



Aspire with assurance

2018 Transparency Report
(updated October 2018)

Deloitte LLP

For the year ended 31 May 2018

Audit & Assurance



Regulatory context

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

As we have made an audit report on the annual accounts of one major local audit¹ during the year ended 31 May 2018, we are also required to comply with The Local Auditors (Transparency) Instrument 2015.

In January 2010, the Institute of Chartered Accountants in England & Wales (ICAEW) published the Audit Firm Governance Code (the 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. This Report includes disclosures required by the revised Code and explains the steps taken to comply. A reconciliation to the revised Code is provided in Appendix 6.

This Report relates to Deloitte LLP's² principal activities in the UK for the year ended 31 May 2018, unless otherwise stated.

1. As defined in The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014
2. Deloitte LLP (Deloitte or the firm) 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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Leadership messages

Foreword from David Sproul, Senior Partner and Chief Executive

Welcome to Deloitte's Audit Transparency Report for the year ended 31 May 2018. It has perhaps never been more important for us to talk transparently about audit.

This has been a year of intense scrutiny, both for our firm and our profession. High profile corporate failures have led people to question the role of auditors and to ask whether there's enough choice in the audit market; whether it's right that audit firms also provide advisory services; and whether breaking up the four largest firms (the Big Four) is the answer.

We take these questions very seriously – we have to, but we also want to. We recognise that change is needed and we want to work with other market participants to really look at how audit can match the evolving needs of stakeholders and society, as well as the needs of increasingly complex businesses.

The concentration of the Big Four in the FTSE audit market has developed over decades. Since 1989, various mergers (driven by the need for international expansion as clients began operating more globally) and the collapse of one of the largest firms have reduced the number of major professional services firms from eight to four. It can't be undone overnight, but we strongly support measures that encourage other firms to succeed in entering the market.

I do not believe that separating audit work from other services is the solution, nor do I support breaking up the Big Four as I believe both would be to the detriment of audit quality and of the UK capital markets. Our Managing Partner Audit & Risk Advisory, Stephen Griggs, discusses this in more detail later in this report.

Audit is of vital importance to our firm. It is the bedrock of what we do and we are all committed to ensuring its continued role in serving the public interest.

I hope you find this report interesting and insightful. Please do get in touch via atr@deloitte.co.uk to share any feedback.



David Sproul

Senior Partner and Chief Executive
Deloitte LLP



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Message from Stephen Griggs, Managing Partner Audit & Risk Advisory

It's fair to say there's been a significant focus on the audit profession in recent months.

While criticism of our profession undoubtedly makes for uncomfortable reading, we acknowledge the need for us to truly reflect on our public interest role and to recognise that there is now a great opportunity for the profession to further engage with stakeholders (including regulators, the government, company management, audit committees and investors) to bring about changes that will ultimately benefit the public interest.

I set out below my own views on some of the key questions being asked.

What should the role of audit be?

I believe that public confidence in audit has fallen due, in part, to a difference between what an audit does and what people think it does or should do. For example, some believe that audit can, and should, guarantee a company won't fail, but the reality is that audit isn't designed to do that.

Deloitte strongly supports an independent review into the role and responsibilities of auditors. I hope we can use the current debate to open up a dialogue with stakeholders about what the audit 'product' should look like in an age of exponential technological transformation, globalisation and increasing business complexity.

Changing the scope of audit will require carefully considered legal and regulatory change.

Is audit quality high enough?

First, I'd like to say that I'm immensely proud of our 4,000 audit professionals who are dedicated to delivering the highest quality work. While a small number of failures understandably make the news, we shouldn't lose sight of the fact that we sign 14,500 audit reports in the UK every year.

Given recent high profile failures and the deterioration in the FRC's Audit Quality Review scores for the Big Four compared with the previous year, I can understand why people are concerned. Despite this, audit quality in the UK is very strong and has improved significantly in recent years: the FRC's Audit Quality Inspections rated 72% of audits as good or requiring limited improvements in 2017/18, compared with 50% in 2009/10.

We address all our inspection findings and use what we learn to drive improvements across our entire audit portfolio. All findings are investigated so we can learn from them and ensure mistakes are not repeated. We set out in the Providing trust section of this report how we do this.

Generally, over time, the companies that we audit have grown enormously in scale, international reach and complexity and their financial statements often include complex estimates requiring difficult judgements and assessments. Consequently, auditing those financial statements has become more complex and requires significantly more input from experts in areas such as valuations, property, IT and insolvency. The audit quality bar is continually being raised, and rightly so, and we will keep improving the quality of our work to meet and exceed those expectations.

The firm and the profession as a whole have made substantial investments in improving audit quality. Our audit practice of today looks very different to our audit practice of even a few years ago. We will continue to evolve to deliver audits of the highest quality and to provide confidence and transparency to all our stakeholders.



... there is now a great opportunity for the profession to further engage with stakeholders (including regulators, the government, company management, audit committees and investors) to bring about changes that will ultimately benefit the public interest.

Would it be better to have audit-only firms?

I strongly believe that it wouldn't.

If we changed to an audit-only model, we'd have less knowledge about the entities we audit, less access to technology and innovation, and a shallower pool of talent with the necessary skills and industry experience. I believe that would reduce audit quality and therefore be detrimental to the capital markets and to the public interest.

Our multi-disciplinary model (MDM) provides us with access to the wide range of skills required to deliver a rigorous audit, with contributions of expertise and insights from across our whole firm – for example industry specialists in mining, banking, insurance, real estate, telecoms, etc. and experts in valuations, controls, pensions, technology and tax.

Through MDM, we are also able to offer a broad and varied range of career options, which helps us attract the best talent.

Furthermore, across the Deloitte network, hundreds of millions of pounds have been invested in audit innovation, training and technology over the past five years. That level of investment wouldn't have been possible if we weren't part of a multi-service firm.

The values of our audit practice – with integrity and professional conduct at its core – are embedded across all of the services we offer. Audit is at the heart of what we do and it underpins our brand.

How can you be independent while still providing other services to the companies you audit?

Although, as a firm, we offer a broad range of services, the recent EU audit legislation and the FRC's Ethical Standard severely restrict – both in nature and volume – the non-audit services that auditors can provide to the entities they audit.

The effect of these regulations has been dramatic. The level of fees derived from non-audit services provided to audited entities has declined significantly and continues to do so. FRC data³ shows that the percentage of Big Four fee income derived from non-audit services provided to the entities they audit was 9.7% in 2017 (7.3% for Deloitte), down from 17% (12% for Deloitte) in 2008; and was 48.7% of the audit fees (51.2% for Deloitte), down from 69% (67% for Deloitte) in 2008. While this may still seem high, it's primarily made up of fees from assurance services that the auditor is often best placed to provide such as reporting on a company's half year results and reporting on a company's financial statements when it wishes to list on a stock exchange. Other than these audit-related services, we provide very little by way of non-audit services to the entities we audit.

How can you manage conflicts of interest when you offer such a broad range of services?

Details of the procedures we use to manage conflicts are set out in the Independence, ethics and risk management section of this report.

We take the issue of conflicts very seriously – both in terms of those defined by our regulatory standards and of perceived conflicts of interest. We invest in systems, processes and people to check for potential conflicts of interest on all proposed new engagements to safeguard the independence and objectivity of our firm.

We refuse any engagement that would be prohibited by applicable rules and regulations (for example non-audit services prohibited by the FRC's Ethical Standard) or where the threat posed by a potential conflict cannot be eliminated or reduced to an acceptable level.

Furthermore, where there's any doubt as to whether a potential engagement should be pursued on public interest grounds, the circumstances are considered by the Public Interest Review Group, which meets weekly and comprises senior partners from across the firm, including the Ethics Partner and the Managing Partner Quality & Risk.

There has been a small number of instances where a company's choice of auditor has been limited due to the advisory work the firms provide. However, these instances are rare and, in most circumstances, a company is able to conclude its tender process in plenty of time for the chosen incoming auditor to complete or transition out of any conflicting advisory contracts before accepting appointment as auditor.

3. <https://www.frc.org.uk/getattachment/27725654-8bd9-4623-a410-ef1661a69649/Key-Facts-and-Trends-2018.pdf>

Are four firms at the large end of the market enough?

While the market for large, public interest entity ('PIE') audits is undoubtedly concentrated around the Big Four, it's fiercely competitive. The investments we make in audit quality, technology and in tendering for an audit are testament to the level of competition that exists.

However, the status quo is not sustainable and we wholeheartedly support measures that enable and encourage other firms to enter the large PIE audit market.

There's no quick or easy answer and the solution is likely to include a suite of measures that may require market intervention, such as market share caps, to address both the supply and demand of auditors.

I strongly believe that breaking up the Big Four is the wrong answer for the market and that a better solution is to look at removing or reducing the barriers to entry that are currently deterring other audit firms from scaling up to challenge the Big Four.

The barriers to entry within the audit market for the largest companies are significant:

- The global nature of those companies means they want their auditors to have access to highly qualified audit professionals and other specialists and experts in most countries in the world.
- Audits are typically conducted with unlimited liability for the auditor, meaning potentially significant legal claims and regulatory sanctions, over and above the level that commercially available professional indemnity insurance policies may cover.
- These, combined with the high cost of tendering for global audits and the increasing cost of complying with regulation around the world means that firms outside the Big Four may not feel able to take on those risks.

This is a challenging but fascinating time for the profession and I look forward to being instrumental in ensuring that audit regains public trust and continues in its vital role of serving the public interest.

Please get in touch via atr@deloitte.co.uk to share any feedback; I would welcome your views.

Message from Jack Kelly, Head of Audit Quality & Risk Management

It is a momentous time for the audit profession, with many commentators voicing their views almost daily in the media. While the debate on the future of the profession goes on, our audit teams have continued their important work auditing – as Stephen highlights – thousands of sets of accounts every year. I believe the debate has created a degree of ‘backs against the wall’ resilience and pride which may itself have enhanced audit quality. Regardless, the profession and Deloitte have to react, debate with stakeholders about what services are wanted, adapt as required and produce consistently high quality audits.

Our end product for each set of financial statements remains an opinion on their truth and fairness. For public companies that opinion is expanded, explaining our materiality assumptions, our scoping decisions and our work on matters that we consider most significant to the reader. In this we may set out some of the procedures we undertook to reach our opinion, but they don’t tell the full story of how we got there.

As the Head of Audit Quality and Risk Management I hope that those stories are entirely predictable, based around knowledge-focused risk identification, first class project management and execution, with a sufficient allocation of time, resources and subject matter specialists, at a well-controlled and strongly governed company.

However, some of the stories of how we reached our opinions are more ‘interesting’ than I would want. This shouldn’t come as a surprise, with so many audits ranging from 300 to 300,000 hours across many industries worldwide, at different stages of their economic cycles, with changing business models and varying control environments; let alone the wide range of attitudes to controls and corporate governance we encounter at the companies we audit. The challenges our audit teams face and the effort undertaken is, at best, only hinted at in our few pages of public audit report.

Confidentiality tends to prevent greater disclosure, and this contributes to the gap in expectations between what the auditor does and what people think audit should do. However, we shouldn’t use this as an excuse to avoid debate about how the profession needs to change. Stakeholders want greater assurance on the future, but financial statements are predominantly based on the past. We need greater visibility with respect to our work on the front half of the annual report, providing more insight into what we have done.

Maintaining confidentiality, when have I been most proud in the last year?

- I am proud when the story is unremarkable, and the vast majority are. I am similarly proud when an audit team insists on a major adjustment being posted, forces a disclosure that the company would prefer not to make, or stands firm against an investor relations manager to ensure a more balanced and fair front-half narrative. These won’t initially strike the reader as major events, and some will point out that this is surely us just doing our job – and they would be right – but sometimes the effort expended in the name of the public interest is substantial, albeit invisible in our published opinion.



While the debate on the future of the profession goes on, our audit teams have continued their important work auditing thousands of sets of accounts every year.

- Less commonplace, but still praiseworthy, is the audit partner who refuses to sign an opinion until the team is fully satisfied; the team that considers the going concern projections to be too optimistic, that disclosures have to be more thorough and balanced, and that frankly a refinancing is the best course of action; the team that pursues the answer that opens a can of worms. Whilst there may be evidence of this in our published audit opinion, the audit team's effort and challenging conversations with management are not necessarily apparent.
- Outside the actual audit opinion, the public does not see the other things we do because they are the right thing to do and in the public interest: our refusal of management's request to change the audit partner when they have a disagreement because, despite the fees being at risk, we believe in the work that partner and team are doing; our resignation from an audit because the company's attitude, respect and culture are not what we consider appropriate; or when we turn down an audit appointment if we believe an accounting policy is incorrect and management refuses to adjust its view.
- Finally, I was most proud when I joined a forum of our junior audit professionals as they debated what we should be doing to enhance our response to areas of estimates and judgement, and discussed how we can instil greater scepticism in the work we do. The profession still attracts some incredibly gifted and motivated people.

An auditor is brought up to be fair and balanced, so I should also discuss what has disappointed me this year.

Above all, it was the results of our FRC Audit Quality Review (AQR) inspections. At one point in the year, I thought we were going to hit the FRC's 90% target, but it was not to be. We were 14 percentage points behind that target and a small percentage down on the prior year. This is more disappointing because a number of our inspection findings could so easily have been avoided and worse still because some are repeat findings that should have been prevented. We must, and will, continue to invest in quality, to understand the causal factors, to equip and support our teams so that we achieve not just the 90% target, but the additional 10% as well. We managed it this year for the ICAEW's Quality Audit Department (QAD) inspections, we must do likewise for the AQR and PCAOB inspections.

