRS) Centres of Excellence (including one in the UK) to provide our audit professionals with swift and consistent responses to IFRS technical queries. In particular:

- Global IFRS technical activities, including communications, are led from the UK.
- The global auditing and accounting teams work closely together to provide all our people with swift and consistent guidance around the world.
- The expertise of the UK-based Global Capital Markets Group available to support our professionals on IFRS and US accounting and auditing issues and SEC listing rules and regulation.

#### ii) Global audit imperatives

The Deloitte Network's aim is to drive professional excellence through the consistent global application of eight audit imperatives, which have been adopted by every member firm.

All audit professionals are expected to know what these are and to understand that they need to demonstrate each one on every audit. The audit imperatives for FY17, as presented below, have been implemented in the UK and are supported by the initiatives discussed throughout section 2.1. We monitor adherence to these imperatives through our internal inspections and by an annual survey, to identify where additional actions may be required.

- 1. Remain objective and sceptical throughout the audit challenge areas involving management judgement or transactions outside the normal course of business.
- Obtain a thorough understanding of process flows for significant accounts and related disclosures. Identify relevant controls, evaluate their design, determine their implementation and, when applicable, including for PCAOB audits, sufficiently test relevant controls.
- 3. Develop and execute a comprehensive audit project plan to optimise timing of procedures throughout the audit cycle and innovate audit service delivery.
- 4. Apply expertise in areas involving specialists through the tailoring of audit responses specific to the entity.
- Remain resolute on directing, supervising and reviewing the work of component auditors.
- 6. Advance professional development through enriching your skillset and the skillset of others.
- 7. Perform robust risk assessment procedures to appropriately identify and assess the risks of material misstatement and design and execute further audit procedures to respond to the identified risks.
- 8. We all own quality individually and together.

#### iii) Member firm group audits

During FY17 certain issues were identified in a small number of member firms. In particular, the PCAOB identified certain violations at Deloitte Touche Tohmatsu Auditores Independentes, the Brazil member firm (Deloitte Brazil), and sanctioned several individuals for violations including non-cooperation with a PCAOB inspection and subsequent investigation.

To address this and other regulatory comments, Deloitte Global issued additional guidance on how group auditors should evaluate and supervise the work of Deloitte component auditors, which was supplemented in the UK by an additional consultation requirement on group audits where certain Deloitte Global member firms are involved. This seeks to ensure that audits fully comply with applicable auditing standards throughout a wider group, wherever the other auditor is based, and whether or not it is part of the Deloitte Global network.

#### iv) Working across North West Europe

Quality remains our focus within the audit practice, and this is reflected by the leadership structure, with an oversight of quality throughout NWE. Our head of Audit Quality for NWE leads the audit quality program, working closely with Deloitte Global's Audit Quality Board, the GCoE, the Global IFRS Leadership Team and all the country quality teams including the UK Audit Quality Board.

We will not only develop and share best practices, but also drive consistent audit quality, non-negotiable behaviours, and effectiveness across NWE. The initial focus of the Deloitte NWE audit quality lead is on PCAOB audits in coordination with the GCoE.

# 2.2 Measuring quality

In this section we describe how audit quality is monitored at Deloitte in four ways:

- 1. Internal inspection
- 2. External reviews
- 3. Audit Quality Indicators
- 4. Audit Committee Chairs Survey

#### 1. Internal inspection

At its core, the practice review programme determines whether we have complied, in all material respects, with the professional standards and the policies contained in the Deloitte Policies Manual (DPM) and Audit Approach Manual (AAM), as well as applicable professional standards and regulatory and legal requirements. Wider than this however, it provides assurance over the level of quality delivered by a Deloitte audit and drives the culture of continuous improvement. In recognition of the importance of the process the Firm has made a significant investment during the last two years to implement and deliver a transformation programme for the practice review.

Within the practice review programme there are two elements that work together to meet the overall aims: individual Engagement Review (ER) that primarily assesses compliance with the AAM, and the System of Quality Control (SQC) review that primarily focusses on the firm's internal processes to comply with the DPM. Additional rigour and independence is brought through the oversight of an independent partner from another member firm within the Deloitte Network together with independent engagement reviews from a central global team.

In the current year the SQC underwent transformation. In addition to the points noted below, we have expanded the breadth and depth of the review by both widening existing, and adding additional, procedures to increase the robustness and level of challenge in our work.

The additional procedures incorporate and expand on European Audit Inspection Group (EAIG's) Common Audit Inspection Methodology programme for reviewing a firm's SQC and requires the Firm to provide evidence of operational effectiveness of the control alongside appropriate design and implementation.

Our transformed practice review process includes the following key parts that ensure it is delivered with the right level of scrutiny and rigour:

#### 1. Selection process

A detailed selection process is undertaken each year for both the engagements to be reviewed and the scope of work for the

**ER:** Engagements are selected across our audit business portfolio and ensure that, as a minimum, each of our partner and director Responsible Individuals are subject to a review every two years. Selected files are then subject to independent inspection by professionals from the central inspection team, along with reviewers comprising partners and senior auditors from other UK offices, groups and overseas member firms (together the 'Reviewers').

**SQC:** A detailed risk assessment is performed across all areas that support audit quality to set the areas and the level of testing to be performed. During this process meetings are held with stakeholders to inform the process and a number of critical factors are assessed including Global, UK, and regulatory focus areas to reach a conclusion on the risk and scope of work.

#### 2. Experienced reviewers

A critical success factor in achieving our desired level of rigour and scrutiny is the competency of the Reviewers. Across both the ER and SQC, we undertake a comprehensive selection process, ensuring the Reviewers as a team have the relevant industry and technical experience, quality record, seniority, and sufficient time to be able to bring robust independent challenge. Once selected, all Reviewers are given thorough training by the leaders in our central team.

#### 3. Consistency of findings

At the end of each review, the findings are moderated centrally by a moderation panel. This moderation panel applies a regulatory lens from our library of inspection findings to ensure that findings are classified consistently. The moderation panel determines the rating for each review and for ER we apply a 'regulatory lens' to rating findings, with engagements being classified as Compliant, Improvement Required or Non-Compliant and with policies subject to the SQC testing being rated as Fully Implemented, Partially Implemented or Not Implemented.

#### 4. Action and ongoing education

The results of the practice review are communicated to the UK Audit & Assurance Executive, the UK Risk & Reputation Leader, the A&RC and the INES via their attendance at the A&RC. In addition, a member of the Deloitte Global Audit & Assurance Executive attends the UK closing meeting and the results are reported to the Deloitte Global Audit & Assurance Executive and to the Global Risk Advisory<sup>4</sup> Executive Committee. Casual Factor Analysis (CFA) is performed on the findings as set out in the CFA section below.

The FY17 practice review took approximately 5,750 days (FY16: 5,000 days) this year from experienced professionals, as well as significant senior partner resource from within the UK firm. Approximately 535 days were provided by professionals from other member firms within our network to bring an increased level of independence and specialised expertise to our review.

Of the 132 UK engagements<sup>5</sup> that were reviewed as part of the FY17 practice review 1% were assessed as non-compliant, compared with 7% in FY16.

The review of the system of quality control resulted in 351 fully implemented, 12 partially implemented and 0 not implemented policies, compared with 352, 9 and 0 respectively in FY16.

These results are discussed further in the Audit Quality Indicators section below.

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

In accordance with the Schedule to the Instrument, and based on the practice review carried out in 2016, we confirm that we are satisfied that our internal quality controls and systems are, in general, robust and operate effectively and allow us to readily identify any areas of potential improvement or refinement. We continually seek to improve all aspects of our business and we use the findings of the practice review, other internal reviews and external regulatory reviews to enhance our SOC.

#### 2. External reviews

In addition to our own internal reviews of audit quality, we are subject to external reviews by the FRC's AQR team, the ICAEW's Quality Assurance Department (QAD) and the PCAOB (who completed their most recent review in October 2016).

#### i) 2016/17 Audit Quality Inspection Report on Deloitte LLP (Deloitte)

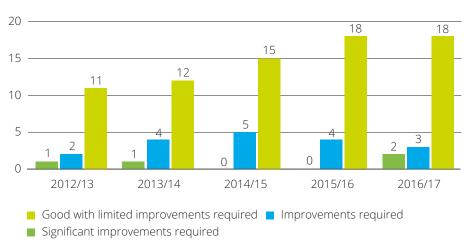
The AQR undertakes independent inspections of the overall quality of the auditing function in the UK in relation to listed and other major public interest entities. The AQR published a report on the findings of its 2016/17 inspection of Deloitte on 15 June 2017. The full report is available on the FRC's website at the following link: https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Audit-Quality-Review/Audit-firm-specific-reports/Au

Deloitte's policies and processes supporting audit quality were reviewed, as were 23 individual audits. The AQR's review identified that we had taken the actions we committed to following their 2015/16 review.

In addition, they highlighted that we had made the following enhancements to our policies and procedures:

- Strengthened the evidence of the Engagement Quality Control Review (EQCR) partner and audit technical reviewer involvement.
- Updated Deloitte's audit methodology to include additional focus on risk assessment and the related audit response (effective from 31 December 2016 year-end audits).
- Introduced more focused coaching for audit teams throughout the audit process.
- Issued more timely and focused guidance and reminders to the audit practice on key audit matters, to facilitate appropriate consideration by audit teams at the key stages of the audit.
- Increased mandatory technical training for qualified staff through to partner level.

#### Results of AQR reviews of the firm



<sup>5</sup> While our Swiss practice is included in our practice review programme, its results are not included in these numbers

We consider that the AQR's report provides a balanced view of the focus and results of its inspections and is an accurate reflection of our efforts to improve audit quality across our practice over a number of years. We were disappointed that, despite the high standards we set and many areas of improvement in our quality record, the percentage of audits rated as requiring more than limited improvements has remained broadly similar to the previous year and that two reviews resulted in those audits being scored as requiring significant improvement. We are pleased to note the positive examples highlighted in the report and the changes we had implemented which have resolved issues previously identified. We have developed actions and programmes to address the findings detailed in the 2017 FRC public report. These actions and programmes are as follows:

# Improve the extent of challenge of management in relation to areas of judgment, in particular impairment reviews and valuation of acquired intangible assets

We took immediate action when it became apparent that we needed to enhance our audit procedures in the area of goodwill and intangible assets despite our focus on the audit of management estimates in our 2016 Summer Technical Training. We have developed an Impairment Centre of Excellence and have mandated its involvement in all public interest entity audits with a material goodwill or intangibles balance for years ending on or after 15 December 2016. The specialists within the Impairment Centre of Excellence, in addition to having significant experience auditing complex impairment issues, have had specialist training to be able to identify and respond to the issues raised in this report.

We will evaluate the success of our revised consultation approach, and assess whether to expand it or amend it, during the course of our 2017 internal quality review process. Our Summer Technical Training in summer 2017 included interactive workshops on this area including sharing anonymised findings from internal and external review to illustrate the types of challenge and extent of audit evidence that teams should seek to achieve in this area.

#### Strengthen the firm's audit of revenue recognition

These findings relate to individual issues specific to the audits reviewed, on which we have taken action to address the findings. However, revenue remains a critical focus of concentrated effort for our audit practice and we take the findings very seriously. A key theme of the enhancements to our methodology in 2016, which were deployed after these engagements were completed, was to enhance our risk assessment procedures and, as a result, encourage our auditors to develop more robust responses to the largest most critical account balances, with a natural focus on revenue. This included the removal of capped sample sizes for very large balances and facilitation of a combination of test of details and substantive analytical procedures to enable more comprehensive audit responses to be designed.

This theme continued in 2017 where our Summer Technical Training showcased our investment in analytic tools applied to the audit of revenue. The focus on revenue will be further reinforced when we bring together our training on the accounting and auditing of revenue as we prepare to audit the implementation of the new revenue standard IFRS 15 'Revenue from Contracts with Customers' which is effective for periods beginning on or after 1 January 2018. As with all changes of this nature, effective deployment of methodology enhancements is covered by our quality monitoring activities and will be an area of focus in our internal practice reviews in 2017.

#### Make further improvements to the audit of defined benefit pension scheme balances in corporate entities

We note the matters raised relate to the audit of pension balances within corporate entities and not to our audits of pension schemes themselves. In relation to the single audit referred to, we do not consider this a pervasive matter, rather a specific set of circumstances, but we continue to incorporate challenge of management as critical in our training materials and guidance. We have improved our procedures to ensure confirmations are obtained from asset custodians where appropriate. In December 2015 we introduced a detailed practice aid dedicated to all areas of corporate pension balance auditing together with increased training.

We have also mandated consultation with our Pension Audit Centre of Excellence for years ending on or after 15 December 2016 and refreshed the practice aid. This ensures our corporate audit teams have access to our experts in the audit of pension balances. A number of the AQR's reviews were undertaken before the changes have taken effect. We will monitor the effectiveness of the actions through our continuous Audit Quality Monitoring and Measuring Programme.

#### Continue to seek to improve the consistency of the quality of communications with Audit Committees

We take our responsibilities for reporting to the Audit Committee very seriously. There is a natural follow on that if there is a failure in the underlying audit work we will inevitably fall short in our reporting on those areas. We will continue to stress the critical importance of reporting matters to the Audit Committee in the training we deliver and in the enhanced procedures we have established, in particular around key management estimates and judgements. We have issued refreshed Audit Committee reporting templates to the practice reflecting the observations of the reviews.