The goal will be reached to a large extent by our own endeavours and objectives in the year ahead. We are significantly increasing our efforts to identify and address emerging risks in specific industries and at individual clients; building mitigation plans at our highest risk clients and monitoring these regularly; stepping up our recently introduced InFlight review activities to assess the engagement after the audit plan has been written and provide any required coaching; and implementing a global programme, the Deloitte Way Workflow, to ensure that areas of audit work are completed consistently across the world.

I chose my words carefully when I said we will reach our goals "to a large extent by our own endeavours". Too often I come across situations where companies spend their time 'justifying' their accounting positions, their judgements and their estimates rather than providing us with support for their position. Any company with a strong control environment, first class corporate governance and the right culture has information readily available to support its views. Audits are more difficult where these things are not in place. Enhancing the controls and systems of UK organisations and those international companies that raise finance here should be a mission of regulators, auditors and those charged with governance.

Returning to what we can do as auditors, and by way of conclusion, we need to recognise every day in every audit that we are serving stakeholders including the shareholders and the public at large.

Report on the work of the UK Oversight Board from Nick Owen, Chairman

Introduction

The current challenges for the audit profession are matters that go to the heart of the objectives of the UK Oversight Board (UKOB).

In this context, as the first Chairman of the UKOB, I am pleased to provide an overview of the role of the UKOB since its establishment on 1 June 2017, and how it has met its objectives over the year.

The UKOB came into existence as a result of the creation of Deloitte NWE (discussed further in the Governance, legal structure and Deloitte Network section). The objective of the UKOB is to enhance and protect Deloitte's brand and reputation in the UK, through providing oversight in relation to assessing how the material risks facing the business are managed and controlled, meeting our public interest responsibilities, and being responsible for all regulatory and financial reporting matters that relate to the UK business.

Central to this objective is the continuous focus that the UKOB has on enhancing audit quality within the UK, providing oversight to help the firm secure its reputation more broadly, and reducing the risk of firm failure; as well as enabling the firm to meet all of the requirements of the Audit Firm Governance Code, and other UK legal and regulatory responsibilities.

Membership of the UKOB comprises the UK CEO, the UK Head of Audit, three UK partners (including me) who are also members of the Deloitte NWE Board, (providing a direct line of sight on all NWE matters of risk and reputation potentially impacting on the UK firm) and three Independent Non-Executives (INEs).

The UK Head of Public Policy and the Managing Partner Quality & Risk (or his delegate) also attended all the meetings of the UKOB this year, along with other attendees by invitation.

The activities of the UKOB operate within the broader governance structure that exists within Deloitte NWE. In particular, the UKOB works closely with the Deloitte NWE Audit & Risk Committee and, through this Committee, can escalate significant matters to the Deloitte NWE Board for their consideration as necessary.

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

Audit Quality

Audit quality is of paramount importance to Deloitte – it defines our brand and any failures impact on the reputation of the whole firm. Consequently, audit quality has been a key focus of the UKOB's during the year. In particular, the UKOB has reviewed the firm's procedures for ensuring the delivery of high quality audits, and has been instrumental in ensuring that the firm has the right set of metrics available to ensure that it can monitor the improvements that are being made around audit quality. In addition, the UKOB has overseen the actions being taken by management to respond to the findings of internal and external reviews.

The UKOB has also been monitoring management's response to the current challenges for the profession in light of the recent questions about: the role of audit; whether there's enough choice in the audit market; whether it's right that audit firms also provide advisory services; and whether breaking up the four largest firms (the Big Four) is the answer.



Central to this objective is the continuous focus that the UKOB has on enhancing audit quality within the UK, providing oversight to help the firm secure its reputation more broadly, and reducing the risk of firm failure...

Public Interest

As well as continually enhancing audit quality, our public interest responsibilities extend across a wide range of areas, in terms of the services we provide, our role in the capital markets and our wider impact upon society; and we take those responsibilities very seriously. Against this background, the UKOB has been focused on the firm's response to key regulatory and public interest topics, including monitoring the firm's response to the FRC's thematic review of culture.

At the same time, the UKOB provides oversight over the Public Interest Review Group, which considers whether certain potential engagements should be pursued on public interest grounds.

Ethics and Culture

Ethics and culture go to the heart of our business. In response, the UKOB has reviewed the adequacy of the firm's whistleblowing procedures, assessed the work being undertaken to improve independence compliance through the implementation of new Independence Breach Policies. The UKOB also met with the Ethics Partner on two occasions to discuss the systems in place for ensuring ethical conduct and promoting an appropriate culture across the firm, and subsequently to be updated on the investigations process for partners and staff.

The UKOB's oversight of the firm's culture will be further enhanced through the development of management information to measure how the firm is performing against its core values of 'integrity, quality and respect at the heart of everything we do'.

Risk Management and Internal Control

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

In relation to the internal control environment, the firm conducts an annual review of the ongoing effectiveness of the firm's system of internal control, including financial, operational and compliance controls and risk management systems as well as the promotion of an appropriate culture underpinned by sound values and behaviour within the firm.

This system of internal control, which is the responsibility of the firm's Executive Group (Executive), is designed to mitigate and manage, and not eliminate risk, and therefore provides reasonable rather than absolute assurance against the firm not achieving its strategic goals, material loss or misstatement, or non-compliance with laws, regulations and professional standards.

The Executive's ongoing monitoring of the system of internal control is complemented by oversight from the UKOB. In order to meet its responsibilities, during the year the UKOB considered (utilising the agreed definition of 'significant control failing or weakness') whether any control failing or weakness or combination of these, having regard to both qualitative and quantitative measures, could seriously affect the performance, future prospects or reputation of the firm. This included considering whether any control failings or weaknesses reported during the year could threaten the firm's business model (including regulatory issues and challenges to the firm's strategic objectives), future performance, solvency or liquidity.

Based on these discussions, and the evidence provided, the UKOB was satisfied that no significant failings or weaknesses existed over the year under review which required disclosure. Although actions arose from both the Enterprise Risk Framework and the internal audit reports reviewed, these were not considered to be of such significance that they individually or collectively undermined the system of internal control in place; rather they were considered to represent actions which the UKOB believed would further strengthen the firm's system of internal control.

Additionally for FY18, and to improve the transparency of the firm's control environment to the UKOB, the documentation of the principal controls in place for each of the firm's principal risks, finance and culture has been further formalised.

On the basis of this assessment, the UKOB was satisfied that the firm's system of internal control had operated effectively throughout the year.

Other reports

In addition to the above, the UKOB considered the following reports over the year under review:

- Reports from the firm's Consulting and Taxation service lines, on their procedures in place for safeguarding quality and reputation, and for avoiding conflicts of interest.
- The results of the FY18 isolated working review, which was carried out to identify any partners, directors or business units operating alone and potentially posing a risk to the firm's reputation.
- A report from the Money Laundering Reporting Officer setting out the money laundering risks facing the firm and the operation and effectiveness of the firm's money laundering detection and prevention systems and controls. The report also included an update on the firm's wider financial crime compliance, including anti-bribery and corruption.
- A report on the key matters relating to independence and conflicts during the year.
- A report on the regulatory and claims landscape facing the firm, and the current claims in progress against the UK firm.
- The firm's FY18 indicative ratings for compliance with relevant DTTL Member Firm Standards, which are the Global firm's quality standards.
- Consideration of the firm's approach to people management, focusing on the procedures within the UK firm for ensuring appropriate training (including on ethical standards), an appropriate culture, and for ensuring that remuneration policies for partners and staff do not incentivise inappropriate behaviour.
- Reports from the firm's internal audit function and the Central Monitoring Group (CMG), including consideration of their plans and their reports issued.
- Oversight of the firm's external reporting, with particular emphasis on our public interest obligations, the needs of stakeholders and the disclosures required under the Code. This included reports from our External auditors, BDO.
- Quarterly reports from the UK CEO on the strategic matters driven by Deloitte NWE, that impact the UK firm.

Based on all of the above, the UKOB was satisfied that the firm has complied with the principles of the updated Audit Firm Governance Code, applicable for financial years beginning on or after 1 September 2016, as set out in appendix 6.

Finally, I would like to thank the members of UKOB for their hard work and diligence over the year, and I look forward to continuing to drive forward our agenda in the year ahead.

Report on the work of the Independent Non-Executives from Sir Michael Peat

Introduction

As noted elsewhere in this report, Deloitte UK is now managed as the largest part of Deloitte North West Europe (NWE). This means that the monthly UK Board of Partners meetings have been replaced by quarterly meetings of the UK Oversight Board (UKOB), and that the UK Senior Partner and Head of Audit (and others) now also have responsibility for the larger firm.

The way in which the firm's INEs, Ruth Markland, Gerry Grimstone and myself, fulfil our responsibilities has changed accordingly. The three of us remain UK INEs and are members of the UKOB. Gerry is also an INE on the Board of the NWE firm. There are two other INEs on the NWE Board, with Gerry as the UK representative. Nick Owen, David Sproul and other UK partners on the NWE Board keep Ruth and me informed of significant matters, as does Gerry from the INE standpoint.

The UK Oversight Board

Moving from a UK Board with comprehensive supervisory responsibility to the UKOB, which primarily has public interest, regulatory and legal responsibilities, has been a change. However, care has been taken to ensure that the UKOB, and the INEs as members of it, meets the relevant requirements of the UK Audit Firm Governance Code: in particular to help ensure that UK audits are undertaken to a high standard and that, more generally, the UK public interest remains front and central to everything the firm does.

The terms of reference of the UKOB are included on pages 8 to 10 of this report. At meetings:

- Nick Owen, the Chairman of the UKOB and the NWE Board, reports on general and regulatory matters; Nick maintains regular contact with the INEs and keeps us informed on a range of topics and developments;
- David Sproul, the UK and NWE Senior Partner, reports on significant developments and risks;
- Stephen Griggs, the Head of Audit for the UK and NWE, reports on the performance of the audit practice from a quality and operational perspective, progress with the audit transformation programme and other significant audit matters;
- Oliver Grundy, the UK firm's Ethics Partner, reports biannually (including on whistleblowing) and also has a private meeting with the INEs;
- Stephen Ward, the Managing Partner of UK Quality and Risk, reports on significant and contentious matters and has a private meeting with the INEs;
- Stephen Williams, the Vice-Chairman of the NWE Audit and Risk Committee, reports on significant matters that his committee has considered and, as Deputy Chairman of the UKOB, maintains regular contact with the INEs;
- there are reports from Michael Jones, the Head of UK Internal Audit, in line with the agreed internal audit programme, as well as a private meetings with the INEs; and
- Jack Kelly, UK Head of Audit Quality and Risk, reports biannually and the Heads of Quality and Risk for the other service lines (Consultancy, Tax and Financial Advisory) report annually. The INEs also meet privately with the heads of the service lines.



We remain confident in the UK firm's strong commitment to the public interest and high quality audits...

The UKOB met three times during the year to the end of May 2018 (rather than four), because there was a concluding meeting of the UK Board of Partners at the beginning of the year.

As would be expected for a new body, the partner members, assisted by the INEs, continue to consider how the UKOB can operate most effectively. For example, a dashboard enabling audit quality vital signs to be assessed more readily on an a priori basis is under-development.

The Partnership Council⁴ and meeting privately

Ruth attends the quarterly meetings of the Partnership Council. It meets four times a year and is an opportunity for representatives of the UK partners to make suggestions and discuss issues.

The three INEs also meet as a group to review how the UK firm's governance is performing, to consider its compliance with the Audit Firm Governance Code and to discuss matters of concern and interest.

External interactions

Ruth, Gerry and I have placed particular emphasis on our interactions with regulators, institutional shareholders and investor bodies during the past year, in the context of the present focus on the role of audit and the large accounting firms. We have met representatives from the Financial Reporting Council and the Institute of Chartered Accountants in England and Wales to discuss a range of topics, including their inspections of Deloitte's audit working papers, the culture in the large accounting firms, the role of audit, the "audit expectation gap" and sanctions against audit firms and partners for poor quality work. Like others involved in these discussions, we believe strongly in the important function that auditing and the accounting firms play in the country's economic life and prosperity and are committed to do all we can to help ensure the continuing strengthening of the system.

Looking forward

Our role and duties will remain the same as we move forward, not least including compliance with the Audit Firm Governance Code. We will continue our strong focus on the public interest, audit quality, ethics, culture and risk management; and we will monitor closely how the effectiveness of the UKOB and our contributions can be enhanced.

Conclusion

We remain confident in the UK firm's strong commitment to the public interest and high quality audits, and remain satisfied that Deloitte has a good focus on its reputation (across all service lines) and that an appropriate framework is in place to reduce the risk of the firm's failure. In short, there are no particular matters which Ruth, Gerry and I believe should be brought to your attention.

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.

4. The Partnership Council is responsible for ensuring fairness and equity between partners and fairness in the implementation of NWE policies and strategies for both the UK and Switzerland.

Providing trust

At Deloitte, our purpose is to make an impact that matters. For Audit & Assurance, this means a focus on delivering independent high quality audits and a dedication to supporting our auditors' role in the capital markets.

This requires us to build capabilities to support the delivery of high quality audits and make leading contributions to shaping the future of the audit profession.



Delivering quality audits

Against a backdrop of some recent high profile corporate failures, a decline in the FRC's Audit Quality Review scores across the largest firms this year and a general deterioration in public confidence around the quality of audit, we set out below the steps we take to deliver quality audits, building on our culture of ethics and integrity and on the recognition that quality is the foundation of our audit practice.