#### ii) FRC Audit Quality Thematic Reviews

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

During the year, the FRC published its reports arising from thematic reviews of firms' root cause analysis, data analytics and audit quality control procedures and other audit quality initiatives. We have found the feedback from these reviews to be valuable, and it contributes to the changes we have made to audit methodology and guidance.

The outcomes of the FRC's thematic reviews on auditors' responsibilities relating to other information, audit firm governance and culture and materiality will be available for inclusion in next year's Audit Transparency Report.

# iii) Other overseas and offshore regulatory bodies

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

• United States: the PCAOB is the regulator for the audits of public companies with securities listed in the US. The firm's engagements relevant to the PCAOB include SEC registrants that are Foreign Private Issuers and the UK components of US listed groups. The PCAOB has the right to inspect the firm and their 2013 inspection report was published on 10 November 2014. The 2016 report is due to be published later in 2017. Further details are provided within the metrics on audit quality reviews below.

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

#### 3. Audit Quality Indicators (AQIs)

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

In 2014 the six largest audit firms worked together, through the Policy and Reputation Group (PRG), to identify the key factors contributing to audit quality.

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

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

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

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

#### i) Metrics on external investigations related to audit

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

1

0

**FY17** 

FY16

#### **Deloitte commentary**

During the year to 31 May 2017, there was one adverse finding by a tribunal convened by the FRC's Conduct Committee in relation to the firm's audit work on **Aero Inventory Plc's** 2006-2008 financial statements (fine of £4m and severe reprimand for the firm and fine of £150,000 and severe reprimand for the partner).

There are two ongoing investigations relating to the audit work of the firm or its partners which are yet to be concluded and are therefore excluded from the FY17 total for cases concluded. These are:

- **Autonomy Corporation plc:** An investigation commenced in February 2013 concerning the firm's audit work on Autonomy's 2009-2011 financial reporting.
- Serco Group plc and certain of its subsidiaries: An investigation commenced in June 2016 concerning the firm's audit work on Serco's 2011-2012 financial statements.

**Mitie Group plc:** furthermore, a new investigation commenced in July 2017 concerning the firm's audit work on Mitie's 2015 and 2016 consolidated financial statements.

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



0

FY17

FY16

# ii) Metrics on external investigations related to other matters

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



0

**FY17** 

FY16

#### **Deloitte commentary**

No such cases occurred during the year to 31 May 2017.

#### **Deloitte commentary**

While there were no findings against the firm in the year to 31 May 2017, during the year an adverse finding was agreed in relation to the conduct of a partner (who is not a member of Deloitte LLP) in connection with actuarial advice provided to Equity Syndicate Management Limited between 2007 and 2009 (personal fine of £75,200; severe reprimand for the partner concerned; sum of £400,000 to be paid as a contribution to the Executive Counsel's costs).

#### iii) Metrics on audit quality reviews

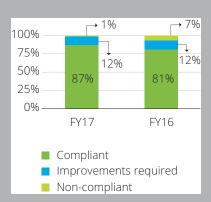
Results of the firm's internal audit quality reviews

Number of Audit engagements reviewed



FY16

**FY17** 



#### **Deloitte commentary**

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

Both the current and comparative data are for the UK alone, excluding the Swiss audit practice. Any comparison of FY17 and FY16 results should bear in mind that we continually seek to refine our approach to internal practice review and to make the reviews more challenging and robust.

#### **Engagement reviews**

In FY17 one substantial role component selected for a UK-led PCAOB-style inspection was rated as non-compliant. During FY16 the percentage of audits rated non-compliant was largely due to four audits specifically selected in response to a potential issue being identified and, following a thorough review, all four were deemed to be non-compliant. The relevant engagement teams all included staff who were known to be leaving the firm and, as a result, we have strengthened our procedures in this area.

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

# System of Quality Control review





**FY16** 

Fully implemented

**FY17** 

- Partially implemented
- Not implemented
- Consecutive findings

#### **Deloitte commentary**

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

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

#### System of Quality Control review

The FY17 review shows no areas where policies were not implemented (FY16: 0). Of the 12 partially implemented policies, three were repeat findings from the prior year and relate to areas associated with engagement performance and independence. Other areas with findings for FY17 are reputation and risk; monitoring and human resources.

#### iii) Metrics on audit quality reviews

Results of AQR reviews on the firm

# Number of audit engagements reviewed:







- Good with limited improvement
- Acceptable overall with improvements required
- Significant improvements required

#### **Deloitte commentary**

#### Results of inspection by AQR

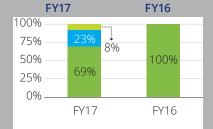
The results of our most recent AQR inspection are discussed above and the full 2016/17 report of the AQR on Deloitte can be found at https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Audit-Quality-Review/Audit-firm-specific-reports/Audit-firm-specific-reports-2017.aspx

We have given careful consideration to each of the FRC's comments and recommendations. We use the external inspection process, as well as findings from our own quality review procedures, to drive further improvements to our quality agenda. We have already taken action to respond to the key themes of the 2016/17 AQR report, many of which are described earlier in this section and will continue to undertake further activities to embed the changes into our practice.

# Results of inspection by the QAD of the ICAEW

# Number of engagements reviewed:





- Satisfactory or generally acceptable
- Improvements required
- Significant improvements required

#### **Deloitte commentary**

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

The overall conclusion in the June 2017 report, which covered reviews of audit reports signed in 2016, was that "The audit work on most of the files we reviewed was of an overall high standard. Nine of the thirteen files were either satisfactory or generally acceptable. However, three files needed improvement, and one file needed significant improvement. This represents a weaker profile compared to our 2015 visit, when all files were either satisfactory or generally acceptable".

There were three key findings from the files needing improvement or significant improvement. These were insufficient audit work and disclosures in respect of derivative financial instruments, a balance sheet error arising from an incorrectly posted audit journal and weaknesses in respect of audit work and presentation of long term loans. The reviews also identified a small number of other points for improvement which were principally documentation matters.

We have already taken action to respond to the findings of the QAD report including remediation of the audit work on the files needing improvement or significant improvement, completion of root cause analysis, and we have communicated the improvement observations to our audit practitioners. We will continue to undertake further activities to embed the changes into our practice.

#### iii) Metrics on audit quality reviews

Number of Part I references in the latest PCAOB inspection report

5

Latest AQI<sup>6</sup>

#### **Deloitte commentary**

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

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

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

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

#### iv) Metrics on partner and staff

Average tenure in years of audit partners

18.9

18.0

FY17

FY16

#### **Deloitte commentary**

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

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

## Average partner and staff turnover

15.8%

16.6%

FY17

FY16

#### **Deloitte commentary**

This metric measures the annual staff turnover for our audit practice in the UK, including all grades of staff and partners. Turnover remains roughly consistent with 2016.

We believe that our staff turnover appropriately reflects the profile of our business. We have huge pride in the exceptional talent of all our people, even after they leave the firm. We have set up the Deloitte Alumni Network to keep in touch with our alumni.

http://www2.deloitte.com/uk/en/pages/careers/articles/alumni.html

#### v) Metrics on investment

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

81.6

54

**FY17** 

FY16

#### **Deloitte commentary**

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

Structured learning includes:

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

In addition, all qualified staff are required to view regular technical webinars and this is monitored. These one hour sessions provide updates on corporate and financial reporting, auditing and regulatory information to audit partners and staff in the UK. Eight mandatory webinars were made available for professionals during the year (in FY16 there were seven mandatory webinars and one optional webinar).

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

#### Notes:

- This metric does not include any of the exam training provided to non-qualified staff under training contracts, nor does it include the hours of personal learning undertaken to fulfil Continuing Professional Development requirements.
- The increase from FY16 to FY17 is due to the nature and length of this year's Summer Technical Training.

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

#### **Deloitte commentary**

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

We draw your attention to the following items:

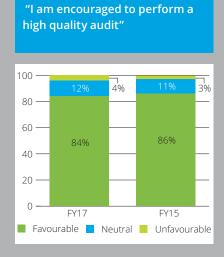
- On a global basis, there has been further development of our Engagement Management System, supporting our enhanced global methodology as described earlier in this section.
- During the year we have been developing our document reading capability which can read and extract key data from scanned documents such as contracts and invoices.
- We have also experimented with natural language generation capability, which turns structured numerical data into written analysis.
- We have continued to invest in and develop our global analytics platform, Spotlight.

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

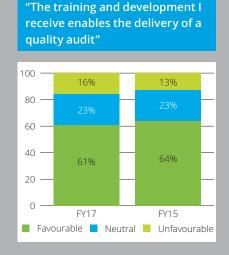
#### vii) Metrics gathered by staff survey

Staff surveys are conducted across our business every 18 months to two years. These results are from this year's survey, conducted in autumn 2016. Our next survey will be conducted in FY19.

Staff survey question







#### **Deloitte commentary**

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

In this year's staff survey, 84% of those professionals who responded to the survey agreed that they were encouraged to perform a **high quality audit**.

In response to our people's concerns regarding the **time and resources** available to them, we have taken action, including growing the range of capabilities available to our engagement teams through Centres of Excellence and driving greater usage of those centres; improving our people's access to dedicated project management with a team of specialist project managers, improving the access to and take-up of data analytics as an audit tool, and improving the way we schedule professionals onto engagements. During the coming year, we will be introducing standardised workflows to assist consistency across engagements, as well as planning and recruiting specifically to support the new very large audit engagement wins.

In response to our people's concerns regarding the **training and development** they receive, this year we refreshed our learning curriculum to bring it into line with the rest of Deloitte Global, while tailoring it specifically for the business units to more closely match their training to the work they will be doing. We also provided additional targeted training for those professionals working on SEC engagements. During the coming year we will be expanding our coaching programme to bring even more emphasis onto learning practically while working on engagements.

#### viii) Metrics on investor liaison

#### **Deloitte commentary**

In October 2016 we held our fifth Deloitte Stakeholder Forum, bringing together Deloitte partners and INEs with investors, regulators and other external stakeholders. This annual event is an important facet of our external engagement, enabling important discussion and debate with and between our stakeholders. Topics discussed in 2016 included audit innovation, tax transparency and responsible business.

In June 2016, we also hosted a smaller dinner event for stakeholders to discuss topics of public, topical and societal interest.

A number of our senior leaders, including the INEs, meet periodically with individual investors or small groups of investors to discuss topics such as corporate reporting, audit quality and the firm's governance arrangements. The INEs' engagement with investors was discussed in the report from the Independent Non-Executives in section 1.2 above.

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

#### 4. Audit Committee Chair survey

During April and May 2017, the FRC conducted the fourth annual Audit Committee Chair Survey. The scope of the survey was changed in 2017 to include public interest entities (PIEs) from outside the FTSE 350, some of whom are audited by firms outside the 'Big 6'. In total, 330 respondents completed the survey.

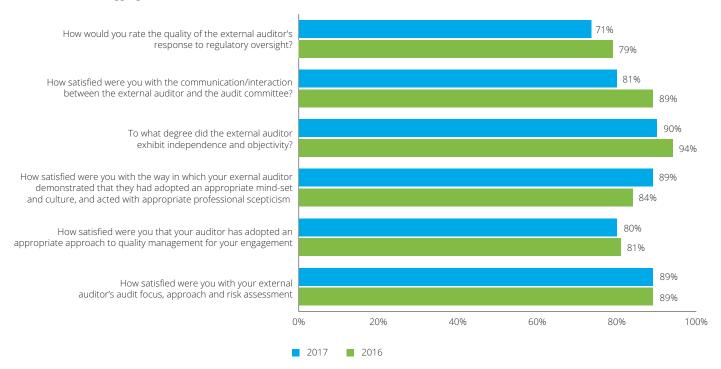
The overwhelming majority (90%) of audit committee chairs who responded to the survey have either an 'excellent' or 'above average' view of their external auditor. Deloitte's own results, while not publicly disclosable, continue to be strong.

Audit committee chairs scored their auditors highly across all questions, with a pleasing improvement in the perception of professional scepticism compared with previous years. However, drops in the scores, compared with 2016, for regulatory oversight and the level of interaction with the audit committee, while broadly in line with 2015 results, suggest there is some work for the firms to do in these areas.

Respondents were asked to rank their responses on a scale of 1 (low) to 7 (high). The satisfaction scores, aggregated across all firms and based on those who responded with a 6 or 7, are shown below.

For the first time this year, respondents were also asked to comment on their auditors' use of innovation. Around half of the audit committee chairs who responded reported that their auditors were innovative in the way they reported their audit, while two in five thought the methodology and approach used were innovative. As highlighted above, we continue to invest and develop in this area.

#### Satisfaction scores aggregated across all firms



# 2.3 Managing risk

#### 1. Priority risks and mitigations

As at 31 May 2017 the enterprise risks which the Executive, the A&RC and the Board considered to have the most potential significant impact on Deloitte's ability to realise its strategy, if they materialised, and related key mitigations were:

#### **Priority risks**

# Systemic or major failure of audit quality or compliance with audit independence rules: inability to prevent significant and/or multiple failures in the delivery of audit quality, including failures brought about by component auditors, the unsuccessful deployment and implementation of technology or methodology and risk associated with unsatisfactory regulatory inspections. The firm and/or its people fail to comply with audit independence rules.

#### **Mitigations**

- Response to audit quality observations raised by the FRC's AQR, the ICAEW's QAD team or the PCAOB, including root cause investigation of each finding, along with improvements to internal quality review procedures
- Audit Professional Standards Review
- Processes to capture significant economic and industry risks which have an impact on audit quality
- Audit Centres of Excellence
- Deloitte and personal independence systems and monitoring. Due to the changing regulatory requirements, increasing stakeholder expectations and the importance we attach to independence, we have set out in appendix 1 a detailed list of our independence systems and processes
- Annual certification of compliance with independence rules by all members of staff
- Mitigations below (as applied to evolving services and delivery models) apply equally to audit quality

Failure to manage the quality of evolving services and client delivery models: the inability of the firm's quality and risk management policies, procedures, capabilities and infrastructure to keep pace with and so manage the quality of complex, evolving services and client delivery models, particularly those associated with innovative technology or alternative talent models.

- Deloitte-wide Quality & Risk community led and staffed by dedicated experts. Established quality policies, processes and procedures on specific regulatory, legal, ethical and professional requirements
- Innovation Investment Board with senior Quality & Risk members
- Modified Quality & Risk processes, systems and training in response to changing nature of services delivered
- Delivery Model programme
- Delivery Centre risk registers
- Practice and portfolio reviews of engagements and clients

Failure to deliver our desired client portfolio: failure to leverage our assets into our client relationships to achieve our vision of being the first port of call for these clients when they are faced with major challenges.

- Clients & Markets strategy with supporting operational function
- Client portfolios and programme, including audit capture and focus on multi-disciplinary model
- Governance structure through the Public Policy Group to ensure the firm develops a strong, coordinated and consistent voice in the market, including on the impacts of Brexit
- Aligned and agreed KPIs that are monitored

Failure to manage regulatory and public interest threats: the failure to mitigate risks arising from changes in policy and the regulatory landscape. The risk that the firm acts without appropriate regard to the public interest.

- Stakeholder Engagement Programme to communicate our position and what we stand for and to use these interactions to shape our strategy
- Responding to public policy and regulatory consultations
- Three Independent Non-Executives (INEs) on the Board and PIOC
- A Public Interest Review Group to review potentially contentious public interest matters
- A Tax Review Panel to consider the reputational issues associated with complex tax engagements
- Ethics approach (including our Ethics Code and Speak-up Line) to provide our people with guidance and support

#### **Priority risks**

# Failure to deliver the culture and talent strategy: failure to have a flexible and sustainable talent model that enables us to respond to the changing shape of our business/market; failure to deliver the Respect & Inclusion agenda so that our working environment reflects what we communicate both internally and externally.

#### **Mitigations**

- Robust HR policies including Equal Opportunities, Respect & Inclusion and Agile working
- Deloitte Code, incorporating ethical principles and Deloitte Global shared values, complemented by an enhanced ethics approach including whistleblowing and Speak-up Line processes and reporting channels
- Audit talent model transformation programme
- Transition to the new HR operating model, incorporating business continuity
- Embedded new performance management approach with supporting technology

Failure to manage data security and privacy: the risk of a substantial loss, unauthorised access to, or inappropriate use of client or firm data; the increased risk of supporting the evolving business models that threaten the firm's compliance with contractual, legal and regulatory requirements.

- A centralised group security function in the form of the Deloitte Business Security team with defined data security responsibilities
- Defined security strategy including information security policies, processes, guidelines and ongoing member firm collaboration
- IT technical solutions including, but not limited to, encryption, data leakage protection, privileged access management, event monitoring and incident management
- Good practice logical and systems management control
- Implementation of third party risk assessment framework in order to ensure the firm continues to meet regulatory and client requirements
- Physical security controls covering premises access and working areas
- Personnel security and vetting controls
- Security training and awareness programme
- ISO 27001/Cyber Essentials Plus certification and audit
- Business Resilience and IT Disaster Recovery processes
- General Data Protection Act implementation programme

Failure to ensure the IT infrastructure supports the current and future business models: the risk that the firm fails to ensure that the IT infrastructure supports the firm's ability to efficiently, effectively and securely deliver services under current and future business models.

- IT Strategy objectives and assessment of future technology requirements
- IT framework in line with the IT Service Management Infrastructure Library (ITIL) and Control Objectives for Information and Related Technology (COBIT) standards
- An IT Risk Committee comprising key stakeholders from IT, Quality & Risk and Deloitte Business Security which considers IT infrastructure matters
- New Service Management team and processes
- Review of known errors caused by interoperability issues
- IT Disaster Recovery capability and process
- Monitoring of service level agreements for third party IT providers

Failure to innovate our core services, and create adjacent or transformational services, and thus not respond to changing client needs:

the risk to the firm of its people and partners failing to lead and/or respond to disruptive change leveraging ideas from within Deloitte as well as alliances and partnerships outside the firm, and the risk to the firm that its operating model does not support innovation both in terms of the nature of services as well as the means by which these services are delivered and priced – with speed and at scale.

- An embedded innovation strategy focused on refreshing Deloitte's core products and services as well as developing new business offerings
- Creation of global Audit & Assurance platforms to deliver innovation
- An incubation programme to accelerate sustainable businesses that harness disruptive trends and technologies
- Programme of delivering internal and client deployments focused on disruption and development of business models
- Focused leadership from a dedicated member of the firm's Executive ensuring our response to disruptive change is mandated throughout the firm

#### **Priority risks**

Failure to create a resilient operating model and capacity for change within the firm that aligns to Deloitte Global network strategy: the risk that the firm fails to evolve and optimise its operating model; the risk that the firm fails to play a leading role in influencing and executing the Deloitte Global Network strategy.

## Failure to have clear succession planning for key leadership roles:

the risk that the firm fails to establish succession planning and development for key Lead Client Service Partner (LCSP), UK and Deloitte Global leadership roles, consistent with our sense of partnership.

#### **Mitigations**

- Strong central governance established with detailed implementation actions across business functions
- Alignment of Audit operating model to client value
- Chief Operating Officer role on the Executive
- Alignment of Partner objectives to support strategic and operational goals
- Strategic and operational targets embedded within the business
- Strong UK representation and participation in Deloitte Global leadership and governance bodies
- Regular review of succession planning and accountability at Executive level
- Ensure a strong pipeline of future senior leaders
- Establish a pipeline of candidates for elected leadership roles in the context of operating structure

#### 2. Our approach to cyber security

Given the importance of cyber risk, its constant evolution and the scale of potential impact, we explore it in more detail below.

The risk of a malicious cyber-attack or breach of security that could result in Deloitte's data or that of our clients being lost, corrupted, or disclosed to unauthorised parties, or that prevents the firm from doing business as normal, is an area of considerable focus.

This could result in fines or contract penalties, and could mean immediate financial losses from fraud or theft, contract cancellations or inability to complete work for our clients. Damage to our reputation from breaches could result in significant impact to some elements of our business. Recovery, containment and correction of substantial cyber incidents could cause the firm to incur significant costs. Such a breach could occur through technical or human agency, whether accidental or malicious. As the firm looks to engage alternative delivery models and third parties, supplier assurance is of paramount importance and the firm seeks to mitigate these risks through a comprehensive approach to supplier security. This includes application of confidentiality, security and privacy contractual clauses, requirements for suppliers to complete due diligence questionnaires, and vendor assurance -

both through sampled supplier audits and in-depth security testing.

Protection of our clients' data and our ability to serve our clients remain of paramount importance, and Deloitte invests heavily in cyber defences. However, the rate, sophistication and impact of cyber-related incidents in the wider market continues to grow. To cater for this growing threat, Deloitte operates multiple levels of cyber defence with permanent security operations staff covering IT, information, physical and personnel security, as well as business continuity and resilience, all of which form part of the management of cyber risk. In addition, automated systems dedicated to detecting and stopping threats are increasingly being utilised, employing the same approach and methods that we use to protect our clients.

The firm operates a programme of ongoing vulnerability testing and annual cyber crisis management exercises to ensure readiness for a cyber-attack, with additional focused testing over the course of the year, and ongoing review of incident and crisis management effectiveness. Following the most recent exercise in December 2016, a detailed post-exercise review was conducted, with lessons learned and process changes identified and implemented as part of ongoing continuous improvement. The output and progress of annual crisis management testing is reported to the Board.

Deloitte monitors for insider threat on an ongoing basis. The firm operates a privileged access management system to reduce the risk of highly privileged accounts being accessed inappropriately or abused. We protect client confidentiality through a number of mechanisms and processes including data loss protection. A process of monitoring, review and continuous improvement is in effect to respond to growing cyber threats in the environment. We also have a dedicated insider threat and investigations function which has implemented an end-to-end leaver monitoring process, which monitors leaver data usage. All partners and staff continue to receive annual security awareness training, supported by ongoing communications from central and business unit functions.

The firm maintains certification to ISO 27001 and Cyber Essentials Plus, demonstrating our ongoing commitment to embedding effective security in how we do business.

Data Security and Privacy matters are reported to the A&RC, a sub-committee of the firm's Board, on a bi-annual basis (see section 1.3 for more information on the A&RC). Ownership of this risk sits with the Managing Partner for Quality, Risk & Security, who is a member of the firm's Executive Group.

Section 3

## **Governance and structure**

## 3.1 UK Governance and legal structure

## 1. Governance and legal structure to 31 May 2017

This section describes Deloitte UK's legal and governance structure until 31 May 2017. Its new governance structure from 1 June 2017 is set out in section 3.2.

Deloitte LLP is a limited liability partnership, incorporated under the Limited Liability Partnerships Act 2000 and is wholly owned by its members (also referred to as equity partners). The firm provides audit & risk advisory, tax, consulting and financial advisory services in the UK, Channel Islands and Isle of Man (where external audit services are provided from 25 offices) and through its subsidiaries in Switzerland.

Furthermore, services in the Middle East are provided through a joint venture vehicle in which Deloitte LLP has an interest. Services in the Commonwealth of Independent States (CIS) are provided by the local Deloitte member firm in which Deloitte LLP has an indirect holding interest<sup>7</sup>. As at 31 May 2017 Deloitte LLP employed 15,801 staff (FTE) and had 959 partners<sup>8</sup>.

We operate an integrated business model: each of our four service lines applies a common set of procedures and policies, where appropriate, and each has developed additional and bespoke policies and guidance to reflect the specific requirements of its business offerings.

For the purposes of transparency reporting under the Instrument, this Report contains information about Deloitte which is relevant to all of the service lines, as well as specific matters relevant to our audit business

Biographical details of members of the firm's governance structure and management team are provided in appendix 2, and their meeting attendance details for the year are presented at the end of this section.

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

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

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

<sup>8</sup> Figures relate to the UK, Channel Islands and Isle of Man

## The role of the Senior Partner and Chief Executive

David Sproul is the Senior Partner and Chief Executive of the UK firm and has full executive authority for the firm's management. 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.

The Senior Partner and Chief Executive is nominated by the Board of Partners and elected by the partners for a four-year term of office. David Sproul began his first term as UK Senior Partner on 1 June 2011 and was elected to serve a second term from June 2015. On 1 June 2017 he also became Senior Partner and Chief Executive of Deloitte NWE.

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

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

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

## 2. Roles of the Board sub-committees9

## The Audit & Risk Committee (A&RC) Role

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

- effectiveness of the firm's internal control and risk management systems;
- arrangements by which staff may raise concerns about possible improprieties;
- scope, results and effectiveness of the firm's internal audit function;
- effectiveness and independence of the firm's statutory auditor;
- reappointment, remuneration and engagement terms of the statutory auditor including the policy in relation to the provision of non-audit services;
- planning, conduct and conclusions of the external audit;
- integrity of the firm's financial statements and the significant reporting estimates and judgements contained in them; and
- review and approval of the firm's Transparency Report.

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

Membership				
Steve Williams, Chairman				
Pauline Biddle				
Anna Marks				
John Maxey				
Feargus Mitchell				
Nick Owen and INEs in attendance.				

#### **Activities of the A&RC**

Section 1.3 explains the work of the A&RC in further detail.

## The Public Interest Oversight Committee (PIOC)

#### Role

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

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

The PIOC met on four occasions during the year ended 31 May 2017, with Nick Owen also in attendance.

#### Membership

Sir Michael Peat, Chairman

Sir Gerry Grimstone

Ruth Markland

Nick Owen in attendance

#### **Activities of the PIOC**

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

## **Appointment of INEs**

The firm's INEs are, subject to earlier termination, appointed for an initial period of three years. Unless the appointment is renewed on or prior to the termination date, the INE will cease to be an INE (and a member of any committee of the UK Board) on termination of the appointment.

## Termination of appointment of INEs

The appointment may be terminated at any time, by either the INE or by the firm, with three months' written notice. The appointment may also be terminated by the firm with immediate effect should any situation arise which amounts to a professional conflict of interest or breach of independence rules.

#### **INEs'** duties

The INEs serve on the UK Board and Public Interest Oversight Committee, as well as attending some other UK Board subcommittees (a full list is below).

They participate in the UK Board's activities in relation to promoting the success of the firm by directing and supervising its affairs including:

- determining the long term strategies
   of the firm and the markets in which it
   operates and overseeing the level of risk
   acceptable in each area of its business;
   and
- responsibility for overseeing management and the promotion and protection of partner interests generally.

Additionally the INEs participate in other activities of the firm consistent with their role and experience such as promoting audit quality; helping the firm secure its reputation more broadly, including in its non-audit businesses; and reducing the risk of firm failure.