Quality is driven by:

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

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. This initiative provides a framework which encourages leadership behaviour at all grades throughout the organization, where partners and directors receive annual feedback against the key behaviours to aid their development.

We are proud of our progress to date in establishing and promoting our culture, but recognise there is more to do. There is a continual focus on articulating, communicating, and embedding our ethical values. This applies globally, in our NWE firm and in the UK and we 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. The key beliefs we hold and actions we take to support audit quality 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:** operating with the highest level of integrity, ethics, and professionalism; remaining independent, objective, and sceptical.
- **Aligning our services to our values:** 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 incorporates 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. Resources on our interactive Ethics Code website and firmwide communications seek to embed these principles and promote discussion on ethical issues.

Our firmwide ethics courses 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. All of our people completed an interactive ethics eLearning course during FY18, which provides real-life examples of ethical challenges and practical problems.

Positive actions have been taken to strengthen the links 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.

The FRC published its Audit Quality Thematic Review on Culture on 10 May 2018. We welcome the report and agree that it is crucial for audit firms to promote and embed a culture that ensures consistently high quality audits. The findings in the report and the feedback we received are, in most cases, consistent with our own thinking and we are already implementing a number of programmes that address some of the findings.

During the year, we established a Purpose and Values Committee comprising members of each service line's leadership team; public policy; talent; and ethics to share and challenge practices across the firm and identify opportunities to further embed our purpose and bring our values to life. We recognise that, for audit in particular, it is important our professionals understand the societal value of the work they do and we have a specific focus on ensuring that this is ingrained in our communications. During the summer, all of our qualified staff undertake technical training focused on our global audit imperatives. This year this training also included a particular emphasis on the broader purpose and importance of audit as a profession in providing confidence to stakeholders and capital markets.

iii) Evaluating and overseeing our culture

The three Independent Non-Executives are proactive in their role in protecting the public interest. They are members of the UK Oversight 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 key indicators, root cause analyses and surveys to measure and monitor people's perceptions of various audit quality culture influencers. We analyse each of the findings from audit inspections, focus groups and systems of quality control reviews (including reviews of global shared services centres) to determine the root cause of that finding, and narrow them down to the key causal factors.

During the year we established a working group to develop more comprehensive management information to facilitate more effective monitoring by leadership against our core values of 'integrity, quality and respect at the heart of everything we do'. The proposed management information will be used to monitor our progress and identify areas where we need to take action. Our oversight of audit quality will be further enhanced through the development of ongoing reporting and monitoring of a refreshed suite of Audit Quality Indicators (AQIs), which is a global initiative. Some of our AQIs are published in the External and internal audit quality monitoring section of this report.

iv) Ongoing momentum

We recognise that we need to maintain a constant focus on culture. During the next year, 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, for example specialising into one of our Centres of Excellence.
- Embedding our Audit Imperatives core principles and the FY19 priorities by including these messages in our learning courses and communications.
- Focus on ensuring our professionals understand the value of the work they do and linking this to the broader purpose of audit.
- Continued work by the Ethics Team to maintain the profile of the Ethics Code.
- Rolling out and embedding enhanced management information and monitoring.
- 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 2018 we recruited 700 people into 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, measured and rewarded.

Each audit partner and member of staff at manager level and above receives 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 findings, personal independence, appraisal documentation and audit compliance, including 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.

For partners and signing directors, certain key metrics, such as the results of quality inspections of their audit engagements, are given an increased weighting in formulating an overall audit quality performance score and 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.

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 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 and remuneration process for partners, signing directors and other staff at manager level and above.

Individual appraisals also include feedback provided on specific engagements from fellow team members and from partners, to provide a rounded view of individuals' performance and development needs. The evaluation of professionals for promotion involves a detailed scrutiny of personal performance, with quality at its core, linked to our competency model. 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 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 evaluation. The Committee's recommendations are used by the Audit & Risk Advisory Executive to make final decisions on audit partner reward and promotion, which are then reviewed by the firm's Executive.

We are currently developing an audit quality reward scheme to further reward positive audit quality and behaviours. It is envisaged that the new scheme will focus on a variety of non-monetary rewards and will serve to provide additional recognition for our people who make a significant contribution to positive audit quality.

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 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 innovation, audit tools and project management. Experienced partners and technical experts lead the delivery of the course, seeking to ensure consistency, quality and maximum impact.

We have a mandatory global audit learning curriculum for all levels, which promotes consistency with other Deloitte member firms and incorporates parallel curriculums designed for our practitioners working on PCAOB and ISA engagements. We supplement these courses with UK-specific learning topics and courses, as required, to best meet the needs of our business and markets. Sector-specific courses are provided to particular audit specialisms, for example on financial instruments and loan loss provisions, and for Public Sector auditors there is annual update training on health and higher education.

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

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

All these programmes are mandatory for our practising auditors and we monitor compliance. Anyone who has not completed the training programmes within the designated timeframe is prevented from participating in audit work until the programmes have been completed.

iv) On-the-job training

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

In the autumn of each year we run partner-led Engagement Team Based Learning, designed to help our people integrate their learnings from the annual technical update training, and other training courses, into their work on audit engagements.

v) Developing the auditor of the future

As audit itself evolves, 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. During the last year, we have continued to develop our skills and competency framework and to refresh the underlying training and development that supports it.

vi) Key partner and staff rotation

We recognise the risk to independence from the prolonged service of partners and key staff on the audit engagement team, and note that audit quality can be enhanced by a fresh look at the engagement. We closely monitor the length of time that partners and key staff spend on each engagement and implement succession plans where appropriate.

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

The core of our methodology is a robust, fact-based risk assessment, with an audit response based on that risk assessment. We continue to enhance our audit methodologies across all the member firms in our network. In 2018 we embarked on a global multi-year programme to develop a 'Deloitte Way Workflow' for each area of the audit, to promote greater global consistency in the execution of our methodology. For areas of the audit that should be performed in the same way each time (for example testing cash), each of these workflows will include a Guided Risk Assessment, prescribed tasks and templates, embedded use of analytics and audit delivery centres along with associated guidance and support. These workflows will allow errors to be spotted and escalated more readily and will ensure continuous quality improvement.

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

ii) Use of specialists and experts

We involve experts who are not part of the core audit team throughout our audit work. Our specialists, 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.

Our consultation system enables us to record when – and in what form – consultation on audit and accounting technical matters has taken place. This helps us ensure consistency in response and the ability to identify any trends where further guidance and training may be needed.

iii) Audit engagement acceptance and continuance

For any proposed service whether it be an audit or any other type of service, we review whether it conflicts with any existing relationship/services, and we perform independence checking, client due diligence and anti-money laundering procedures. Each new engagement is assigned an Engagement Risk Rating based on the risk profile of the work, which determines the additional review procedures required to be performed by quality control review partners.

Our risk assessment and due diligence procedures are refreshed at least annually. The full process is repeated when there has been a change to a client ownership structure or to the parties involved in the engagement, or if there is a substantial change in the services being provided or in the risk profile.

iv) Audit project management and timing

Our audit milestones programme guides teams to complete key activities by certain deadlines based on the entity's year end and audit engagement profile. Milestone tracking is supported by bespoke diagnostic software that integrates with our audit software to provide real-time information to partners and staff on the progress of their audits.

v) Audit reporting

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

We recognise that, in addition to focusing on the quality of our own audit reports, auditors also have an important role to play in raising the overall quality of the financial statements. Our Quality Corporate Reporting Centre of Excellence assists our people in dealing with increasing complexity around financial reporting. The remit of this Centre of Excellence encompasses enhanced pre-issuance reviews on those audited entities that exhibit risk factors related to corporate reporting; performance of thematic reviews in targeted 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 FY18, 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.

vi) Engagement Quality Control Review

For public interest entities, higher risk engagements and certain other specified engagements, 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 may include 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 as appropriate, across our audit portfolio, focusing on significant accounting, auditing and financial reporting matters, appropriate audit documentation and disclosure areas. We regularly refine this process to reflect evolving audit and professional risks.

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

The independent EQCR partner role is performed by appropriately skilled and experienced audit partners who would, in other circumstances, be eligible to act as audit engagement partner on the relevant audit engagement. EQCR partners are involved in our public interest entities and higher risk engagements, together with other entities as appropriate. For other engagements, the 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.

vii) Driving continual improvement

We are always looking to improve aspects of our services and use the findings of our internal inspections programme, 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 Executive and, in more detail, by the Audit Quality Board (AQB).

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

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

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

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

ix) 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 and internal monitoring programmes.
- Strategic responses to the underlying causes of inspection findings, including recurring underlying causes from year to year.
- Revisions of the process for directors becoming Responsible Individuals.
- Revisions of the policies for consultations with experts.
- Further enhancement of the content and delivery of our learning curriculum.
- Improving the challenge from our Engagement Quality Control Reviewers.
- Updates from the Global AQB to discuss a UK specific response.
- Identifying priorities and creating a formal Audit Quality Plan for 2019.

Sir Gerry Grimstone, Independent Non-Executive, attended one meeting of the AQB to share his perspective and contribute to the AQB discussion.

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 and to further improve audit quality. The forum meets three or four times a year. Matters discussed in the current year included innovation, the form and content of audit learning, performance management, and working with specialists. A representative from 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 (NAA) technical team. Leveraging this wide range of experience, along with partnering with industry groups, the EIG's objective is to identify significant emerging industry, political/economic, technology and regulatory/inspection related issues that could have a significant impact on audit quality in the future.

Some recent areas where the EIG has focused attention include cryptocurrency and certain industry sectors.

We have issued guidance to the audit practice on how to incorporate emerging issues into their risk assessment.

The EIG drives the development of actions to address these matters, working with Industry Groups, NAA and the network of Audit Quality Leaders who are embedded in the audit groups. The EIG reports directly to the Audit Executive.

x) Developing the audit of the future

Our Audit Transformation programme is helping deliver our aspiration to become the market leader in Audit & Assurance by making an impact that matters for our clients, bringing the power of our global network to deliver an unrivalled service for our clients, creating an inspiring, inclusive environment for our people to develop into future leaders, as well as putting trust and reliability into the capital markets.

Our strategy is heavily focussed on transforming our core business over the next two years; making the delivery of a higher quality audit more streamlined, focussed and efficient. We are bringing the power of our innovative culture to the forefront of leading change and disruption, re-imagining every aspect of Audit and Assurance to make it more valuable. A major component of our transformation activity is The Deloitte Way, a key step towards reimagining audit and reinventing our future, which will establish a global approach to audit execution that drives enhanced audit quality by standardising procedures, leveraging leading-edge technologies and data analytics, and driving work to delivery centres.

In FY18 we have continued to develop our infrastructure in readiness for The Deloitte Way, including the EMEA regional delivery centre going live and increasing adoption of delivery centres generally (now 650,000 hours of work processed through these centres); introducing professional Project Managers for some of our largest audits; piloting of global workflow packages and pricing tools; providing access to the global cloud hosting platform to enable sharing of innovation tools; and the launch of automation, project management and collaboration tools.

Our increasing use of delivery centres aligned to the delivery of the Deloitte Way will enhance audit quality, as the individuals within those centres develop expertise through specialism and standardisation. The delivery centres are integrated into our broader System of Quality Control.

Audit & Assurance Transformation

Being a relevant profession of the future and a sustainable practice that evolves with the pace of change in technology and society is critical. Driving this goal is the Deloitte Audit & Assurance transformation programme of initiatives, which is currently being developed and deployed across the Deloitte network, including Deloitte UK.

Audit & Assurance Transformation is an important shift across the network in the way Deloitte professionals work and includes:

Deloitte Way: standardisation of audit processes supported by global technology suite	Real-time audit quality monitoring
Enhanced talent model which includes career paths, learning, rewards and recognition, centres of excellence, and delivery centres	Agile deployment of tools and technologies to respond to changing environments

4. Global consistency

i) Global network

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

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

Body	Details including Deloitte UK involvement
Global Audit Oversight Committee (GAOC)	<ul style="list-style-type: none"> • 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 its objective is to promote 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. • Deloitte UK is represented on the GAOC.
Global Audit Quality Board	<ul style="list-style-type: none"> • The Global Audit Quality Board defines and drives key audit quality initiatives across the Deloitte Network. Each member firm produces an Audit Quality Plan, 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. • The UK Audit Quality & Risk Partner is a member of this global board.
Global Centre of Excellence for Audit Quality (GCoE)	<ul style="list-style-type: none"> • See more details in the narrative below on its scope and activities. • The EMEA Managing Director of this Centre of Excellence works closely with our PCAOB Audit Quality and Risk Management team.
Global Audit Quality Monitoring and Measurement programme	<ul style="list-style-type: none"> • This programme pulls together activities, including the following, into one centrally managed group. See infographic on page 24. <ul style="list-style-type: none"> – Our internal inspections programme, practice reviews (see below) – The performance of ‘healthchecks’ (reviews of live engagements) using the findings from inspections and diagnostic tools, to drive the selection of engagements and file areas for review – The performance of ‘hot reviews’: reviews of live engagements, focusing on significant risk areas which are subject to high numbers of findings from internal and external inspections, with the aim of improving audit quality before the audit opinion is signed – Coaching of audit teams through their audits: areas covered include internal controls, regulatory themes, and PCAOB coaching – The measurement of Audit Quality Indicators (AQIs) by member firms. In the UK, these sit alongside the UK profession’s AQIs (see the External and internal audit quality monitoring section) – The monitoring of audit milestones to support engagement teams in their project management responsibilities – External regulatory engagement, including coaching teams through regulatory inspections • The UK has a leading role in this global transformation, following our own transformation of internal quality inspections in the past few years. • In the UK we mirror the Global approach with a similar local Audit Quality Monitoring and Measurement programme, including an inFlight programme to provide the hot reviews discussed above.
Audit Technical Advisory Board (ATAB)	<ul style="list-style-type: none"> • ATAB determines audit methodology and policies. • Deloitte UK has a representative on the ATAB.