## Supporting the INEs

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

- any information they require about any aspect of the firm's business (subject to individual client confidentiality and audit independence rules);
- support through a dedicated staff member to research issues or compile information;
- access to the firm's partners and staff including secretarial and office support;
- access to independent professional advice at the firm's expense where judged necessary to discharge their duties (having first discussed such request with the Chairman); and
- any other support agreed upon from time to time.

## INEs' other directorships and business interests

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

They have been (and continue to be) members of a number of audit committees and Sir Michael Peat's competence includes auditing and accounting as a former partner at KPMG.

The INEs declared any pre-existing assignments (including any appointments, directorships or posts) and potential conflicts of interest apparent at the time of appointment. They cannot be a director or officer of a restricted entity of the firm (i.e. any entity audited by a Deloitte network firm, affiliates of entities audited by a Deloitte network firm and other assurance clients for which the firm has to maintain its independence).

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

## **Independence of INEs**

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

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

#### Other matters

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

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

## Compensation Committee Role

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

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

## Membership

Nick Owen (Chairman)

Richard Bell

Bill Cohen

Nick Edwards

Feargus Mitchell

Sir Gerry Grimstone in attendance

#### **Remuneration Committee**

#### Role

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

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

### Membership

Nick Edwards (Chairman)

Pauline Biddle

Feargus Mitchell

Mark Mullins

Reto Savoia

Sir Gerry Grimstone in attendance

#### **Nomination Committee**

#### Role

Each year the Board sets up a Nomination Committee to oversee the selection of candidates to stand in Board elections. The Nomination Committee operates in accordance with policy objectives laid down by the Board and is made up of the Chairman of the Board, who shall be the Chairman of the Committee, at least two partners who are non-executive members of the Board and four partners (not being members of the Board or the Executive at the time of their election) elected by the partners. Note that the latter did not apply this year, due to the move to Deloitte NWE from 1 June 2017.

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

## Membership

Nick Owen (Chairman)

Zahir Bokhari

Maxine Saunders

Ruth Markland in attendance

## Responsible Business Committee Role

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

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

## Membership

Nick Owen (Chairman)

Anna Marks

John Maxey

Maxine Saunders

David Barnes and Claire Burton in attendance

#### **Transaction Sub-committee**

#### Role

The Transaction Sub-Committee was established during 2016 to consider any transaction of the firm on behalf of the Board.

# Membership John Maxey (Chairman) Pauline Biddle Zahir Bokhari Maxine Saunders Reto Savoia

## 4. FY17 meeting attendance

Committee	Board of Partners	Audit & Risk Committee	Compensation Committee	Remuneration Committee	Nomination Committee	PIOC	Responsible Business	Transaction Committee	Executive
Number of meetings in FY17	13	8	1	2	4	4	2	15	10
David Sproul	12		(in attendance)						9
Nick Owen	13	(in attendance)	1		4	(in attendance)	2	(in attendance)	
Pauline Biddle	9	3		1				13	
Zahir Bokhari	13							7	
Tony Clare	7								
Emma Codd	4								10
Nick Edwards	12		1	2	3				
Matt Ellis Mark									8
FitzPatrick Vimi	4								10
Grewal-Carr									9
Stephen Griggs	9								8
Sir Gerry Grimstone	9	(in attendance)	(in attendance)	(in attendance)		3			
Richard Houston	8								10
Neville Kahn									10
Pat Loftus					-				10
Chris Loughran	(1 in attendance)	3						10	
Ruth Markland	11	(in attendance)			(in attendance)	4			
Anna Marks	13	3		_	3		1		
John Maxey	11	7					2	14	
Feargus Mitchell	13	8		2					

Committee	Board of Partners	Audit & Risk Committee	Compensation Committee	Remuneration Committee	Nomination Committee	PIOC	Responsible Business	Transaction Committee	Executive
Mark Mullins	13			1			1		
Simon Owen									7
Sir Michael Peat	12	(in attendance)				4			
Chris Powell	4	4	1	1					
Paul Robinson	10							(in attendance)	9
Maxine Saunders	10						1	6	
Reto Savoia	10			2				10	
Sharon Thorne									9
Steve Ward									10
Steve Williams	12	7							

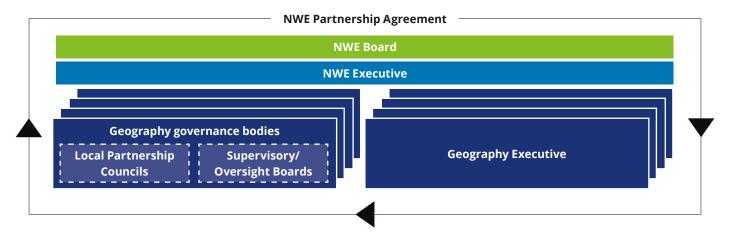
## **5. Other governance KPIs**

We note the new provision in the updated Audit Firm Governance Code and will consider introducing additional KPIs, to complement the meeting attendance above, including in light of moving to a Deloitte NWE governance structure from FY18.

## 3.2 Deloitte NWF

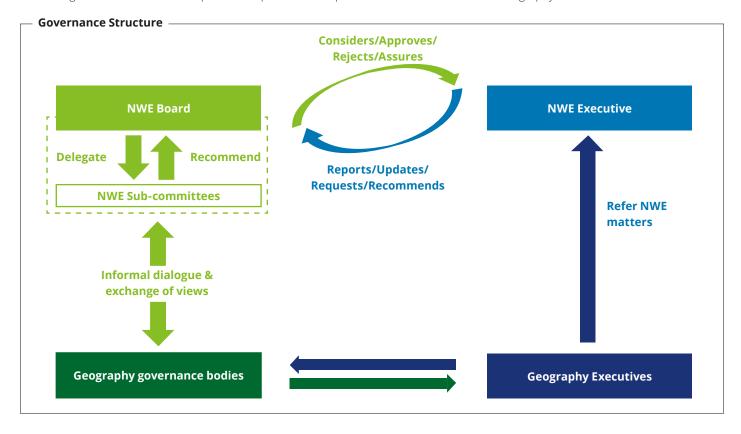
With effect from 1 June 2017, Deloitte LLP became the UK affiliate of Deloitte NWE LLP, a Deloitte Global member firm, and the governance arrangements set out in section 3.1 have been replaced as set out below.

Deloitte NWE's governance structure, applicable from 1 June 2017, consists of the NWE Board, NWE Executive, Geography governance bodies and Geography Executives, underpinned by the NWE Partnership Agreement as set out below:



- The NWE Partnership Agreement underpins the governance of NWE.
- The **NWE Board** is the primary governance body of NWE, responsible for ensuring high quality governance and stewardship of NWE. The NWE Board works with the NWE Executive to set and approve the long-term strategic objectives of NWE and the markets in which it operates.
- The **NWE Board** also oversees the risk appetite in each business area; is responsible for the oversight of the executive function, ensuring alignment with Deloitte Global obligations; and is responsible for the promotion and protection of Equity Partner interest generally.
- The **NWE Executive** is responsible for developing NWE strategy and vision as well as NWE policies, and overseeing their implementation and execution.
- **Geography governance bodies** exist where this is required for legal and/or regulatory purposes and to oversee local Partner matters. Examples include the UK Oversight Board and Dutch Supervisory Board.
- The **Geography Executive** works with the NWE Executive to reflect the Connected + Autonomy principles, including the development and delivery of approved plans, in line with the NWE strategy, tailored to reflect local market conditions.

The NWE governance and leadership structure provides clear paths of communication from a Geography to NWE level.



## Deloitte NWE Board sub-committees (applicable from 1 June 2017)

	Compensation & Partner Unit	• To review and discuss with the NWE CEO the processes established and applied for the determination of NWE Units and Equity Groups to NWE Equity Partners (other than the NWE Chair and NWE CEO), to ensure that the principles set out in the Profit Sharing Memorandum proposed to the NWE Board by the NWE CEO are consistently applied and the NWE Unit allocation process results in fairness between NWE Equity Partners and groups of NWE Equity Partners (other than the NWE Chair and NWE CEO) provided that the Committee shall not duplicate the work of the NWE CEO and/or the Remuneration Committee.
	Nomination	• To produce a shortlist of potential candidates and recommend to the NWE Board a final list of candidates to stand in NWE Board elections.
		• To ensure diversity requirements are met in the composition of the NWE Board.
	Remuneration	<ul> <li>To seek feedback, conduct appraisals and make recommendations to the NWE Board with regard to the proposed assignment of Equity Groups and the allocation of NWE Units to the NWE Chair, the NWE CEO and holders or such other senior management positions as the NWE Board may determine.</li> </ul>
	Partner Matters & Fairness	• To make recommendations to the NWE Board regarding the admission, suspension, retirement of NWE Equity Partner's long term ill health.
		• To ensure fairness between NWE Equity Partners across all Geographies.
<b>1</b> 2	Governance & Composition	• To review the composition and size of the NWE Board whilst both respecting the minimum number of elected NWE Board members representing each Geography and seeking to ensure the firm's diversity requirements are met in the composition of the NWE Board.
NWE Board	Public Interest Oversight	To oversee public interest matters as they affect the NWE Member Firm.
Ž	Elected Leader	• To oversee selection of candidates for NWE Chair and NWE CEO roles.
		• To run the election process and present proposals for NWE Chair and NWE CEO candidates to the full NWE Board for approval.
	Audit & Risk	• To oversee the appointment of internal and external auditors to the firm.
		• To oversee audit quality in accordance with applicable regulations.
		• To oversee the level of risk acceptable in each business area.
		• To provide oversight and support to the National Practices in the delivery of audit quality and local legal and regulatory compliance.
	Transactions and Major Projects	<ul> <li>To consider on behalf of the NWE Board and provide recommendations to the NWE Board on proposals from the NWE CEO to borrow money, make investments, give undertakings and enter into contracts on behalf of the firm subject to agreed thresholds.</li> </ul>
		• To oversee major projects as directed by the NWE Board and ensure that the interests of the firm are protected.
		• To consider, report to the NWE Board on and make recommendations to the NWE Board on major transactions or other significant investments.
	Integration	• To maintain oversight of the NWE integration plans, with a focus on delivery of the business case, Partner admissions and Partner engagement.

## **UK Oversight Board (applicable from 1 June 2017)**

The role of the UK Oversight Board is to oversee specific aspects of the management of the UK firm, including audit quality, public interest, ethics and culture, people management, risk, regulatory, internal control and financial reporting matters that relate to the UK business. Its specific duties and responsibilities allow the UK firm to meet best practice and comply fully with its legal and regulatory responsibilities and to allow the INEs to discharge their responsibilities. At the same time, the UK Oversight Board leverages work performed elsewhere across NWE, where appropriate. Its members are:

Elected UK Partners & NWE Board Members: Nick Owen; Steve Williams; Pauline Biddle

UK CEO: David Sproul

UK Head of Audit: Stephen Griggs

INEs: Sir Gerry Grimstone; Sir Michael Peat; Ruth Markland

## 3.3 Deloitte Global

#### 1. Introduction

The Deloitte Network comprises Deloitte Touche Tohmatsu Limited (DTTL) – a UK private company limited by guarantee – its member firms and each of their related entities in more than 150 countries and territories. DTTL – also referred to as Deloitte Global – and each of its member firms are legally separate and independent entities.

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

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

Member firms are not subsidiaries or branch offices of Deloitte Global and do not act as agents for Deloitte Global or other member firms. Rather, they are locally formed entities with their own ownership structures independent of Deloitte Global. that have voluntarily become members of the Deloitte Network with a primary purpose to co-ordinate their approaches to client service, professional standards, shared values, methodologies and systems of quality control and risk management. Deloitte Global has adopted certain policies and protocols in each of these areas in an effort to establish a consistently high level of quality, professional conduct and service in all member firms.

This structure confers significant strengths, combining high quality standards and methodologies with a deep understanding of local markets and a sense of responsibility and initiative among professionals who have a direct stake in the integrity and growth of their respective practices.

The Deloitte Network provides audit and assurance, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. For the year ended 31 May 2016 (FY17 data is not yet available), total headcount globally was more than 244,400 and total aggregate Deloitte member firm revenue was US\$36.8 billion.

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

#### 2. The Deloitte Global Executive

The Deloitte Global Executive, composed in FY17 of 25 senior leaders from Deloitte Global and certain member firms across the global network, is responsible for embedding Deloitte's Purpose and developing its aspiration and strategic priorities. The Executive, which meets live approximately every other month, sets policies and champions initiatives that help the network make an impact that matters for member firm clients, Deloitte professionals, communities, and other stakeholders. A typical agenda covers the network's strategy and priorities, current initiatives, and critical matters.

The Deloitte Global Executive works in a collegial style and reaches decisions through consensus. The roles and responsibilities of Deloitte Global Executive members focus on key leadership areas including client, business, geographic, talent and network.

Deloitte Global Chief Executive Officer Punit Renjen, who began his four-year term on 1 June 2015, leads and manages this governing body. Punit appoints the members of the Executive, subject to approval by the Governance Committee of the Deloitte Global Board of Directors. Susan Yashar serves as Deloitte Global General Counsel. David Sproul sits on the Deloitte Global Executive.

The appointment of the Deloitte Global CEO is ratified by the partners of the individual member firms. He/she may be approved and ratified for one additional four-year term.