Body	Details including Deloitte UK involvement
Global Audit & Assurance Leadership Team (GAALT)	<ul style="list-style-type: none"> GAALT supports the execution of the Deloitte Global Audit & Assurance strategy.
Global IFRS Leadership Team (GILT)	<ul style="list-style-type: none"> See more details in the narrative below on its scope and activities. In the UK we provide several representatives to GILT who support the global IFRS agenda.

Global Centre of Excellence for Audit Quality (GCoE)

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 and embed audit quality on PCAOB engagements have included:

- The use of a global PCAOB audit approach manual, in addition to our separate audit approach manual for International Auditing Standards.
- 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.
- A specific learning syllabus focused on PCAOB requirements for all staff working on PCAOB engagements.
- A single 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.

Global IFRS Leadership Team

The Deloitte Network's Global IFRS Leadership Team (GILT) 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.

During 2018 GILT's work supported by the UK team has included issuing accounting FAQs and learning on IFRS 9, 15 and 16, and improved our people's knowledge and support on auditing accounting estimates and on consultations. We also supported a project to globalise the Deloitte Accounting Research Tool (DART), an online platform including the IFRSs, PCAOB standards, other accounting and auditing standards and Deloitte's interpretations.

ii) Audit imperatives

The Deloitte Network's aim is to drive professional excellence through the consistent global application of our audit imperatives, comprising five core principles and eight current year priorities, 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 FY18, as presented below, have been implemented in the UK and are supported by the initiatives discussed throughout this section. We monitor adherence to these imperatives through our internal inspections, to identify where additional actions may be required.

Core principles

1. Act with integrity, ethics and professionalism
2. Recognise the important role of auditors
3. Always learn
4. Continually improve
5. Live audit quality

FY18 priorities

1. Internal control
2. Risk assessment
3. Accounting estimates
4. Consultations
5. Transformation of audit delivery
6. New accounting standards
7. Optimisation of audit execution
8. Supervision

iii) Member firm group audits

During recent years certain issues were identified in a small number of Deloitte Global member firms. To address this and other regulatory comments, we have detailed Global guidance on how group auditors should evaluate and supervise the work of Deloitte component auditors. This seeks to ensure that audits fully comply with applicable auditing standards throughout a wider group, wherever the other auditor is based, and whether or not it is part of the Deloitte 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 programme, working closely with Deloitte Global's Audit Quality Board, the GCoE, the Global IFRS Leadership Team and all the country quality teams.

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

External and internal audit quality monitoring

Audit Quality Monitoring & Measurement

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

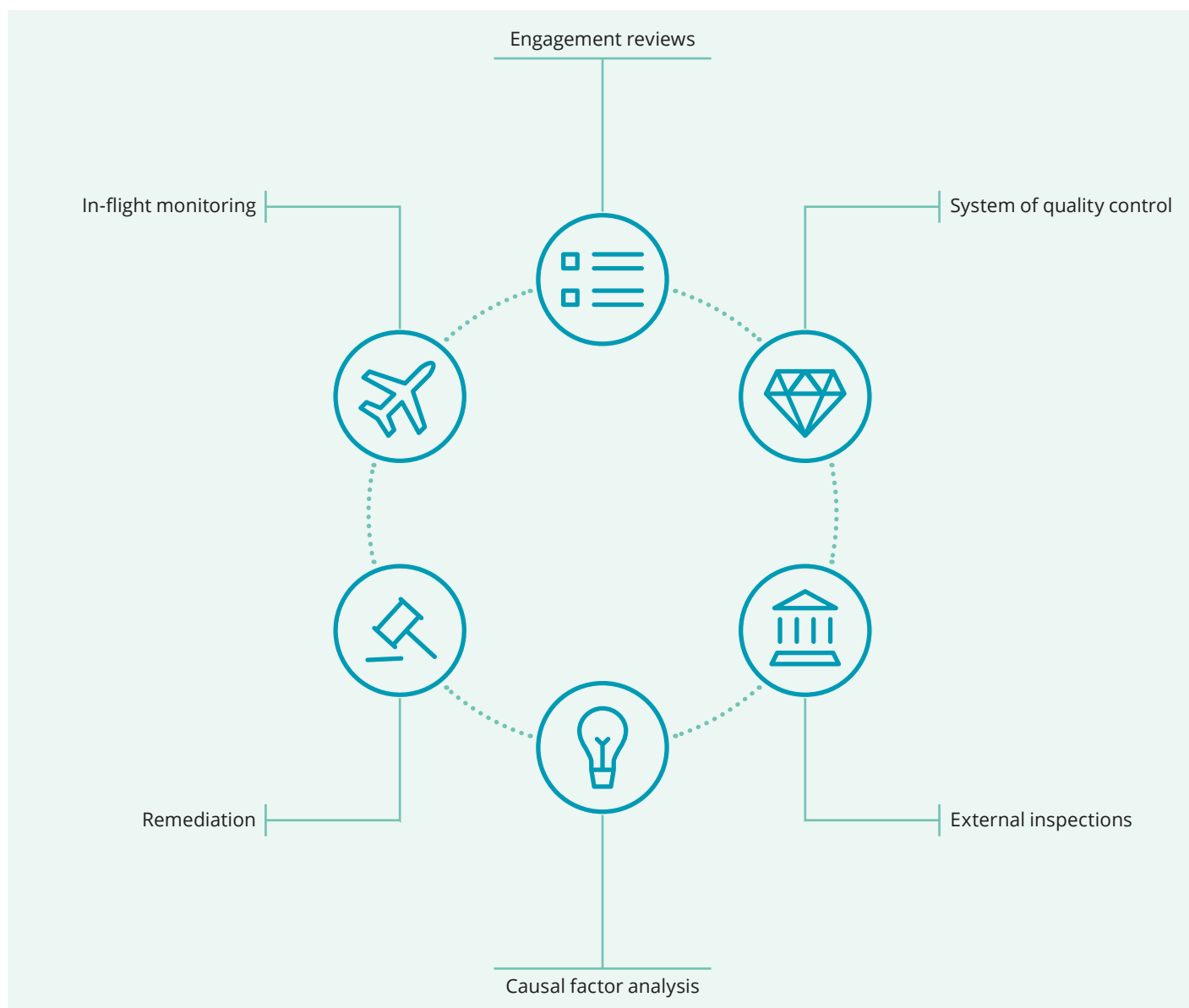
The objectives of the Global Audit Quality Monitoring & Measurement (AQMM) program are to:

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

The AQMM program is focused on driving:

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

We discuss above the implementation of this programme in the UK.



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

1. Internal inspection.
2. External reviews.
3. Audit Quality Indicators.

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 practice review, the firm has made a significant investment during recent years to implement and deliver a transformation programme.

Within the practice review programme there are two elements that work together to meet the overall aims: individual Engagement Review (ER) that primarily assesses compliance with the AAM, and the System of Quality Control (SQC) review that primarily focuses on the firm's internal processes to comply with the DPM. Additional rigour and independence is brought through the oversight of an independent partner from another member firm within the Deloitte Network together with independent engagement reviews from a central global team. Our overall aim is that our internal inspection will have at least the same scrutiny and rigour as that applied by our external regulators.

The ER has been improved during the year by additional performance of inFlight reviews: reviews of live engagements which focus upon significant risk areas which are subject to high numbers of findings from internal and external inspections, with the aim of improving audit quality before the audit opinion is signed.

In addition to the points noted below, we have continued to expand the breadth and depth of the SQC 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. We no longer take a compliance approach to the review, but a best practice approach to encourage stringent and robust reviews to implement appropriate controls.

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

i) Selection process

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

ER: Engagements are selected across our audit business portfolio using a risk-based approach, focusing on high risk and/or high profile engagements, and ensure that, as a minimum, each of our partner and director Responsible Individuals are subject to a review every three years. All sectors are covered by this selection process, including Public Sector engagements. Selected files are then subject to independent inspection by professionals from the central inspection team, along with reviewers comprising partners and senior auditors from other UK offices, groups and overseas member firms (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 level of risk associated with the process and the scope of work to be performed.

ii) Experienced reviewers

A critical success factor in achieving our desired level of rigour and scrutiny is the competency of the Reviewers. Across both the ER and SQC, we undertake a comprehensive selection process, ensuring the Reviewers as a team have the relevant industry and technical experience, quality record, seniority, and sufficient time to be able to bring robust independent challenge. All reviews of FTSE 350 engagements will involve a member of our central team or a director who has undergone regulatory review themselves in order to apply a 'regulatory lens' to the review. Once selected, all Reviewers are given thorough training by the leaders in our central team.

iii) 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. For ER we classify engagements as either Compliant, Improvement Required or Non-Compliant and processes subject to the SQC testing are rated as Acceptable, Acceptable with Opportunities for Enhancement, Needs Improvement or Requires Significant Improvement.

iv) Action and ongoing education

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

The FY18 practice review took approximately 3,050 days (FY17: 5,750) from experienced professionals, as well as significant senior partner resource from within the UK firm. Approximately 89 days (FY17: 535) 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 101 UK engagements⁵ that were reviewed as part of the FY18 practice review 5% were assessed as non-compliant, compared with 1% in FY17.

The review of the system of quality control resulted in 324 fully implemented, 14 partially implemented and 3 not implemented policies, compared with 351, 12 and 0 respectively in FY17.

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

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

In accordance with Article 13 of the EU Audit Regulation, and based on the practice review carried out in 2017, we confirm that we are satisfied that our internal quality controls and systems are, in general, robust and operating 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 SQC.

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 QAD and the PCAOB (who completed its most recent review in October 2016).

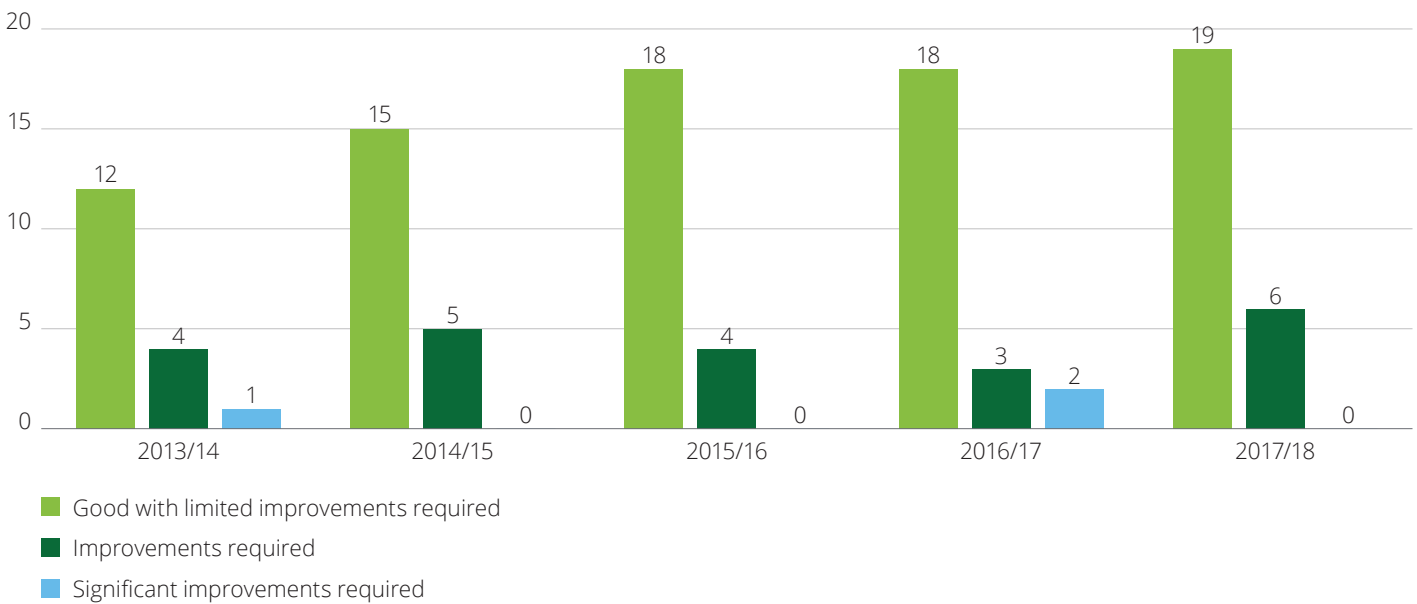
i) 2017/18 Audit Quality Inspection Report

The AQR undertakes independent inspections of the overall quality of the auditing function in the UK in relation to listed and other major public interest entities. The AQR published a report on the findings of its 2017/18 inspection of the firm on 18 June 2018. The full report is available on the FRC's website at the following link: <https://www.frc.org.uk/document-library/audit-quality-review/2018/deloitte-llp-public-report-2017-18>

The firm's policies and processes supporting audit quality were reviewed, as were 25 individual audits. The AQR's review identified that we had taken the actions we committed to following their 2016/17 review, and that they did not have repeat findings in most of those areas. In addition, they highlighted that we had made the following enhancements to our policies and procedures:

- Increased use of centres of excellence (CoE) involving the firm's specialists, including new CoEs focusing on goodwill impairment (established in response to previous inspection findings) and corporate reporting, to address increasing complexity of financial reporting.
- Further methodology updates and additional guidance issued to the audit practice including the audit approach to pension balances, internal controls, data analytics, group audits and taxation.
- Implementation of a new staff performance and development system with additional focus on regular timely feedback on performance, including audit quality.
- Further improvements to the depth and timeliness of root cause analysis on internal and external inspection findings.