## 3. The Deloitte Global Operating Committee

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

The Operating Committee is headed by Deloitte Global Chief Operating Officer Frank Friedman. Its members include, from Deloitte Global, five global business operations leaders, five executive member firm COO representatives, two senior advisors, one regional leader, and leaders from Clients & Industries, Finance, Technology, Talent, Strategy, and Risk. Paul Robinson sits on the Deloitte Global Operating Committee.

## 4. Global Audit & Assurance Leadership Team

The Global Audit & Assurance Leadership Team (GAALT) is an important group supporting the execution of the Deloitte Global Audit & Assurance strategy. GAALT is chaired by the Global Audit & Assurance Business Leader and its members consist of the Global Audit & Assurance Executive, the Audit & Assurance Business Leaders of the Deloitte Global Executive Member Firms, the three Regional Audit & Assurance Leaders, and other related function leaders. The focus of the team is on ensuring consistency in delivering high quality audits across the network, driving the transformation of the business in response to regulatory and market pressures and working collectively to grow successfully across the globe. The team regularly seeks an outside perspective, meeting with senior client executives to understand their current expectations of a Deloitte member firm as their auditor. Panos Kakoullis, Managing Director -Global Audit & Assurance Business Leader, leads the GAALT.

## 5. The Deloitte Global Board of Directors and the Governance Committee

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

In FY17, the Deloitte Global Board had 32 members: the Deloitte Global CEO and 31 members appointed by individual member firms, themselves selected based on size, the number of significant clients they serve and other factors. The Board also includes three regional seats, ensuring that smaller member firms are represented. Members of the Deloitte Global Board are senior member firm partners or principals and are usually on the executives or boards of their member firms.

Determinations regarding the allocation of Deloitte Global Board seats are made by the Board Composition Committee every four years with an interim review every two years. Board composition is multicultural with a proportionate representation of member firms and gender is considered by member firms as they appoint individuals to these positions. The Deloitte UK members of the Deloitte Global Board are David Cruickshank, Sharon Thorne and Nick Owen.

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

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

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

## 6. Deloitte Global Governance and member firm voting rights

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

## **Appendices**

## Appendix 1 – Independence

#### **Systems and processes**

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

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

## Conflict checking system

Identifies and manages potential conflicts in respect of proposed engagements, business and financial relationships. The conflict check system automatically searches the Restricted Entities Database to identify whether any of the relevant entities are restricted. Where they are, the conflict check response will require consultation with the relevant partners to confirm that the proposed engagement, business or financial relationship will not impair independence. Such confirmation and relevant approvals must be obtained prior to acceptance.

## Restricted entities database

Records comprehensive details on every restricted entity allowing partners and staff to check independence requirements for any type of investment or product before they enter into any financial relationship. It is also used as part of the engagement acceptance procedures to identify restricted entities and ensure that proposed services are subject to the appropriate approvals.

## **Annual returns**

Obtains confirmation from partners, professionals and support staff, upon joining the firm and on an annual basis thereafter, that they are aware of restricted entity policies and that they are not engaged in any restricted transactions or business relationships.

## Personal connections system

Enables us to monitor the financial interests of all partners and client-facing staff of manager grade and above. Individuals are required to record their, and their immediate family members', financial interests. The system interfaces with the Restricted Entities Database to alert the individual if a new or existing connection is with a restricted entity and prescribes what action the individual needs to take.

#### **Inspection & Testing**

Assessment of the financial holdings of a sample of partners and client facing staff of manager grade and above is carried out each year by a dedicated team. Inspection & Testing is an in-depth review of an individual's, and their immediate family members', financial holdings and business relationships, including those financial interests previously disclosed to the firm through their Personal Connections record and those identified using third party documentary evidence.

## Business relationships monitoring system

Records all business relationships and alliances of the firm. A dedicated team independently reviews any proposed business relationship and ensures that any proposed relationships with restricted entities are subject to the appropriate approvals.

## Client due diligence system

Part of our client/engagement take-on process, as required by our anti-money laundering procedures, which includes a link with the conflict check system, risk assessment and partner engagement acceptance approvals.

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

## **Raising awareness**

In addition to our systems and processes of internal control, we continue to raise awareness and improve education of independence requirements. Our 2016/17 awareness programme included such items as:

- Design and roll-out of bespoke e-learning courses highlighting and focussing on key changes arising from the FRC Revised Ethical Standard.
- Updates to internal policy and guidance to reflect and raise awareness of the FRC Revised Ethical Standard.
- Further communication, presentations and live training to professional staff on the new independence rules and the impact on individuals and client relationships, through close collaboration with all Service Line Quality and Risk teams.
- Input into Deloitte Global initiatives to raise awareness across the Deloitte Network.
- Implementation of an independence preclearance process for audit professional staff prior to joining the firm, helping to identify any potential independence concerns in a timely manner and working with the individual to implement appropriate actions.
- One-to-one consultations with partners retiring from the firm to advise them of future independence considerations.

- Tailored communications to individuals where the restrictions on their connections have changed due to a new audit.
- Targeted communications to Personal Connections users on reporting requirements.
- Firmwide communication reminding staff of the independence requirements, including new case studies to bring independence to life, and information on the enhancement of the firm's policy on instances of non-compliance.

#### FRC revised ethical standard

In the first year of implementation, we have worked closely with practitioners to raise awareness and embed the new requirements. Through the FRC's Technical Advisory Group, we also continue to work with the FRC, the ICAEW and the wider profession, to develop guidance to enhance the implementation of the revised rules. We will continue to share this with the practice as required.

Our independence practices are subject to review on an ongoing basis, both internally by Deloitte Global and externally by audit regulators.

## Confirmation of review of independence practices and monitoring

In accordance with the Schedule to the Instrument, we confirm that an internal review of our independence practices has been properly conducted in the year as part of the 2016 practice review. Our internal practice review and other monitoring processes provide us with assurance that these policies are, in general, appropriately observed and, where exceptions are noted, identify where further action is required. In addition, the practice review includes an assessment of compliance with Deloitte Global and UK independence policies. The results of these internal reviews are reported to the UK **Executive Group (Executive) and** Board and to Deloitte Global's Chief **Executive Officer and Board.** 

# Appendix 2 – Current UK Executive Group and UK Oversight Board members

## The Executive Group



#### **David Sproul, Senior Partner and Chief Executive\***

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

David has held various roles in his 15 years at Deloitte, including leading the Consulting and Advisory business from 2002 to 2004, and responsibility for developing the Talent agenda from 2004 to 2006. David is also the Senior Partner and Chief Executive of Deloitte NWE.



### **Richard Bell, Managing Partner Regions**

Richard was appointed Managing Partner Regional Markets in March 2015. He is responsible for the development of policies and strategic direction for Deloitte's UK offices outside of London. Richard is also the Practice Senior Partner for the North West.

Richard has 16 years' experience as a Corporate Finance Partner, specialising in Transaction Services to corporate, private equity and other financial institution clients. He has been with the firm for 30 years.



## Vanessa Borchers, Managing Partner Clients and Industries\*

Vanessa's career spans working in the US, UK, Netherlands and South Africa; serving large multinationals in various industries, geographies, and capacities, including as an audit partner earlier in her career, and subsequently as Global Lead Client Service Partner for numerous advisory clients.

Vanessa's previous roles include Managing Director, Global Clients & Industries and serving on the Deloitte Global Executive Committee; Talent Partner for Deloitte Netherlands; and Deloitte Global Diversity and Inclusion Leader. She has been with Deloitte for over 25 years; just over one year of which with Deloitte UK.



## **Emma Codd, Managing Partner Talent\***

Emma is the Managing Partner for Talent for Deloitte UK and Deloitte NWE. She leads a client-facing team of over 50 people within the firm's Financial Advisory practice and has been with Deloitte for 20 years. Emma also sits on the Business in the Community leadership group.



## **Matt Ellis, Managing Partner Tax\***

Matt is the Managing Partner of Deloitte's UK Tax Practice and is responsible for the strategic direction and performance of the business. Matt's career in Tax spans over 30 years – 18 of which have been with Deloitte – during which time he has advised major UK companies across various industry sectors. In addition to this Matt also represents the UK Tax practice on the Global Tax and Legal Executive and EMEA Leadership team. Matt is a member of the Chartered Institute of Taxation.

<sup>\*</sup> denotes also a member of the Deloitte NWE Executive



## Vimi Grewal-Carr, Managing Partner Innovation and Global Lead Client Services Partner – Financial Services

Vimi is responsible for the UK firmwide Innovation agenda driving its importance and supporting its delivery, both within the UK and at a global level. Vimi has spent 25 years serving the Financial Services industry. She has been a Global Partner for 16 years working with Capital Markets, Investment Banking and Asset Management to help them address their most critical business issues and transform their organisation in response to significant market events. Her specific expertise includes Global strategy, M&A integration, advising clients on the use of offshoring/near-shoring, building Straight Through Processing solutions and technology integration. Vimi has been with Deloitte for nearly 20 years.



## Stephen Griggs, Managing Partner Audit & Risk Advisory\*

Stephen is a senior Audit partner with over 25 years' experience, specialising in leading large public company audits and transaction projects across a broad range of industry sectors. Stephen has held various leadership roles in the past, including CFO, member of the Board and Talent Partner for the Audit practice. Stephen joined Deloitte 15 years ago.



#### Richard Houston, Managing Partner Consulting\*

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

Richard has been a Financial Services Partner since 1998 and specialises in the design and delivery of complex, multi-year, major change programmes supported by sophisticated commercial arrangements. Richard joined Deloitte 15 years ago.



## **Neville Kahn, Managing Partner Financial Advisory\***

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



## **Paul Robinson, Managing Partner Operations\***

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

Prior to this, Paul was Managing Partner of Consulting and he has been a member of the Global Consulting Executive since 2004. With more than 25 years within the Consulting industry, 19 of which with Deloitte in the UK, he has significant experience in providing advisory and strategic services to clients across diverse business sectors.



## Steve Ward, Managing Partner Quality & Risk

Steve is Managing Partner Quality & Risk and the firm's Risk & Reputation leader. He has been a partner in the firm for 26 years and in this time has been a Board member, Head of Tax for the Regions and Head of London Tax.

Steve has 32 years' tax experience with Deloitte advising a wide variety of publicly held UK and International groups. His industry focus is on healthcare & life sciences. In addition, Steve represents the UK firm on the Global Risk Executive.

<sup>\*</sup> denotes also a member of the Deloitte NWE Executive

#### **UK Oversight Board**



### Nick Owen, Chairman<sup>†</sup>

Nick previously led Deloitte's Private Sector Consulting Industry Team and has 30 years' experience predominantly in the private sector working with oil & gas, media, telecommunications, consumer business, manufacturing and life science businesses. He joined Deloitte in 2002 and previously served on both the firm's Executive and the Consulting Executive. Nick is also the Chairman of Deloitte NWE.

**David Sproul**<sup>†</sup> (see Executive Group)



#### Steve Williams<sup>†</sup>

Steve has been with Deloitte UK for 16 years and a partner since 2003. In total he has spent 26 years with Deloitte member firms working in a number of countries, including secondments in Macedonia and Slovenia and, while working for the Southern African firm, in Johannesburg. Steve is currently a member of the Regions Executive and is the Practice Senior Partner for Scotland and Northern Ireland, as well as being a member of the UK Financial Services Industry Executive.



#### Pauline Biddle<sup>†</sup>

Pauline is a Transaction Services Financial Advisory Partner based in the UK's Birmingham office and is also the Senior Partner running the Deloitte Midlands practice.

Pauline provides buy side, sell side and capital markets transaction support to predominantly FTSE100 and FTSE250 clients. Pauline's expertise is in Consumer and Industrial products, specifically in Aerospace and Defence.

Prior to her current role, Pauline worked in audit and consulting and has worked in the US, Australia and in various regional offices in the UK. She has been with the firm for 25 years.

## Stephen Griggs

(see Executive Group)

#### **Independent Non-Executives**



#### Sir Gerry Grimstone<sup>†</sup>

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



## **Ruth Markland**

Ruth Markland was a partner at Freshfields Bruckhaus Deringer until 2003. She is a member of the supervisory board of Arcadis NV. Between 2006 and 2012 Ruth chaired the board of trustees of the Royal Voluntary Service and she was a Non-Executive Director of Standard Chartered plc until December 2015 and a Non-Executive Director of The Sage Group until February 2017. Ruth became a Deloitte INE in 2015.



#### Sir Michael Peat

Sir Michael Peat joined Peat Marwick Mitchell in 1972, becoming partner in 1985. He retired from KPMG in 1993 to join the Royal Household as Director of Finance. He was appointed Keeper of the Privy Purse and Treasurer to the Queen in 1996 and Private Secretary to The Prince of Wales in 2002. He retired from the Royal Household in 2011. He became a Deloitte INE in 2011 and is also Chairman of CQS Management Limited, Senior Independent Non-Executive Director of Evraz plc, non-executive Chairman of GEMS Education and an independent Non-Executive Director of Arbuthnot Latham Co Limited and M&C Saatchi plc.

## Appendix 3 – Financial information

The Instrument requires transparency reporting auditors to provide financial information for the firm's financial year, including "showing the importance of the auditor's statutory audit work". We have extracted the following financial information from Deloitte's unaudited financial statements and financial records for the year ended 31 May 2017.

With regard to the FRC's findings in its March 2015 review of firms' Transparency Reports, we have sought to improve the level of information disclosed and are including details for FY15 as well as for this and the prior year, enabling comparison across three financial years on the same reporting basis. The figures relate to the UK only, in line with the Report's scope and focus on UK activities.

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

Revenue	FY1:	7	FY10	6	FY	<b>′</b> 15
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	£m	%	£m	%	£m	%
Audit and directly related services	418	14	430	16	424	17
Non-audit work – audited entities	214	7	208	8	170	7
Non-audit work – non-audit entities	2,309	79	2,067	76	1,853	76
Total (UK only)	2,941	100	2,705	100	2,447	100

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

Operating Profit	FY17	FY16	FY15
	£m	£m	£m
Audit and directly related services	55	78	100

Revenue and operating profit have been calculated in accordance with the requirements of the Voluntary Code and recognised for the reportable period on a basis consistent with the firm's unaudited consolidated financial statements:

- Revenue represents amounts recovered or recoverable from clients for statutory audits and directly related services during the year exclusive of VAT. Recoverable amounts reflect the fair value of the services provided to clients based on the stage of completion of each client engagement including expenses and disbursements, as at the balance sheet date.
- Operating profit for the reportable segment is calculated before the profit shares of equity partners and after the allocation of direct and indirect costs (such as property and IT costs). Costs are allocated primarily on the basis of headcount and revenues, depending on the nature of the cost incurred.
- The basis upon which costs attributable to the delivery of statutory audit and related services have been allocated has been revised in 2017 to more appropriately reflect the basis upon which such costs are incurred within the Audit practice. In prior periods direct and indirect costs were allocated to statutory audit work across the firm using chargeable hours as a proxy for the headcount utilised in delivering audit in each service line. In the current period direct and indirect costs have been allocated, between services provided within the audit practice, by reference to the net margin arising on the delivery of statutory audit work. This has been applied pro rata against audit revenues in service lines to determine the net profit for reporting purposes.

Audit profitability has decreased in each of the past two years as the Audit business responds to the challenge of both mandatory auditor rotation and increased auditor regulation. To support our long term growth plans we have continued to invest in our people, audit quality, audit capture and innovation. This investment, together with the increased cost of audit regulation, has reduced our profitability. Looking forward, the significant success we have had in audit capture across our key FTSE, Financial Services, Private and International markets in the last 18 months is expected to deliver future revenue and profit growth.

## Appendix 4 – Public Interest Entities (PIEs)

A list of PIE audits in respect of which an audit report was signed by Deloitte LLP during the year ended 31 May 2017 is provided below.

Under the provisions of the Instrument, for the year ended 31 May 2017, PIE means an issuer whose transferable securities are admitted to trading on a regulated market and the audit of which is a statutory audit within the meaning of section 1210 of the Companies Act 2006.

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

We acknowledge that, under Directive 2006/43/EC, as amended by Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014, the PIE definition has changed. We will address that change in our 2018 Transparency Report, when required to do so under the legislation.

## Public interest entities in respect of which we have made an audit report - year ended 31 May 2017

Name of audited entity	UK company number
Aberforth Smaller Companies Trust PLC	SC126524
Admiral Group PLC	3849958
Air Partner PLC	980675
Albion No.2 PLC	8526813
Albion No.3 PLC	9685761
Alliance Trust PLC	SC001731
Anglian Water (Osprey) Financing PLC	7476767
Anglian Water Services Financing PLC	4330322
Anglo American Capital PLC	4658814
Anglo American PLC	3564138
Anglo Pacific Group PLC	00897608
Annington Finance No. 4 PLC	3462121
Annington Finance No.1 PLC	3224889
AO World PLC	5525751
Arran Residential Mortgages Funding 2011-1 PLC	7393601
Arran Residential Mortgages Funding 2011-2 PLC	7596584
Arsenal Securities PLC	5659810
Artesian Finance II PLC	4677985
Ashtead Group PLC	1807982
Assura PLC	9349441
Assura Properties PLC	6377349
Avenell Property PLC	3817411
BAA Lynton Ltd	3330278
Bakethin Finance PLC	5074769
Barratt Developments PLC	604574
BBA Aviation PLC	53688
Big Yellow Group PLC	3625199
Bioquell PLC	206372
BlackRock Income and Growth Investment Trust PLC	4223927
Blue Planet Investment Trust PLC	SC192153
Bluestone Securities PLC	5284354
Bodycote PLC	519057
Brass No.2 PLC	8083402

Name of audited entity	UK company number
Brass No.3 PLC	8480121
Brass No.4 PLC	9182355
Brass No.5 PLC	9728202
Brewin Dolphin Holdings PLC	2685806
Brunner Investment Trust PLC (The)	226323
Bruntwood Investments PLC	8531723
Cadogan Petroleum PLC	5718406
Caledonian Environmental Services PLC	SC156608
Cambian Group PLC	8929371
Campus Living Villages (Bond Issuer) UK PLC	8865013
Campus Living Villages (Goldsmiths) Issuer PLC	9705124
Canary Wharf Finance II PLC	3929593
Capital & Regional PLC	1399411
Care Homes 2 Ltd	5771783
Care Homes 3 Ltd	5771331
Channel Link Enterprises Finance PLC	6169713
Chemring Group PLC	86662
Chesnara PLC	4947166
Close Brothers Finance PLC	4322721
Close Brothers Group PLC	520241
CLS Holdings PLC	2714781
Coats Group PLC	103548
Connect Group PLC	5195191
Connect M77/GSO PLC	4698798
ConvaTec Group PLC	10361298
Custodian REIT PLC	8863271
Debussy DTC PLC	8375890
Deco 11 – UK Conduit 3 PLC	5990966
Deco 12 -UK 4 PLC	6105087
Deco 6 – UK Large Loan 2 PLC	5578222
Deco 8 – UK Conduit 2 PLC	5745698
Deco Series 2005-UK Conduit 1 PLC	5479512
Dee Valley Group PLC	04316684
Delamare Cards MTN Issuer PLC	6652499

Name of audited entity	UK company number
Dialog Semiconductor PLC	3505161
Diploma PLC	3899848
Direct Line Insurance Group PLC	2280426
Dixons Carphone PLC	7105905
Draco (Eclipse 2005-4) PLC	5620351
Drax Group PLC	5562053
Drum Income Plus REIT PLC	9511797
DS Smith PLC	1377658
Dudley Summit PLC	4180439
Eastern Power Networks PLC	2366906
E-Carat 3 PLC	8827812
E-Carat 4 PLC	9146372
E-Carat 5 PLC	9349777
E-Carat 6 PLC	9696614
Ecclesiastical Insurance Office PLC	24869
Electricity North West Ltd	2366949
Elementis PLC	3299608
ENW Finance PLC	6845434
Equinox (Eclipse 2006-1) PLC	5807977
EuroMASTR PLC	6135603
Eversholt Funding PLC	7329930
FHW Dalmore (Salford Pendleton Housing) PLC	8623329
Finance For Residential Social Housing PLC	3302722
Fintrust Debenture PLC	2821428
First Debenture Finance PLC	2184859
FirstGroup PLC	SC157176
Flybe Group PLC	1373432
Foxtons Group PLC	7108742
Friary No. 1 PLC	07645720
Friary No.2 PLC	9000695
Friary No.3 PLC	9823419
Fundsmith Emerging Equities Trust PLC	8756681
Game Digital PLC	09040213
Gemini (Eclipse 2006-3) PLC	5960771
Genus PLC	2972325
GKN Holdings PLC	66549
GKN PLC	4191106
Go-Ahead Group PLC (The)	2100855
Great Portland Estates PLC	596137
Greater Gabbard Ofto PLC	8180541
Greenock Funding No.5 PLC	06790964
Guildford No.1 PLC	9182307
Gulf Marine Services PLC	8860816
Halma PLC	40932
Hammerson PLC	00360632
Hansteen Holdings PLC	5605371
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Name of audited entity	UK company number
Hardy Underwriting Group PLC	3217501
Harvey Nash Group PLC	3320790
Hays PLC	2150950
Healthcare Support (Newcastle) Finance PLC	5314236
Healthcare Support (North Staffs) Finance PLC	5309888
Heathrow Finance PLC	6458635
Hercules (Eclipse 2006-4) PLC	5895593
HgCapital Trust PLC	1525583
High Speed Rail Finance (1) PLC	8346271
Higher Education Securitised Investments Series No.1 PLC (The)	3462571
Hobart Property PLC	3978071
Homeserve PLC	2648297
Howden Joinery Group PLC	2128710
Indus (Eclipse 2007-1) PLC	6056094
Informa PLC	8860726
Inmarsat PLC	4886072
Intermediate Capital Group PLC	2234775
International Personal Finance PLC	6018973
ITE Group PLC	1927339
John Laing Group PLC	5975300
Johnston Press PLC	SC015382
JPMorgan American Investment Trust PLC	15543
JPMorgan Smaller Companies Investment Trust PLC	2515996
Just Eat PLC	6947854
Kainos Group PLC	9579188
Kingfisher PLC	1664812
Laird PLC	55513
Lakehouse PLC	9411297
Langton Securities (2008-1) PLC	6432564
Langton Securities (2010-1) PLC	7381471
Langton Securities (2010-2) PLC	7381453
Leeds Building Society	B0000320
London Power Networks PLC	3929195
London Wall Mortgage Capital PLC	10001337
LondonMetric Property PLC	7124797
Lookers PLC	111876
Man Group PLC	8172396
Management Consulting Group PLC	1000608
Marks and Spencer Group PLC	4256886
Marks and Spencer PLC	214436
Marshalls PLC	5100353
Maven Income and Growth VCT 2 PLC	4135802
Maven Income and Growth VCT 3 PLC	4283350
Maven Income and Growth VCT 4 PLC	SC272568
Maven Income and Growth VCT 5 PLC	4084875

Name of audited entity	UK company number
Maven Income and Growth VCT 6 PLC	3870187
Maven Income and Growth VCT PLC	3908220
McCarthy & Stone PLC	6622199
McColl's Retail Group PLC	8783477
Meadowhall Finance PLC	5987141
Melrose Industries PLC	9800044
Mitchells & Butlers Finance PLC	4778667
Mitchells & Butlers PLC	4551498
Mitie Group PLC	SC019230
Mondi Finance PLC	5916680
Mondi PLC	06209386
Morgan Sindall Group PLC	521970
Morgan Stanley & Co. International PLC	2068222
Moss Bros Group PLC	134995
Mothercare PLC	1950509
Motor 2014-1 PLC	8870058
Motor 2015-1 PLC	9351639
National Express Group PLC	2590560
NewRiver REIT PLC	10221027
Newstone Mortgage Securities No. 1 PLC	8864907
Non-Standard Finance PLC	9122252
Northern Electric Finance PLC	03070482
Northern Electric PLC	2366942
Northern Gas Networks Finance PLC	5575923
Northern Powergrid (Yorkshire) PLC	04112320
Northern Powergrid Holdings Co.	3476201
Northumbrian Water Finance PLC	4326507
Nwen Finance PLC	8374655
Orbita Funding 2016-1 PLC	8494691
Pangaea Funding 1 PLC	9073391
Paypoint PLC	3581541
Peel Land & Property Investments PLC	166957
Peel South East Ltd	216214
Petropavlovsk PLC	4343841
PHP Bond Finance PLC	8684414
Precise Mortgage Funding 2014-1 PLC	9033084
Precise Mortgage Funding 2014-2 PLC	9216431
Precise Mortgage Funding 2015-1 PLC	9387223
Precise Mortgage Funding 2015-2B PLC	9586660
Precise Mortgage Funding 2015-3R PLC	9769500
Precise Mortgage Funding No. 1 PLC	8658031
Premier Oil PLC	SC234781
Primary Health Properties PLC	3033634
Provident Financial PLC	668987
PRS Finance PLC	9331085
	671099

Name of audited entity	UK company number	
RAC Bond Co PLC	10084638	
Radian Capital PLC	7890812	
Ranger Direct Lending Fund PLC	9510201	
Ranger Direct Lending ZDP PLC	10247619	
Reed Elsevier (Investments) PLC	5810043	
Renold PLC	249688	
Resimac UK RMBS No.1 PLC	8839392	
Resloc UK 2007-1 PLC	6101090	
Restaurant Group PLC (The)	SC030343	
Robert Walters PLC	3956083	
Rotork PLC	578327	
RPS Group PLC	2087786	
RSL Finance (No.1) PLC	3665612	
S & U PLC	342025	
Safestore Holdings PLC	4726380	
Schroder Income Growth Fund PLC	3008494	
Scotland Gas Networks PLC	SC264065	
Scottish Investment Trust PLC (The)	SC001651	
Senior PLC	282772	
Severn Trent PLC	2366619	
Severn Trent Utilities Finance PLC	2914860	
SIG PLC	998314	
Sky Group Finance PLC	5576975	
Sky PLC	2247735	
Soco International PLC	3300821	
South East Water Ltd	2679874	
South Eastern Power Networks PLC	3043097	
South Staffordshire Water PLC	2662742	
Southern Gas Networks PLC	5167021	
Speyside Renewable Energy Finance PLC	9094282	
Spirax-Sarco Engineering PLC	596337	
SSB No. 1 PLC	7464396	
St Ives PLC	1552113	
St. Modwen Properties PLC	00349201	
Talktalk Telecom Group PLC	7105891	
Taylor Wimpey PLC	296805	
Templeton Emerging Markets Investment Trust PLC	SC118022	
Tenterden Funding PLC	7811222	
Tesco Corporate Treasury Services PLC	8629715	
Tesco Personal Finance PLC	SC173199	
Tesco PLC	445790	
Tesco Property Finance 1 PLC	5888925	
Titlos PLC	6810180	
Tombac No.1 PLC	8887086	
Tombac No.2 PLC	9844730	
Topps Tiles PLC	3213782	

Name of audited entity	UK company number
TP ICAP PLC	5807599
Trinity Mirror PLC	82548
Tullow Oil PLC	3919249
Ultra Electronics Holdings PLC	2830397
Unite Group PLC (The)	3199160
Uropa Securities PLC	6169724
Vectura Group PLC	03418970
Wales & West Utilities Finance PLC	6766848
Walker Crips Group PLC	1432059
Wellcome Trust Finance PLC	5857955
Whitbread Group PLC	29423
Whitbread PLC	4120344
William Hill PLC	4212563
WPP Finance 2010	7419716
Xaar PLC	3320972
Yorkshire Building Society	B0000066
ZPG PLC	9005884

## Appendix 5 – Partner and INE Remuneration

#### **Equity partners**

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

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

In assessing partner<sup>10</sup> performance, a role model contribution in the following areas is expected from all partners and is essential, notwithstanding the level of partners' contribution in other areas:

- **Quality:** Uncompromising quality in all professional work.
- Risk: Consistent and strong contributions across all areas of risk.
- Performance: Strong performance against key metrics, objectives and career plan.