5. While our Gibraltar practice is included in our practice review programme, its results are not included in these numbers

Results of AQR reviews of the firm

We are committed to consistently providing the highest quality audits and seeking continuous improvement. We welcome the AQR's perspective on the quality of our audit work through their engagement and thematic reviews, and we value their external insight.

We take the findings of the AQR seriously and we listen carefully to the views of the AQR and other external audit inspectors. We remediate every finding regardless of its significance and seek to take immediate and effective actions, not just on the individual audits selected but across our entire audit portfolio. We are committed to continuously improving all aspects of audit quality in order to provide consistently high quality audits that underpin the stability of our capital markets.

We have improved the speed by which we communicate potential audit findings arising from the AQR inspections and our own internal reviews to a wider population. However, we need to do more to ensure these actions are embedded. To achieve this we have launched a more detailed risk identification process and our inFlight review programme. Consistent achievement of quality improvements is our aim as we move towards the AQR's 90% benchmark.

We have developed actions and programmes to address the findings detailed in the 2018 FRC public report. These actions and programmes are as follows:

Improve the group audit team's oversight and challenge of component auditors

We acknowledge the areas for improvement here, and our root cause analysis identified that assumed knowledge was a causal factor, where the audit teams had very deep business understanding of the audited entity and industry knowledge but at times had not included sufficient evidence of that within the audit file. In some cases our root cause analysis also identified a causal factor that audit teams need better guidance on 'what good looks like', in particular in relation to the level of audit evidence required to demonstrate that sufficient group oversight has taken place.

The group audit findings relate primarily to the sufficiency of documentation on the group audit files to fully evidence the group level challenge and oversight of component level areas of judgement.

We have begun to take actions in this area which will flow through the audits under AQR review over time. These include:

- Providing a detailed practice aid in July 2017 on group audits which includes details on how to evidence group oversight and challenge;
- Running a session on group audits within our summer technical audit excellence training in 2017;
- A compulsory global training video in December 2017 as part of our monthly technical update to all of audit, focused on key aspects of a group audit and component considerations including risk assessment, common pitfalls, and, key actions and focus areas for 2017 group audits;
- Providing audit team based learning on group audits, and a "getting it right the first time" practice aid in December 2017; and
- Developed specific inFlight monitoring health check focused on Group audit planning, evaluating & concluding which has been piloted in early 2018.

Improve the extent of challenge of management's forecasts and the testing of the integrity of financial models supporting key valuations and estimates

This area will be a key focus of our summer technical training sessions as part of the preparation for ISA 540 (revised). Our independent root cause analysis identified assumed knowledge as a causal factor in some of these engagements, which had also led to a causal factor 'mind-set' that in certain cases teams had not sufficiently evidenced the professional scepticism they had applied.

We are developing a practice aid for audit teams to provide greater guidance on the extent of audit procedures around management models which will support greater consistency in our approach to such areas.

Whilst we are pleased that the improvements in our approach to the audit of impairment have led to a reduced number of findings, we are not complacent and the audit of impairment is one of our key inFlight review programmes. We will evaluate, through our internal inspections the effectiveness of our policy to require consultation with our impairment centre of excellence to consider whether this will continue to be a mandated process.

We will work with the individual audit teams to ensure the actions identified are implemented. In addition we will seek to drive further adoption of identified best practice data analytics as, together with the practice aid, this is another key route to driving greater consistency in audit quality. We will also continue to encourage our audit teams to consult with specialists in complex areas, which we do via training, coaching and regular communications with the audit practice.

Strengthen the firm's audit of provisions and contingencies

The nature of provisions and contingencies is that the available evidence varies depending on the complexity and materiality of the judgement associated with each. This is a broad area and can result in a range of possible outcomes. Ensuring clarity of challenge and evidence over key assumptions remains important and we will work with the individual teams to ensure the actions agreed have been implemented.

We will include the auditing of provisions and contingencies within our auditing of management estimates practice aid, and our 2018 summer technical audit training will emphasise through the use of cases studies the approaches to auditing and demonstrating professional scepticism in this area.

In addition, we are developing a publication to be shared with audited entities to highlight and provide guidance on the need for sufficiency of supporting documentation which they should gather and assess in forming their own analysis and conclusions ahead of audit challenge of that evidence.

Enhance certain aspects of the firm's independence systems and procedures

The AQR identified two findings in this area:

- 1) *The firm's global non-audit services approval system does not include rules and parameters related to the revised ES or require sufficient information to be provided to identify when services are likely to be prohibited.*
- 2) *The firm has not centrally monitored compliance with audit firm rotation requirements for certain categories of its PIE audits.*

We have found the benchmarking across firms performed by the AQR to be useful and constructive and it allowed us to focus on specific areas where we needed to improve our systems. It also highlighted areas where we had implemented best practice.

We acknowledge the points raised in respect of our non-audit approval system. This is a global system and we have worked to develop changes which will enhance the system to include a question set in each service request and information required from non-audit engagement teams that is tailored to the requirements and prohibitions of the Revised Ethical Standard. We expect these changes to go live during 2018.

However, it is important to highlight that audit partners and teams are required to gather all the required information to properly assess any proposed non-audit services, regardless of the system constraints. The systems developments will therefore improve the quality and detail of the initial submission to the audit engagement partner through this system.

To date our monitoring approach to audit rotation has been through manual assessment with our analysis updated on a regular but periodic basis. We have been working to enable a systems based solution for full tracking of the relevant data on length of tenure and expect to complete this during 2018. Once these system changes are implemented the monitoring will then be embedded within our central system and processes. We have not identified any instances of non-compliance with rotation requirements.

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 the FRC's routine audit inspections. Thematic reviews seek to identify both good practice and areas of common weakness among audit firms.

During the year, the FRC published its reports arising from thematic reviews of materiality and audit firm culture. We find these thematic reviews valuable as the benchmarking style provides insight to audit firms and the general public and it provides a focus on best practice which we use to inform our actions in related areas.

In particular, much of our response to the report on audit firm culture is embedded in the other actions discussed in this report.

The outcomes of the FRC's thematic reviews on auditors' responsibilities relating to other information, transparency reporting and audit quality indicators 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 2016 inspection report was published on 30 October 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 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.

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

0

FY18

1

FY17

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

1

FY18

0

FY17

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

FY18

0

FY17

Deloitte commentary

During the year to 31 May 2018, there were no adverse findings by a tribunal convened by the FRC's Conduct Committee in relation to the firm's audit work.

There are three ongoing matters which have been announced by the FRC relating to the audit work of the firm which are yet to be concluded and are therefore excluded from the FY18 total for cases concluded:

- (i) an investigation in relation to the firm's audit work on **Autonomy Corporation Plc's** 2009-2011 financial reporting which the FRC concluded during the year and served a formal complaint; a tribunal has been appointed which will determine a finding in due course.
- (ii) two ongoing investigations in relation to (a) **Serco Group plc and certain of its subsidiaries** which commenced in June 2016 concerning the firm's audit work on Serco's 2011-2012 financial statements and (b) **Mitie Group plc** which commenced in July 2017 concerning the firm's audit work on Mitie's 2015 and 2016 consolidated financial statements.

Deloitte commentary

During the year to 31 May 2018, the ICAEW concluded there was a prima facie case for a complaint that the firm had issued an unqualified audit report on the financial statements of a company for the period ended 31 October 2010. The firm agreed to a severe reprimand, a fine of £9,750 and costs of £5,017.

Deloitte commentary

No such cases occurred during the year to 31 May 2018.

iii) Metrics on audit quality reviews

Results of the firm's internal audit quality reviews

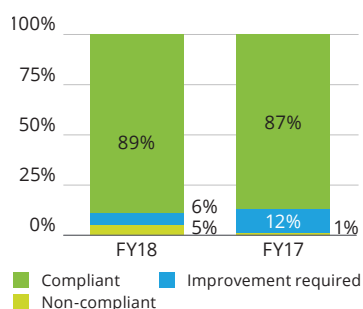
Number of Audit engagements reviewed

101

FY18

132

FY17



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

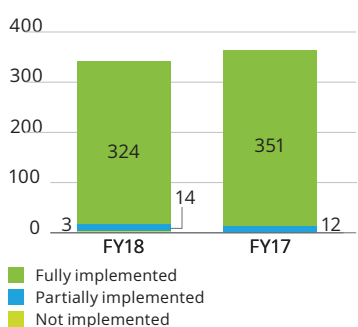
40%

FY18

52%

FY17

System of Quality Control review



Deloitte commentary

Results of firm's internal audit quality reviews

Both the current and comparative data are for the UK alone, excluding the Swiss and Gibraltar audit practices. Any comparison of FY18 and FY17 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 FY18, five engagements were rated as non-compliant. We performed causal factor analysis for all engagements and the significant findings which led to quality failings were retrospectively addressed through remediation.

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

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

System of Quality Control review

The FY18 review shows three areas where policies were not implemented (FY17: 0), one being around documentation of auditor resignation and two relating to retention of engagement documentation. Of the 14 partially implemented policies, five were repeat findings from the prior year and related to areas associated with engagement performance and human resources. Other areas with findings for FY18 were leadership, ethics and reputation and risk. An action plan has been put in place to remediate the deficiencies identified of which the implementation will be tested in the forthcoming review cycle.

iii) Metrics on audit quality reviews

Results of AQR reviews on the firm

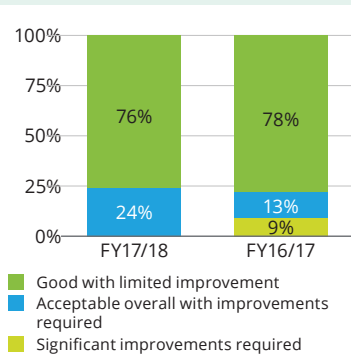
Number of Audit engagements reviewed

25

2017/18

23

2016/17



Results of inspection by the QAD of the ICAEW

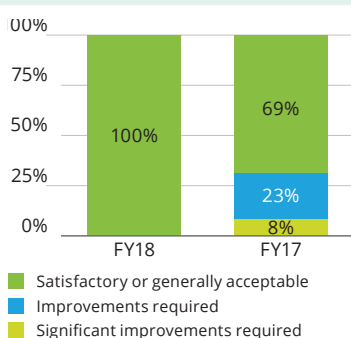
Number of Engagements reviewed

13

FY18

13

FY17



Deloitte commentary

Results of inspection by AQR

The results of our most recent AQR inspection are discussed above and the full 2017/18 report of the AQR on Deloitte can be found at <https://www.frc.org.uk/document-library/audit-quality-review/2018/deloitte-llp-public-report-2017-18>.

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 2018 report, which covered reviews of audit reports signed in 2017, was that *"Overall, the audit work we reviewed was of a good standard. Eleven files were satisfactory and two were generally acceptable. This represents a significantly better profile of results compared to 2016, when improvement was needed on four files, including one file where significant improvement was required."*

There were no key findings from the reviews performed by the QAD. The reviews did identify findings, which were principally documentation matters, relating primarily to improvements in documentation of core audit work in certain areas, and areas where documentation of planning and completion procedures could be improved.

We have already taken action to respond to the findings of the QAD report including sharing the common areas where documentation can be improved and developing practice aids to share insights into key areas of related parties and management estimates. 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

1

Latest AQI⁶

Deloitte commentary

The most recent inspection report on Deloitte was published by the PCAOB on 30 October 2017. The full report can be found at:

<https://pcaobus.org/Inspections/Reports/Documents/104-2018-004-Deloitte.pdf>

(The previous report was issued on 10 November 2014 and contained five Part I references.)

We have evaluated the PCAOB's comments on the one issuer audit identified in Part I of the report and taken actions as appropriate across our portfolio. The actions we have taken are subject to review by the PCAOB. We are committed to using the PCAOB's observations, in conjunction with findings arising from our own quality review procedures and those from our UK regulators, to achieve improvements in audit quality.

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

iv) Metrics on partner and staff tenure

Average tenure in years of audit partners

19.2

FY18

18.9

FY17

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 their long-term commitment to the profession. Our model is designed to encourage the partners with the most experience to mentor the next generation of partners.

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

Average partner and staff turnover

16.0%

FY18

15.8%

FY17

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 2017.

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.

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

v) Metrics on investment

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

82.7

FY18

81.6

FY17

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 residential technical training, mandatory for all audit professionals.
- Mandatory training for personnel accredited to work on SEC audit engagements.
- Mandatory firmwide 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 approximately one hour long sessions provide updates on corporate and financial reporting, auditing and regulatory information to audit partners and staff in the UK. Nine webinars (FY17: 8) were made available for professionals during the year.

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

Notes:

- This metric does not include any of the exam training provided to non-qualified staff under training contracts, nor does it include the hours of personal learning undertaken to fulfil Continuing Professional Development requirements.
- The increase from FY17 to FY18 is due to an increase of over 20% in core curriculum hours at the qualified assistant manager grade.

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 audit 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.