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

- **Clients:** Client portfolio managed and roles performed.
- **Business:** Shaping and delivering on the firm's strategic and financial plan.
- People/Talent: Contributions across all aspects of talent, including people leadership as a Deloitte Leader.
- **Stewardship:** Thought leadership, innovation and brand protection roles.
- **Collaboration:** Working across the firm and being inclusive of other partners and our people.

Partner performance is evaluated in all of the competencies, beginning with the Board's approval of the profit sharing strategy proposed by the Senior Partner and Chief Executive and concluding with the Board's review of the recommended profit allocation and equity group for each individual partner, the conclusions of which are disclosed in full to all partners. A committee of partners oversees the management process with a focus on consistent and equitable treatment.

## Specific considerations relating to audit partners

Our appraisal and promotion processes and considerations are designed with the aim of establishing a strong linkage between audit quality and partner remuneration and a partner selection process which is thorough and robust. Partners who provide audit services are not evaluated or remunerated on the selling of other services to the entities they audit.

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

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

- The Audit Quality Dashboard identifies objective metrics of quality and measures partner performance against those metrics.
- The Audit Responsibility Rating reflects the partners' roles on audit engagements to recognise the level of audit responsibility and the performance on audit engagements.

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

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

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

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

## **Independent Non-Executives**

The firm's INEs, Sir Gerry Grimstone, Ruth Markland and Sir Michael Peat, are paid a fixed annual fee, based on an agreed number of days' service per annum. In the year to 31 May 2017, this amounted to £200,000 each.

<sup>10</sup> Partners who aren't equity partners are also evaluated against the criteria set out above. However, their remuneration is comprised of salary and bonus, as for other employees.

# Appendix 6 – Audit Firm Governance Code and disclosure requirements

In July 2016 the FRC published a revised version of the Audit Firm Governance Code. The 2016 revision, applicable for financial years beginning on or after 1 September 2016, replaces the original Code, which was issued in 2010.

While this revised Code does not apply to this year's report, we have included disclosures required by the revised Code throughout the report and/or on our website and a reconciliation to the revised Code is provided below.

Provision of the revised Code	How Deloitte LLP is addressing the provisions in the revised Code	
A. Leadership		
A.1 Owner accountability principle The management of a firm should be accountable to the firm's owners and no individual should have unfettered powers of decision.	See sections 3.1 and 3.2 and Leadership & Governance pages on our website	
A.1.1 The firm should establish a board or equivalent governance structure, with matters specifically reserved for its decision, to oversee the activities of the management team.	See sections 3.1 and 3.2 and Leadership & Governance pages on our website	
A.1.2 The firm should state in its transparency report how its governance structures and management operate, their duties and the types of decisions they take. In doing so the firm should explain how its governance structure provides oversight of both the audit practice and the firm as a whole with a focus on ensuring the Code's purpose, is achieved. If the management and/or governance of the firm rests at an international level it should specifically set out how management and oversight of audit is undertaken and the Code's purpose achieved in the UK.	See sections 3.1 and 3.2 as above; also section 1.2	
A.1.3 The firm should state in its transparency report the names and job titles of all members of the firm's governance structures and its management, how they are elected or appointed and their terms, length of service, meeting attendance in the year, and relevant biographical details.	See section 3.1 Biographies in appendix 2	
A.1.4 The members of a firm's governance structures and management should be subject to formal, rigorous and ongoing performance evaluation and, at regular intervals, members should be subject to re-election or re-selection.	See appendix 5	
A.2 Management principle A firm should have effective management which has responsibility and clear authority for running the firm.	See section 3.1 and Leadership & Governance pages on our website	
A.2.1 Management should have terms of reference that include clear authority over the whole firm including its non-audit businesses and these should be disclosed on the firm's website.	See section 3.1 and Leadership & Governance pages on our website	
B. Values		
B.1 Professionalism principle A firm should perform quality work by exercising judgement and upholding values of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour in a way that properly takes the public interest into consideration and meets auditing and ethical standards.	See section 2.1 and our Ethics Code on our website.	

	How Deloitte LLP is addressing the provisions in the revised Code	
B.1.1 The firm's governance structures and management should establish and promote throughout the firm an appropriate culture, supportive of the firm's	See section 2.1 and our Ethics Code on our website	
public interest role and long term sustainability. This should be achieved in particular through the right tone from the top, through the firm's policies and practices and by management publicly committing themselves and the whole firm to quality work, the public interest and professional judgement and values.	Work is ongoing to further develop, enhance and embed a quality culture	
B.1.2 Firms should introduce KPIs on the performance of their governance system, and report on performance against these in their transparency reports.	See section 3.1	
B.1.3 The firm should have a code of conduct which it discloses on its website and requires everyone in the firm to apply. The Board and independent non-executives should oversee compliance with it.	See sections 1.2, 1.3, 3.1 and our Ethics Code on our website	
B.2 Governance principle A firm should publicly commit itself to this Audit Firm Governance Code.	We continue to support the aims and principles of the Code	
B.2.1 The firm should incorporate the principles of this Audit Firm Governance	See our Ethics Code on our website	
Code into an internal code of conduct.		
Code into an internal code of conduct.  B.3 Openness principle A firm should maintain a culture of openness which encourages people to consult and share problems, knowledge and experience in order to achieve quality work in a way that properly takes the public interest into consideration.	See section 2.1	
B.3 Openness principle A firm should maintain a culture of openness which encourages people to consult and share problems, knowledge and experience in order to achieve quality work in a way that properly takes the public interest into	See section 2.1	
B.3 Openness principle A firm should maintain a culture of openness which encourages people to consult and share problems, knowledge and experience in order to achieve quality work in a way that properly takes the public interest into consideration.	See section 2.1  See sections 1.2 and 3.1	
B.3 Openness principle A firm should maintain a culture of openness which encourages people to consult and share problems, knowledge and experience in order to achieve quality work in a way that properly takes the public interest into consideration.  C. Independent Non-Executives  C.1 Involvement of Independent Non-Executives principle A firm should appoint Independent Non-Executives to the governance structure who through their involvement collectively enhance the firm's		

Provision of the revised Code	How Deloitte LLP is addressing the provisions in the revised Code	
C.1.2 The firm should disclose on its website and in its transparency report information about the appointment, retirement and resignation of Independent	See sections 1.2, 2.1(1) and 3.1 plus appendix 5	
Non-Executives; their remuneration; their duties and the arrangements by which they discharge those duties and the obligations of the firm to support them. The firm should report on why it has chosen to position its independent non-executives in the way it has (for example, as members of the main Board or on a public interest committee). The firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes Independent Non-Executives.	Further detail are on our Leadership & Governance pages on our website	
C.1.3 The independent non-executives should report in the firm's transparency report on how they have worked to meet the purpose of the Code defined as:	See section 1.2	
Promoting audit quality.		
• Helping the firm secure its reputation more broadly, including in its non-audit businesses.		
Reducing the risk of firm failure.		
C.1.4 Independent non-executives should have regular contact with the Ethics Partner, who should under the ethical standards have a reporting line to them.	See section 1.2	
C.2 Characteristics of Independent Non-Executives principle The Independent Non-Executives' duty of care is to the firm. They should command the respect of the firm's owners and collectively enhance shareholder confidence by virtue of their independence, number, stature, experience and expertise. They should have a balance of relevant skills and experience including of audit and a regulated sector. At least one independent non-executive should have competence in accounting and/ or auditing, gained for example from a role on an audit committee, in a company's finance function, as an investor or at an audit firm.	See section 3.1 and our Leadership & Governance pages on our website	
C.2.1 The firm should state in its transparency report its criteria for assessing the impact of Independent Non-Executives on the firm's independence as auditors and their independence from the firm and its owners.	See section 3.1 and our Leadership & Governance pages on our website	

Provision of the revised Code	How Deloitte LLP is addressing the provisions in the revised Code  See section 3.1 and our Leadership & Governance pages on our website	
C.3 Rights and responsibilities of Independent Non-Executives principle Independent Non-Executives of a firm should have rights consistent with their role including a right of access to relevant information and people to the extent permitted by law or regulation, and a right to report a fundamental disagreement regarding the firm to its owners and, where ultimately this cannot be resolved and the Independent Non-Executive resigns, to report this resignation publicly.		
C.3.1 Each Independent Non-Executive should have a contract for services setting out their rights and duties.	Each INE has an appropriate contract	
C 3.2 Independent non-executives should be appointed for specific terms and any term beyond nine years should be subject to particularly rigorous review and explanation.	None of the firm's INEs has been in role for longer than nine years. See our Leadership & Governance pages on our website	
C 3.3 The responsibilities of an independent non-executive should include, but not be limited to, oversight of the firm's policies and processes for:	See section 1.2 and our website	
Promoting audit quality.		
<ul> <li>Helping the firm secure its reputation more broadly, including in its non-audit businesses.</li> </ul>		
• Reducing the risk of firm failure.		
C.3.4 The firm should ensure that appropriate indemnity insurance is in place in respect of legal action against any Independent Non-Executive in respect of their work in that role.	Appropriate indemnity insurance is in place in respect of any legal action against any INE	
C.3.5 The firm should provide each Independent Non-Executive with sufficient resources to undertake their duties including having access to independent professional advice at the firm's expense where an Independent Non-Executive judges such advice necessary to discharge their duties.	Sufficient resources are provided by the firm to enable each INE to perform their duties, as also set out on our Leadership & Governance pages on our website	
C.3.6 The firm should establish, and disclose on its website, procedures for dealing with any fundamental disagreement that cannot otherwise be resolved between the Independent Non-Executives and members of the firm's management team and/or governance structures.	See our Leadership & Governance pages on our website	
D. Operations		
D.1 Compliance principle A firm should comply with professional standards and applicable legal and regulatory requirements. Operations should be conducted in a way that promotes audit quality and the reputation of the firm. The independent non-executives should be involved in the oversight of operations.	See sections 2.1, 2.2 and appendix 1	
D.1.1 The firm should establish policies and procedures for complying with applicable legal and regulatory requirements and international and national standards on auditing, quality control and ethics, including auditor independence.	See sections 2.1, 2.2 and appendix 1	
D.1.2 The firm should establish policies and procedures for individuals signing group audit reports to comply with applicable standards on auditing dealing with group audits including reliance on other auditors whether from the same network or otherwise.	See section 2.1	
D.1.3 The firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest.	See appendix 1	
D.1.4 The firm should take action to address areas of concern identified by audit regulators in relation to the firm's audit work.	See section 2.2	

Provision of the revised Code	How Deloitte LLP is addressing the provisions in the revised Code	
D.2 Risk management principle A firm should maintain a sound system of internal control and risk management over the operations of the firm as a whole to safeguard the firm and reassure stakeholders.	See section 1.3	
D.2.1 The firm should, at least annually, conduct a review of the effectiveness of the firm's system of internal control. Independent non-executives should be involved in the review which should cover all material controls, including financial, operational and compliance controls and risk management systems as well as the promotion of an appropriate culture underpinned by sound values and behaviour within the firm.	See section 1.3	
D.2.2 The firm should state in its transparency report that it has performed a review of the effectiveness of the system of internal control, summarise the process it has applied and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary.	See section 1.3	
D.2.3 The firm should carry out a robust assessment of the principal risks facing it, including those that would threaten its business model, future performance, solvency or liquidity. This should reference specifically the sustainability of the audit practice within the UK.	See section 2.3	
D.3 People management principle A firm should apply policies and procedures for managing people across the whole firm that support its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code.	See section 2.1 and appendix 5	
D.3.1 The firm should disclose on its website how it supports its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code through recruitment, development activities, objective setting, performance evaluation, remuneration, progression, other forms of recognition, representation and involvement.	See section 2.1 and website, where this Report sits	
D3.2 Independent Non-Executives should be involved in reviewing people management policies and procedures, including remuneration and incentive structures, to ensure that the public interest is protected.	See sections 1.2 and 3.1	
D.4 Whistleblowing principle A firm should establish and apply confidential whistleblowing policies and procedures across the firm which enable people to report, without fear, concerns about the firm's commitment to quality work and professional judgement and values in a way that properly takes the public interest into consideration.	See our Whistleblowing Policy, accessed through our Leadership & Governance pages on our website	
D.4.1 The firm should report to Independent Non-Executives on issues raised under its whistleblowing policies and procedures and disclose those policies and procedures on its website. The independent non-executives should be satisfied that there is an effective whistleblowing process in place.	See our Whistleblowing Policy, accessed through our Leadership & Governance pages on our website	
<b>□</b>   1		