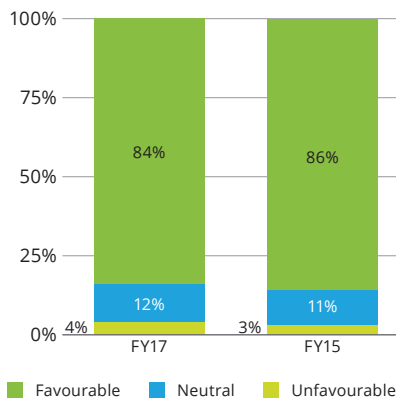
In addition to these specific initiatives within Deloitte, a number of our professionals contribute externally to various committees and working groups and actively participate in initiatives co-ordinated by professional bodies to develop thought leadership and audit insights.

vii) Metrics gathered by staff survey

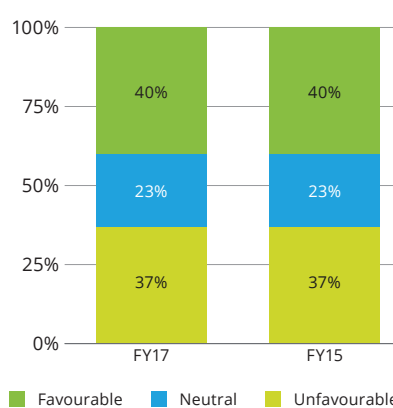
Staff surveys are conducted across our business every 18 months to two years. These results are from the survey, conducted in autumn 2016. Our next survey will be conducted in the autumn of 2018 and the results will be published in next year's Transparency Report.

Staff survey question

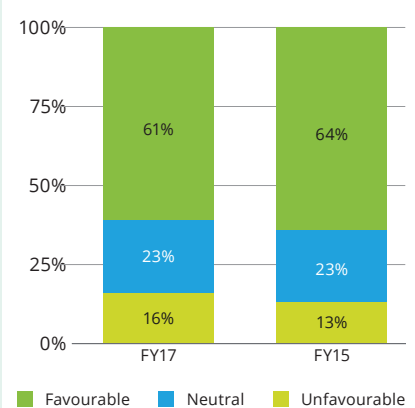
"I am encouraged to perform a high quality audit"



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



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



Deloitte commentary

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

In the most recent 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. We have also recruited specifically to support the new large audit engagement wins. During the coming year, we will be introducing standardised workflows to assist consistency across engagements.

In response to our people's concerns regarding the **training and development** they receive, over the last two years we have 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. We have expanded our coaching programme to bring even more emphasis onto learning practically while working on engagements.

viii) Metrics on investor liaison

Deloitte commentary

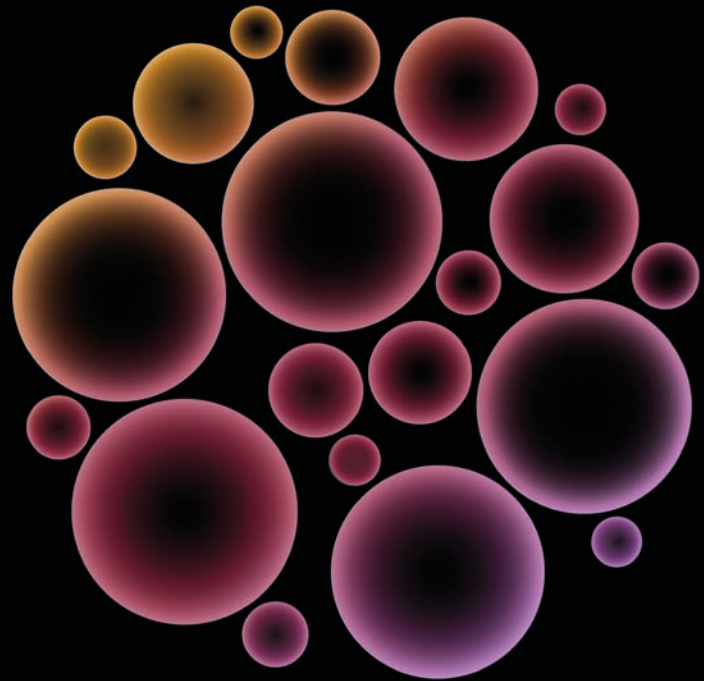
In October 2017 we held our sixth annual Deloitte Stakeholder Forum, bringing together Deloitte partners and INEs with investors, regulators and other external stakeholders. This annual event is an important facet of our external engagement, enabling important discussion and debate with and between our stakeholders. Topics discussed included the attractiveness of the profession and the expectations of audit.

In May 2018 we hosted a roundtable event for investors and Deloitte partners and INEs to discuss the future of audit, including audit quality, expectations around assurance over the front half of annual reports, competition in the audit market and the multi-disciplinary model.

Members of our leadership team, 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 is discussed in the report from the INEs.

Governance, legal structure and Deloitte Network

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



UK governance and legal structure

Deloitte UK: legal structure and ownership

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

With effect from 1 June 2017, Deloitte LLP became the UK affiliate of Deloitte NWE LLP, a member firm of the Deloitte Global network, and the governance arrangements are set out below.

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 holding⁷. As at 31 May 2018 Deloitte LLP employed 15,900 staff (FTE) and had 988 partners⁸.

Deloitte LLP operates an integrated business model: each of our 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, this report contains information about Deloitte UK which is relevant to all of the service lines, as well as specific matters relevant to the audit business.

Deloitte UK: governance

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

	Role and responsibilities	Membership
UK Oversight Board	<p>Oversees the management of risk and compliance with legal and regulatory requirements and best practice applicable to the firm.</p> <p>Reflects the objectives of the Audit Firm Governance Code and allow the INEs to discharge their responsibilities in relation to the oversight of public interest matters as they affect the firm.</p> <p>Otherwise operates in accordance with written terms of reference and meets at least quarterly.</p>	<p>Three elected UK partners who are NWE Board members (including the UKOB Chair).</p> <p>UK Senior Partner and Chief Executive.</p> <p>UK Managing Partner Audit & Risk Advisory.</p> <p>The three INEs.</p>
Executive Group	<p>Assists the Senior Partner and Chief Executive in managing the UK firm.</p> <p>Has responsibility for the firm's operating functions and for planning of the firm's future development.</p> <p>Has authority to manage the day-to-day operations of the firm.</p>	<p>Partners appointed by the Senior Partner and Chief Executive.</p> <p>Each partner on the Executive has specific responsibilities with an emphasis on the group working as a team to lead the firm.</p> <p>Every member of the Executive is also actively engaged with clients.</p>
Audit Executive	<p>Delivery of Deloitte's business objectives within the UK audit service line.</p>	<p>Appointed by the Managing Partner Audit & Risk Advisory with oversight from the Executive.</p>

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

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

The role of the Senior Partner and Chief Executive

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

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.

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. His appointment pre-dated the formation of Deloitte NWE and, as such, he was nominated by the previous UK Board of Partners and elected by the UK partners. He is also 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 compliance with all regulations;
- the development of policies and strategic direction;
- financial performance;
- partners, including the development and management of our talent goals; and
- international, representing Deloitte UK within 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.

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

Independent Non-Executives

INEs' Duties

The INEs serve on the UKOB and meet as a separate group to discuss matters relating to their remit. Sir Gerry Grimstone is also an INE on the NWE Board.

They participate in the UKOB's activities in relation to promoting the success of the firm by directing and supervising its affairs.

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);
- secretarial support;
- access to independent professional advice at the firm's expense where judged necessary to discharge their duties (having first discussed such request with the 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 of the UKOB and obtain his 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; and
- considered the independence requirements of the UK and US regulators, as well as those of the International Federation of Accountants.

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.

Sir Gerry Grimstone and Sir Michael Peat were appointed in 2011, and Ruth Markland was appointed in 2015.

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.

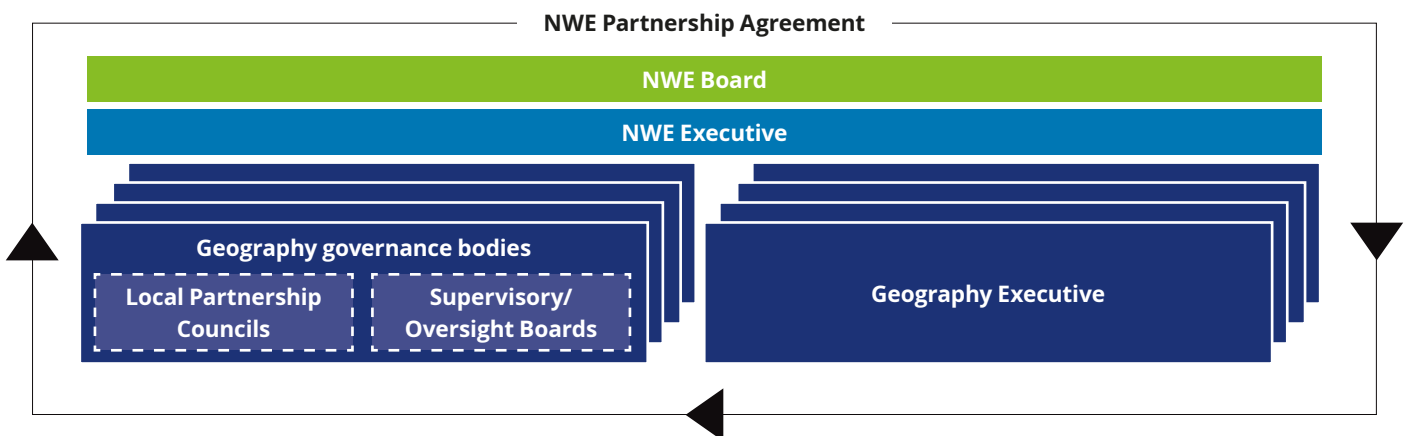
Other matters

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.

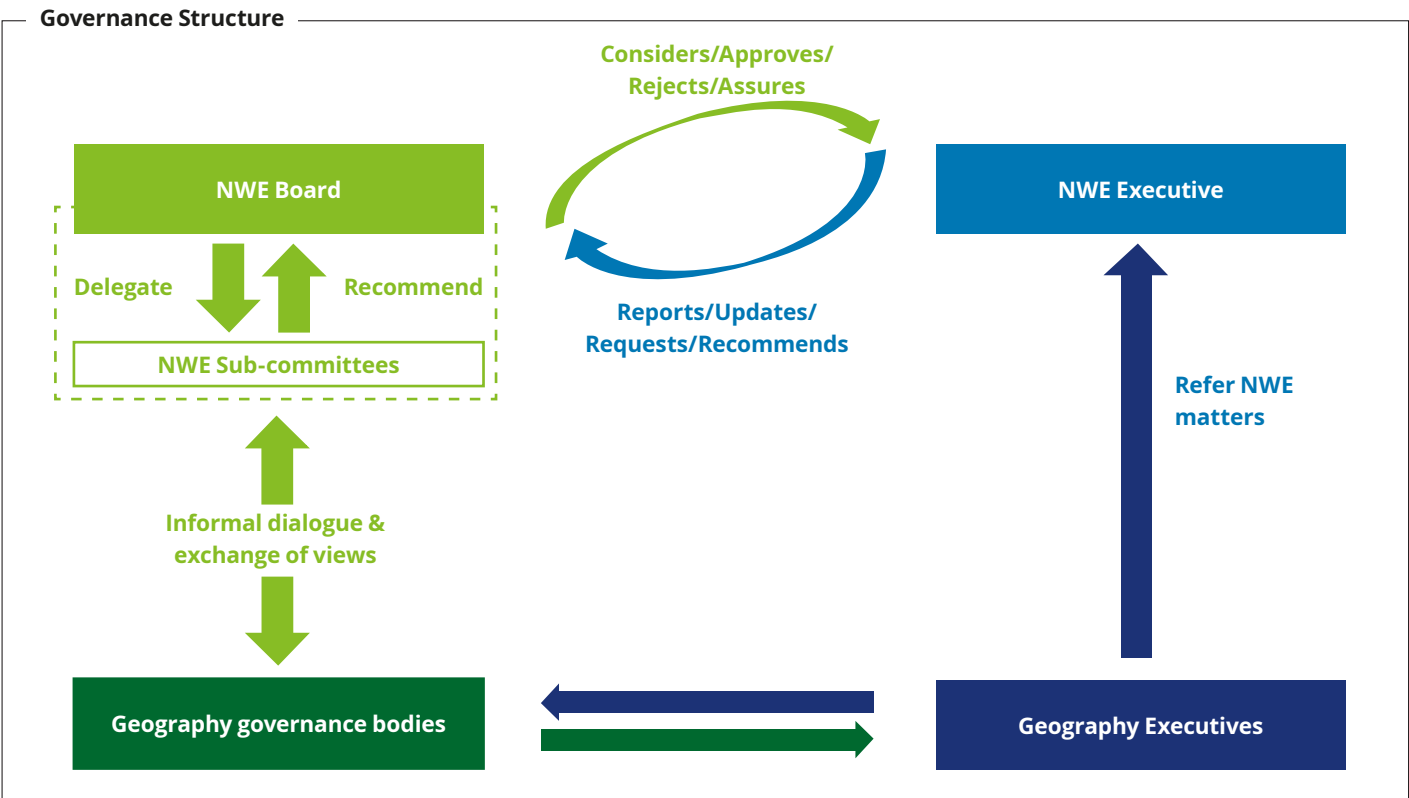
NWE Governance

Deloitte NWE's governance structure 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 operating model (balancing local and central requirements), 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.



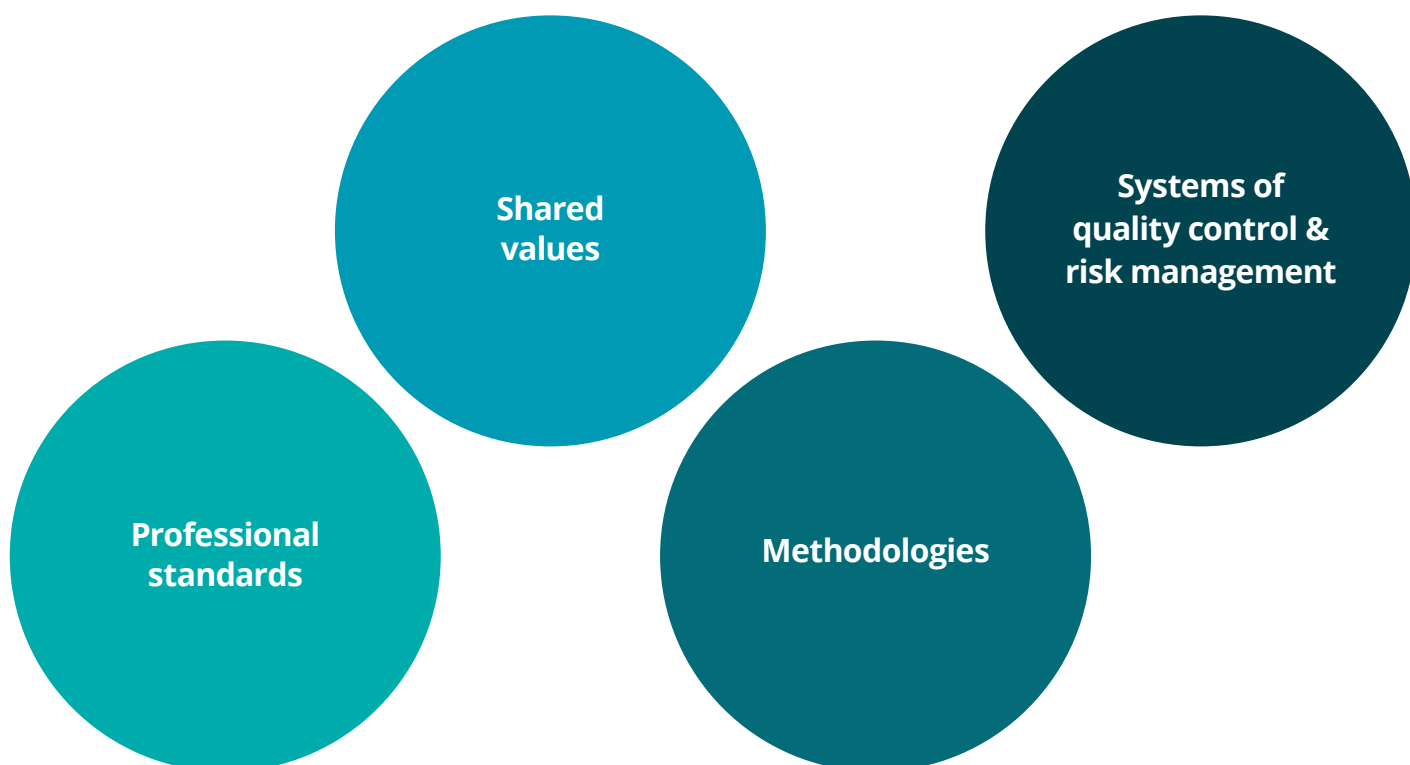
Deloitte NWE Board sub-committees

NWE Board	Compensation & Partner Unit	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 style="list-style-type: none"> 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 of such other senior management positions as the NWE Board may determine.
	Partner Matters & Fairness	<ul style="list-style-type: none"> To make recommendations to the NWE Board regarding the admission, suspension, retirement of NWE Equity Partners, and make determinations in relation to any NWE Equity Partner's long term ill health. To ensure fairness between NWE Equity Partners across all Geographies.
	Governance & Composition	<ul style="list-style-type: none"> 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.
	Elected Leader	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 style="list-style-type: none"> 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. 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.

Deloitte network

Network description

The Deloitte network is a globally connected network of member firms and their affiliates operating in more than 150 countries and territories across the world. These separate and independent member firms operate under a common brand.



Deloitte Touche Tohmatsu Limited (DTTL or Deloitte Global)

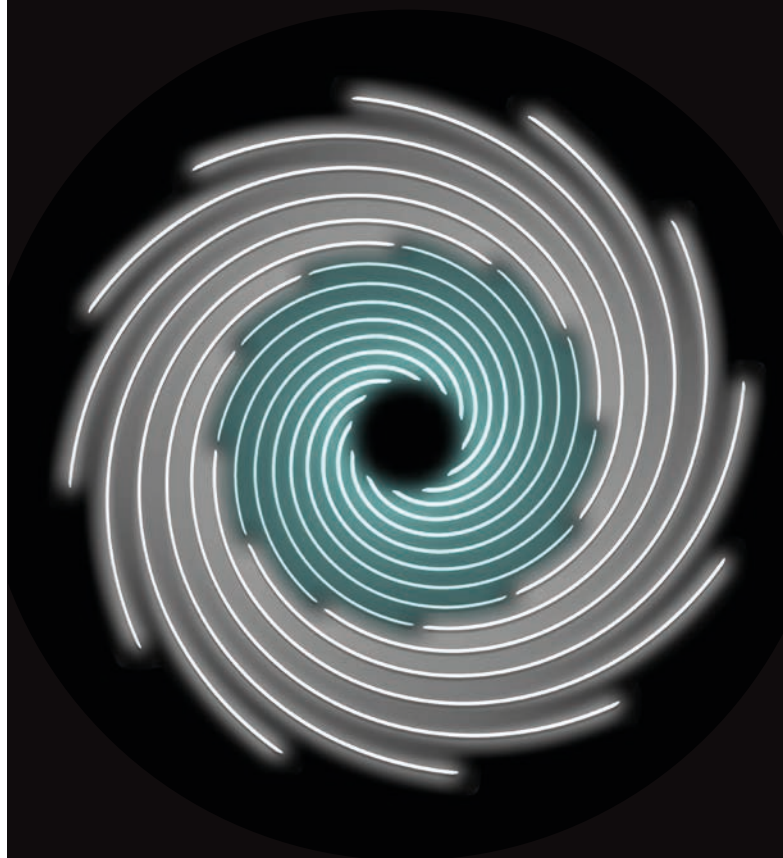
Deloitte Touche Tohmatsu Limited is a UK private company limited by guarantee. DTTL serves a coordinating role for its member firms and their affiliates by requiring adherence to policies and protocols with the objective of promoting a consistently high level of quality, professional conduct and service across the Deloitte network. DTTL does not provide professional services to clients, or direct, manage, control or own any interest in any member firm or any member firm's affiliated entities.

For more information about the Deloitte network, please see: [About Deloitte](#).

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

Our Code of Conduct outlines our shared values and ethical principles. It provides a foundation for behaviour and encourages us to consult to make the right choices.

Fundamentally, the firm's reputation and continued success rests on the personal ethics of all our people.



Independence, ethics and risk management

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

Raising awareness

In addition to our systems and processes of internal control, we continue to raise awareness and improve education of independence requirements. Our 2017/18 awareness program included such items as:

- Design and roll-out of educational videos focusing on complex areas and adherence to independence policies.
- Focus groups to raise awareness around common themes identified through our monitoring as well as receive feedback on new initiatives.
- Increased support to our Partner population on maintaining compliance with Personal Independence requirements.
- Implementation of new initiatives to support our professionals to manage their Personal Independence.
- Targeted communications to Personal Connections users to ensure their records are accurate and complete.
- Further communication, presentations and webinars to professional staff on independence requirements and the impact on individuals and client relationships, through close collaboration with all Service Line Quality and Risk teams.
- Input into Deloitte initiatives to raise awareness across the Deloitte Network.

- Enhanced one to one consultations with all new partners joining the firm or being promoted internally to advise them of their independence obligations and responsibilities and outline the support available.

Various specialists such as service line risk teams and the central independence teams have been supporting the practice in the adoption of the FRC Ethical Standard. We have also delivered guidance, training and updated policies to reflect the application and implementation of the Ethical Standard. As noted in our 2018 Audit Quality Inspection Report (see above – ‘External and internal audit quality monitoring’) we have found the benchmarking across firms performed by the AQR to be useful and constructive and it allowed us to focus on specific areas where we needed to improve our systems. It also highlighted areas where we had implemented best practice. We continue to work with the FRC and the ICAEW, to enhance the implementation of the Ethical Standard.

The firm has also implemented new Independence Breach Policies for all partners and staff which outline the enhanced consequences of non-compliance with our Independence policies and processes. These policies act not only as a deterrent against non-compliance but also assist in raising awareness. We have systems and controls in place to identify and report breaches, whilst also enabling us to identify any themes and respond accordingly through our education and awareness campaigns.

Deloitte Global Independence

Deloitte Global Independence



Sets **independence policies and procedures** based upon the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants and the independence standards of the US Securities and Exchange Commission and the Public Company Accounting Oversight Board. Performs full reviews of independence quality controls on a three-year cycle; annual focused reviews for the off-cycle years; and in-depth follow-up reviews as needed.



Performs **ongoing monitoring** activities of firms—enabling continuous enhancements to global policies, quality controls, tools, and practice support activities.



Delivers **global systems** to provide professionals with entity information to support compliance with personal and professional independence requirements, including financial interests and scope of service approvals.



Supports **independence awareness** across the Deloitte network through active engagement with independence and business leadership groups, periodic communications and alerts, and development of guidance, learning and instructions.

Dealing with potential conflicts of interest

All proposed new engagements are subject to a confidential conflict check using the firm's bespoke conflict checking system prior to acceptance. This check references the firm's databases of existing and past engagements as well as other relationships and connections the firm may have with all of the entities involved to identify potential conflicts. Following the completion of the conflict check, the proposed engagement will either be cleared to proceed from a conflicts perspective or declined. Where the engagement is cleared to proceed this may be conditional on specified safeguards and measures being implemented, designed to address any threats prior to, during and following the completion of the engagement. Such safeguards will vary depending on the specific facts and circumstances, but may include:

- notifying the affected parties of the circumstances giving rise to the potential conflict of interests and obtaining their informed consent to act in the circumstances;
- the use of separate engagement teams to serve the affected parties;
- the physical separation of teams serving the affected parties;
- procedures to prevent unauthorised access to confidential information (for example through confidential and secure data filing);
- the use of confidentiality agreements signed by employees and partners of the firm; and/or
- regular review of the application of safeguards by a senior individual not involved with relevant client engagements.

The above safeguards are subject to monitoring and review by the conflicts team or other Quality & Risk Management teams.

Where a potential conflict of interest is identified and the threat posed cannot be eliminated or reduced to an acceptable level through the implementation of sufficient safeguards, the proposed engagement would not be accepted.

In addition to the above procedures, before commencing work on an engagement, each prospective engagement team member considers whether they have any personal relationships with, or interests in, any of the entities involved in the engagement that could give rise to potential conflicts of interest. Any potential issues are discussed with the engagement partner or the conflicts team, as appropriate, to determine whether the individual should participate in the engagement.

The above procedures must be revisited by the engagement team in the event of a significant change in the facts and circumstances of an ongoing engagement, such as a significant change in the scope of our work or the parties involved.

Where there is any doubt as to whether a potential engagement should be pursued on public interest grounds, the situation is explored by the Public Interest Review Group which comprises senior partners from across the firm, including the firm's Ethics Partner and Managing Partner Quality & Risk. Similarly, within the Tax service line there is a Tax Review Panel to discuss any potentially contentious tax engagements. Based on the circumstances surrounding the proposed engagement and on their knowledge and expertise, the conflicts team will assess whether escalation to the relevant business area's Quality & Risk Management team and/or the relevant business area's Head of Quality & Risk Management is necessary.

Where potentially significant conflicts of interest arise, the firm has various mechanisms for escalation, depending on the circumstances, to determine whether the threat can be eliminated or reduced to an acceptable level, or whether the engagement should not be accepted:

- the firm's Ethics Partner, the Public Interest Review Group and the Tax Review Panel.
- the firm's regulators, in exceptional circumstances where their guidance is needed.

In circumstances where potential conflicts involve entities audited by the firm and have the potential to impact audit independence, the firm's engagement acceptance and continuance procedures include appropriate involvement of the audit partner. Such involvement would be initiated by the central conflicts team. If the audit partner concludes that the potential conflict would not affect audit independence, the engagement may be accepted subject to the implementation of appropriate safeguards. The audit partner would determine the nature and timing of any communication with the company, including the audit committee.

Confirmation of review of independence practices and monitoring

In accordance with Article 13.2 (g) of the EU Audit Regulation, we confirm that an internal review of our independence practices has been properly conducted in the year as part of the 2017 practice review. Our internal and global practice reviews and other monitoring processes provide us with assurance that these policies are, in general, appropriately observed and, where exceptions are noted, identify where further action is required. In addition, the practice review includes an assessment of compliance with Deloitte Global and UK independence policies. The results of these internal reviews are reported to the Executive and UKOB and to Deloitte Global's Chief Executive Officer and Board.

Deloitte UK Ethics

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

The Integrity Imperative

The past year has seen the launch and implementation of the Integrity Imperative across all Deloitte member firms. This is an extensive and ambitious programme designed to ensure that the firm remains focused on the importance of ethical behaviour. Specific aspects of the Integrity Imperative include:

- The Board's role in Ethics.
- Ethics education – new hire on-boarding, firmwide e-learning, ethical leadership training for partners and managers.
- Communications – messaging in leadership communications, launch of "Have you heard?" video campaign.
- A re-focus on non-retaliation.
- Ethics Survey launched to all employees across NWE in June 2018.
- Roll out of the NAVEX Speak Up system across NWE.

In addition the Ethics Partner and the Ethics team attend partner and leadership meetings across the firm to discuss specific messaging and to reinforce the expectations around role model behaviour at all levels of leadership.