Provision of the revised Code	How Deloitte LLP is addressing the provisions in the revised Code
E. Reporting	
E.1 Internal reporting principle The management of a firm should ensure that members of its governance structures, including owners and Independent Non-Executives, are supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.	Our key governance bodies received timely and relevant information to enable them to discharge their duties
E.2 Governance reporting principle A firm should publicly report how it has applied each of the principles of the Audit Firm Governance Code and make a statement on its compliance with the Code's provisions or give a considered explanation for any non- compliance.	While this revised Code does not apply to this year's report, we have included disclosures required by the revised Code throughout the report. A compliance statement is included in section 1.3
E.2.1 The firm should publish an annual transparency report containing the disclosures required by Code Provisions A.1.2, A.1.3, B.1.2, C.2.1, D.1.3, D.2.2 and E.3.1.	See our Annual Reports page on our website
E2.2 In its transparency report the firm should give details of any additional provisions from the UK Corporate Governance Code which it has adopted within its own governance structure.	N/A
E.3 Transparency principle A firm should publish on an annual basis in its transparency report a commentary on the firm's performance, position and prospects.	See appendix 3
E.3.1 The firm should confirm that it has carried out a robust assessment of the principal risks facing the audit firm, including those that would threaten its business model, future performance, solvency or liquidity. The firm should describe those risks and explain how they are being managed or mitigated.	See section 2.3
E.3.2 The transparency report should be fair, balanced and understandable in its entirety.	The Report is produced with extensive subject matter expert input, is coordinated centrally and is subject to A&RC review and approval, and is ultimately approved by the Board
E.4 Reporting quality principle A firm should establish formal and transparent arrangements for monitoring the quality of external reporting and for maintaining an appropriate relationship with the firm's auditors.	See section 1.3
E.4.1 The firm should establish an audit committee and disclose on its website information on the committee's membership and terms of reference which should deal clearly with its authority and duties, including its duties in relation to the appointment and independence of the firm's auditors. On an annual basis, the audit committee should publish a description of its work and how it has discharged its duties.	See section 1.3 and our Leadership & Governance pages on our website

Provision of the revised Code	How Deloitte LLP is addressing the provisions in the revised Code
E.5 Financial statements principle A firm should publish audited financial statements prepared in accordance with a recognised financial reporting framework such as International Financial Reporting Standards or UK GAAP and should be clear and concise.	Deloitte LLP prepares annual audited financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and UK laws and regulations
	Our financial statements are available at Companies House
E.5.1 The firm should explain who is responsible for preparing the financial statements and the firm's auditors should make a statement about their reporting responsibilities, preferably in accordance with the extended audit report standards.	See section 1.3
E.2.2 The firm should state whether it considers it appropriate to adopt the going concern basis of accounting and identify any material uncertainties to its ability to continue to do so, with supporting assumptions or qualifications as necessary.	Our financial statements are available at Companies House
F. Dialogue	
F.1 Firm dialogue principle A firm should have dialogue with listed company shareholders, as well as listed companies and their audit committees, about matters covered by this Audit Firm Governance Code to enhance mutual communication and understanding and ensure that it keeps in touch with shareholder opinion, issues and concerns.	See sections 1.2 and 2.2
F.1.1 The firm should disclose on its website its policies and procedures, including contact details, for dialogue about matters covered by this Audit Firm Governance Code with listed company shareholders and listed companies. It should also report on the dialogue it has had during the year. These disclosures should cover the nature and extent of the involvement of Independent Non-Executives in such dialogue.	See section 1.2 and website. This is also reported on in conversations with stakeholders including the annual Stakeholder Forum
F.2 Shareholder dialogue principle Shareholders should have dialogue with audit firms to enhance mutual communication and understanding.	See sections 1.2 and 2.2
F.3 Informed voting principle Shareholders should have dialogue with listed companies on the process of recommending the appointment and re-appointment of auditors and should make considered use of votes in relation to such recommendations.	We consider that this principle is directed at shareholders hence not applicable for our firm

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

Provision of the Instrument	How Deloitte LLP complies with the Instrument	
1. A description of the legal structure and ownership of the transparency reporting auditor.	See section 3.2	
2. Where the transparency reporting auditor belongs to a network, a description of the network and the legal and structural arrangements of the network.	See section 3.3	
3. A description of the governance structure of the transparency reporting auditor.	See sections 3.1 and 3.2	
4. A description of the internal quality control system of the transparency reporting auditor and a statement by the administrative or management body on the effectiveness of its functioning.	See sections 1.3 and 2.2	
5. A statement of when the last monitoring of the performance by the transparency reporting auditor of statutory audit functions within the meaning of paragraph 13 of Schedule 10 to the Act (as amended by regulation 23 of the Statutory Auditors and Third Country Auditors Regulations 2007 (S.I. 2007/3494)) took place.	See section 2.2.	
6. A list of public interest entities in respect of which an audit report has been made by the transparency reporting auditor in the financial year of the auditor; and any such list may be made available elsewhere on the website specified in regulation 4 provided that a clear link is established between the transparency report and such a list.	See appendix 4	
7. A description of the transparency reporting auditor's independence procedures and practices including a confirmation that an internal review of independence practices has been conducted.	See appendix 1	
8. A statement on the policies and practices of the transparency reporting auditor designed to ensure that persons eligible for appointment as a statutory auditor continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level.	See section 2.1	
9. Financial information for the financial year of the transparency reporting auditor to which the report relates, including the showing of the importance of the transparency reporting auditor's statutory audit work.	See appendix 3	
10. Information about the basis for the remuneration of partners.	See appendix 5	

# Glossary

## Glossary

Acronym	Full term	Explanation/reference (where relevant)
AAM	Audit Approach Manual	Together with the DPM, sets out the policies and procedures in accordance with which audit work should be carried out.
AQB	UK Audit Quality Board	The AQB is a group of partners and directors at Deloitte with a remit to develop and govern activities that will achieve sustainable improvements in audit quality; implement these improvements across the audit practice; respond to audit quality issues raised by regulators and stakeholders.
AQF	Audit Quality Framework	Created by the POB following consultation by the FRC in 2008 on how audit quality could be enhanced and promoted.
AQIs	Audit Quality Indicators	Metrics representing factors that contribute to audit quality.
AQR	Audit Quality Review (team)	The AQR team is the part of the FRC that monitors the quality of the audits of listed and other major public interest entities and the policies and procedures supporting audit quality at large audit firms in the UK.
A&RC	Audit & Risk Committee	The A&RC is a sub-committee of the UK Board of Partners.
BDO	BDO LLP	Deloitte's statutory auditor.
Board	UK Board of Partners	Responsible for the promotion and protection of partner interests and for the oversight of management, the Board determines Deloitte's long-term strategies and has specific oversight of risk and quality.
CMG	Central Monitoring Group	The CMG (within the firm's Quality & Risk function) is responsible for the planning, co-ordination and management of monitoring activities that take place across the service lines and the rest of the firm.
Code	Audit Firm Governance Code	Published by the FRC and ICAEW in 2010 and revised in 2016, the Code sets a benchmark for good governance at the UK's largest audit firms, on a 'comply or explain' basis. It also codifies much existing good practice and links to matters that audit firms must comply with as regulated professional partnerships.
Deloitte	Deloitte LLP	The United Kingdom affiliate of Deloitte NWE LLP.
Deloitte Global Board	Deloitte Global Board of Directors	The Deloitte Global Board addresses Deloitte Global's most important governance issues, such as its global strategy, major transactions and the election of the CEO.
Deloitte Network		Deloitte Touche Tohmatsu Limited, its member firms and their related entities.
Deloitte NWE	Deloitte NWE LLP	The North West Europe member firm of the Deloitte Network.
DPM	Deloitte Policies Manual	Provides the policies and guidance that underpin all the work that we do.
DTTL	Deloitte Touche Tohmatsu Limited	A UK private company limited by guarantee. (Deloitte Global) and each of its member firms are legally separate and independent entities.
EAIG	European Audit Inspection Group	The EAIG has since transitioned to the Committee of European Audit Oversight Bodies (CEAOB), which is the new framework for cooperation between competent authorities on audit oversight in the EU.
EIG	Emerging Issues Group	Its objective is to identify significant emerging industry, political/economic, technology and regulatory/inspection related issues that could have a significant impact on audit quality in the future.
EMEA	Europe, the Middle East and Africa	

Acronym	Full term	Explanation/reference (where relevant)
EQCR	Engagement quality control review	The process of engagement quality control reviews is designed to be an independent challenge to be performed on all audit, assurance or related services engagements.
(NWE) Equity partner		A partner with an equity stake in the firm and a member of Deloitte LLP (or Deloitte NWE LLP where specified). Equity partners contribute capital and share the firm's profits.
ER	Engagement Review	One of two elements of the practice review programme, alongside the SQC review.
ERF	Enterprise Risk Framework	The Executive's assessment of the risks to the achievement of the firm's strategy is set out in the Enterprise Risk Framework.
Executive	UK Executive Group	Assists the Senior Partner and Chief Executive in managing the firm and implementing the policies and strategies of the firm as determined by the Board.
FRC	Financial Reporting Council	The UK's 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.
GAALT	Global Audit & Assurance Leadership Team	The GAALT supports the execution of the Deloitte Global Audit & Assurance strategy.
ICAEW	Institute of Chartered Accountants in England & Wales	A professional membership organisation that provides insight and leadership to the global accountancy and finance profession.
IFRS	International Financial Reporting Standards	IFRS is a single set of accounting standards, developed and maintained by the International Accounting Standards Board.
INEs	Independent Non-Executives	Deloitte's INEs provide challenge and counsel to the leadership of the firm. They sit on the UK Oversight Board.
Instrument	Statutory Auditors (Transparency) Instrument 2008	The Instrument requires the publication of certain information by transparency reporting auditors.
LCSP	Lead Client Service Partner	Responsible for leading the account team to deliver client service and manage the firm's relationship with the relevant client.
Member firm		Deloitte member firms are not one firm or a single legal entity but rather a network of independent member firms that use the Deloitte brand and serve clients through use of common professional standards and methodologies. Member firms may at times also be referred to as DTTL member firms, Deloitte Global member firms, Deloitte member firms, member firms, or Deloitte firms.
NAA	National Accounting & Auditing technical team	Provides guidance and support to staff on technical matters such as accounting, audit, corporate reporting and corporate governance.
Partner		References to 'partner' cover all partners, including equity partners, unless stated otherwise.
PCAOB	Public Company Accounting Oversight Board	The PCAOB is a non-profit corporation established by the US Congress as a result of the Sarbanes-Oxley Act of 2002 to oversee the audits of public companies.
PIE	Public Interest Entity	Under the provisions of the Instrument, PIE means an issuer whose transferable securities are admitted to trading on a regulated market and the audit of which is a statutory audit within the meaning of section 1210 of the Companies Act 2006.
		Under Directive 2006/43/EC, as amended by Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014, the PIE definition will change. This change had not taken effect at 31 May 2016 and has, therefore, not been taken into account in this Report.

Acronym	Full term	Explanation/reference (where relevant)		
PIOC	Public Interest Oversight Committee	The PIOC oversees public interest matters as they affect the firm. It was constituted as a sub-committee of the main Board in 2011.		
POB	Professional Oversight Board	The POB was set up in 2004 as part of the reformed FRC following the Government's Review of Audit Regulation in 2003. The FRC's work on professional oversight is now carried out by the Conduct Committee.		
PRG	Policy and Reputation Group	The PRG is a forum for the six largest professional services firms in the UK to debate topical public interest issues that affect the reputation of the firms collectively and, by extension, the profession.		
PSR	Professional Standards Review	PSR provides independent challenge on each of our audit engagements, focusing on significant accounting, auditing and financial reporting judgements, appropriate audit documentation and disclosure areas.		
RI	Responsible Individual	Individuals who are ICAEW Responsible Individuals are deemed responsible for audit work		
QAD	Quality Assurance Department	The QAD conducts the ICAEW's practice assurance reviews.		
SEC	Securities and Exchange Commission	The SEC is an agency of the United States federal government. It has a three-part mission: to protect investors; maintain fair, orderly and efficient markets; and facilitate capital formation.		
sqc	System of Quality Control	One of two elements of the practice review programme, alongside the ER.		
UK firm	Deloitte LLP	The United Kingdom affiliate of Deloitte NWE LLP.		
UK Oversight Board		Responsible for overseeing risk, regulatory, internal control and financial reporting matters that relate to the UK business.		
Voluntary Code	Voluntary Code of Practice on Disclosure of Audit Profitability	The FRC invited the Consultative Committee of Accountancy Bodies to develop guidance to audit firms on the voluntary disclosures of the financial results of their work on statutory audits and directly related services. It took effect for accounting periods beginning on or after April 2009.		

## Deloitte.

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