A consultative culture

We encourage our partners and staff to speak to their colleagues in order to work through ethical concerns or questions, and firm-wide communications emphasise our commitment to promoting this consultative culture.

The Ethics Office is available for consultation where conversations take place on a strictly confidential basis. An externally-administered 'Speak-Up' portal allows ethical concerns to be reported anonymously, including from correspondents outside the firm. The past year has seen a significant increase in numbers and this is attributed to raised awareness of the need to report such issues following on from the e-learning, in addition to the changed climate in the wake of #metoo.

All matters raised in good faith are investigated seriously and independently. We do not tolerate retaliation at any level.

Managing risk

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 FY18 planning process, the Executive undertook a refresh of the ERF to: identify any new principal 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.

In FY18 the firm introduced a revised process for updating and reporting the ERF to make this more timely, more responsive to changes in the internal and external environment, and therefore better able to support decision making by risk owners and the Executive. The principal feature of the revised process is an ongoing and frequent dialogue between the CMG, which facilitates the operation of the ERF, and risk owner teams to ensure early identification and escalation of any matters requiring consideration by the risk owner or the Managing Partner for Quality & Risk who acts as the firm's Chief Risk Officer.

This is complemented by a more regular cadence of meetings, particularly for the firm's most significant risks, between the Managing Partner for Quality & Risk and each risk owner, at which the vulnerability to each risk is assessed, emerging issues are discussed and additional mitigating actions, if required, are agreed. This revised process ensures that the firm maintains a more up-to-date view of the status of its principal risks and is better able to respond to emerging risks. The Managing Partner for Quality & Risk continues to formally report the ERF to the Executive. Through detailed discussion of the assessment of the firm's principal 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 the ERF updates are discussed with the UKOB, which provides a further challenge to the Executive's assessments.

The UKOB discussed in detail and challenged the Executive's assessment of the firm's principal 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 risks related to the integration of the NWE firm, audit quality and Audit Transformation; as well as the mitigating controls in place against these 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 continues to be given to the impact of the UK's withdrawal from the EU.

Details of the principal risks and the principal mitigations to manage these are set out below.

Principal risks and mitigations

At 31 May 2018 the principal risks which the Executive and the UKOB considered to have the most potential significant impact on Deloitte's ability to realise its strategy, if they materialised, and related key mitigations were:

Principal risks	Mitigations
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.	<ul style="list-style-type: none"> • System of Quality Control assessment of processes and controls to drive audit quality. • Individual engagement review to assess compliance with the audit approach manual. • Response to audit quality observations raised by the FRC's AQR, the ICAEW's QAD team or the PCAOB, including root cause investigation of each finding, along with improvements to internal quality review procedures. • Audit Professional Standards Review (PSR). • Processes to capture significant economic and industry risks which have an impact on audit quality. • Audit Centres of Excellence. • Firm and personal independence systems and monitoring. • Annual certification of compliance with independence policies and procedures. • Mitigations below (as applied to evolving services and delivery models) apply equally to audit quality. • Continuing professional development based around targeted learning programmes, including regular audit, accounting and industry-specific training. All qualified audit staff attend annual technical updates.
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.	<ul style="list-style-type: none"> • Firmwide Quality & Risk community led and staffed by dedicated experts. • Established quality policies, processes and procedures on specific regulatory, legal, ethical and professional requirements. • Innovation Investment Board with senior Quality & Risk members. • Updated Quality & Risk processes, systems and training in response to changing nature of services delivered. • Delivery Model programme. • Monitoring of delivery centre risk registers and mitigating actions. • Practice and portfolio reviews of engagements and clients.
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.	<ul style="list-style-type: none"> • Client portfolio strategy including industries and audit/advisory, supported by industry and account plans. • The Audit Capture programme to ensure that partners and teams bidding for FTSE100 audits have the time, incentives, support, best practice guidance, training and challenge to win in the market. • Critically assess the quality of the companies that the firm works with to ensure the firm is working with companies who value the high quality audit services that the firm delivers, and an active programme of exits on companies where this is not possible. • The Lead Client Service Partner (LCSP) programme focused on key activities needed to deliver change and support to the LCSP role over the short, medium and longer term, with an overall objective of strengthening client relationships and thereby driving incremental growth in our priority accounts. • Governance structure to ensure the firm develops a strong, coordinated and consistent voice in the market, including on the impacts of Brexit. • LCSP programme to prioritise client relationships. • KPIs that are aligned to the strategy and monitored.

Principal risks	Mitigations
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.	<ul style="list-style-type: none"> Stakeholder Engagement Programme to listen to and understand concerns and to deliver the public policy priorities. Process to identify and respond to public policy and regulatory consultations. Channels for identifying regulatory change. The UK Oversight Board's role specifically includes overseeing regulatory and public interest matters. Three Independent Non-Executives (INEs) on the UK Oversight Board and Public Interest Oversight Committee. A Public Interest Review Group to assess the public interest risks of potential engagements. A Tax Review Panel to consider the reputational issues associated with complex tax engagements.
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.	<ul style="list-style-type: none"> Responsibility for setting and embedding the firm's culture and ethical standards sits with the firm's Executive; the Managing Partner Audit & Risk Advisory is a member of the Executive. The UK Oversight Board specifically oversees public interest, ethics and culture. The Ethics Partner is a senior partner from the audit practice. Robust HR policies including Equal Opportunities, Respect, Inclusion & Diversity and Agile working. Ethics Code sets the firm's values and ethical principles. Ethics programme provides our people with guidance and support, complemented by an enhanced ethics programme including whistle-blowing and speak up line processes and reporting channels. Audit talent model transformation programme. New HR operating model. Embedding 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.	<ul style="list-style-type: none"> A centralised security function in the form of the Deloitte Business Security group with defined data security and privacy responsibilities. Defined security strategy including privacy, information security policies and processes. 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. Framework for risk assessing third parties to ensure the firm meets regulatory and client requirements. Physical security controls covering premises access and working areas. Personnel security and vetting controls. Security training and awareness programme. ISO 27001/Cyber Essentials Plus certification and audits. Appointment of a Data Privacy Officer, mandatory training to all partners and staff and processes to enable GDPR compliance.
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 and effectively and securely deliver services under current and future business models.	<ul style="list-style-type: none"> IT strategy objectives and assessment of future technology requirements. IT framework in line with the IT Service Management Infrastructure Library (ITIL) and Control Objectives for Information and Related Technology (COBIT) standards. An IT Risk Committee comprising key stakeholders from IT, Quality & Risk and Deloitte Business Security which considers IT infrastructure matters. New Service Management team and processes. Business Resilience and IT Disaster Recovery processes. Monthly monitoring of ITS risk register that identifies operational and vulnerability risk. Monitoring of SLAs for third party IT providers.

Principal risks	Mitigations
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.	<ul style="list-style-type: none"> • An innovation strategy focussed on creative pervasive culture of change. • An embedded innovation strategy focused on refreshing Deloitte's core products and services as well as developing new business offerings. • Creation of global Audit & Assurance platforms to deliver innovation. • An incubation programme to accelerate sustainable businesses that harness disruptive trends and technologies. • Programme of delivering internal and client deployments focused on disruption and development of business models. • Focused leadership from a dedicated member of the firm's Executive driving aligned approach to innovation.
Failure to execute the Audit Transformation strategy to deliver the defined outcomes: the risk that Audit Transformation is poorly executed and/or does not achieve its defined objectives.	<ul style="list-style-type: none"> • The Target Operating Model and Vision have been developed to deliver the Audit and Assurance strategy. • The Audit Transformation Programme has a governance structure for the management and escalation of risks through to the Transformation Programme Board. • The roles and responsibilities for the programme team are defined and well understood, in addition to the overall programme objectives which have been well communicated. • The Programme Director and Programme Manager have organisational change experience, supplemented with skills from our Consulting practice.
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.	<ul style="list-style-type: none"> • The firm's Chief Operating Officer has overall responsibility for the operating model, reporting directly to the CEO. • Strategic and operational targets embedded within the business. • Alignment of Audit operating model to client value. • Alignment of partner objectives to support strategic and operational goals. • Strong UK representation and participation in Deloitte Global leadership and governance bodies including Audit.

Our approach to security, privacy and confidentiality

Protection of our clients' data and our ability to serve our clients remains of paramount importance, and Deloitte invests heavily in security, privacy and confidentiality defences. However, the rate, sophistication and impact of incidents, in particular cyber-related incidents, in the wider market continues to grow. To cater for this growing threat, Deloitte operates multiple levels of cyber defence with a permanent security team covering IT, information, contractual, physical and personnel security, data privacy and business resilience, all of which form part of the management of security, confidentiality and privacy cyber risk.

The risk of a 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 continued importance. Security breaches could impact our relationships with stakeholders – clients, regulators, our staff, the general public – and lead to fines or contractual penalties, immediate financial losses from fraud or theft or inability to complete work for our clients. Such a breach could occur through technical or human failure, 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 security, confidentiality and privacy contractual clauses, requirements for suppliers to complete due diligence questionnaires, and vendor assurance.

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 continues to operate a programme of ongoing security assurance testing, including penetration testing and vulnerability scanning, and annual cyber crisis management exercises to ensure readiness for a cyber-attack or other breach of data security. We protect client confidentiality through a number of mechanisms and processes, including Data Loss Protection, ISO27001 control effectiveness monitoring and a Privileged Access Management system to reduce the risk of highly privileged accounts being accessed inappropriately or abused. We also have a dedicated insider threat and investigations function which has implemented an end-to-end leaver monitoring process. All partners and staff continue to receive annual security awareness training, supported by annual confirmations of compliance and ongoing communications from central and business unit functions. The firm continues to maintain certification to ISO 27001 and Cyber Essentials Plus, demonstrating our ongoing commitment to embedding effective security in how we do business.

Business continuity

The firm has in place plans, processes and systems that, when taken together, form the firm's Business Continuity and Resilience programme. The firm has a policy for testing and exercising its business continuity and resilience arrangements, which are regularly reviewed and tested or exercised at appropriate levels and frequencies. An IT disaster recovery plan is documented to detail all the firm's business and IT critical services/systems and their priority for recovery. Each critical service also has an individual recovery capability plan which documents how they bring the service back online in the event of an incident and these will be aligned to business requirements. Results from these tests or exercises are reported to the Managing Partner, Quality & Risk. The firm has a robust crisis management plan which provides a common framework for the escalation of incidents impacting business and/or IT operations. More specifically, it defines the various team roles, how they should be invoked and how they will assist with effective co-ordination and communication, internally and externally, to support the firm and its clients. This is invoked in response to an event which is beyond the scope of normal business operations and which poses a significant threat to the firm, its people, property, clients, operations and/or reputation.

Cyber Security Incident 2017

The cyber-attack targeted a US firm email platform not used by the UK firm. An attacker compromised account credentials and ultimately gained access to a single Deloitte cloud-based email platform. On discovering unauthorised access to the email platform, we initiated our standard and comprehensive incident response process, which included mobilising a team of cyber-security and confidentiality experts inside and outside of Deloitte. We engaged outside specialists to assure ourselves, clients, and other stakeholders that the review was thorough and objective. The review concluded that the attacker was no longer in Deloitte's system and that no disruption occurred to client businesses, to Deloitte's ability to serve clients, or to consumers.

Our intensive and thorough review, which is complete, and our continued and significant investments in our cyber-security capabilities, reflect our commitment to protecting the information of Deloitte clients and stakeholders.

Data Privacy

An extensive GDPR readiness programme has been undertaken by the firm. This programme was risk based and was designed to ensure that appropriate controls were in place across the firm by 25 May 2018, in order to comply with the new legislation; building on the existing data privacy control environment that the firm already had in place. In particular, an extensive data inventory process was undertaken to identify personal data stored across the firm, in order to identify areas where the firm undertook high risk personal data processing, in order to create Data Privacy Impact Assessments (DPIAs) for this processing. Policy updates have also been made for all data control related areas, and mandatory training has been provided electronically to all staff and partners on GDPR and Data Privacy matters. The firm has also appointed a Data Privacy Officer. Finally, a programme of contract reviews of the firm's existing contracts is ongoing to ensure that appropriate processing requirements are understood and agreed across the firm with our clients and third parties.

Security Risk Management

Data Security and Privacy matters are reported as one of the firm's Enterprise Risks. The 'failure to manage data security and privacy' risk assesses the risk of a substantial loss, unauthorised access to, or inappropriate use of client or firm data and the increased risk of supporting the evolving business models that threaten the firm's compliance with contractual, legal and regulatory requirements. The risk is reported to the UKOB per the process noted in the Principal risks and uncertainties section above. Ownership of this risk sits with the Managing Partner for Quality & Risk, who is a member of the firm's Executive.

Appendices

Appendix 1 – Executive Group and UK Oversight Board members*, including biography and meeting attendance details

1. Current Deloitte UK Executive



David Sproul, Senior Partner and Chief Executive*

David has been UK Senior Partner and Chief Executive since 2011 and, since 2017, is now also Senior Partner and Chief Executive for Deloitte NWE. He was previously Managing Director for Tax in the UK and in EMEA and has held various other roles in his 16 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.

- Exec meetings: attended 7/7 during FY18



Richard Bell, Managing Partner Financial Advisory

Richard was appointed Managing Partner Financial Advisory in March 2018. Prior to his appointment, Richard was Managing Partner for Regions since March 2015. Richard is also the Practice Senior Partner for the North West. Richard has 17 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 31 years, for 17 of which he has been a partner.

- Exec meetings: attended 5/5 during FY18 (those to which he was invited, having joined the Executive in October 2017)



Pauline Biddle, Managing Partner Regional Markets*

Pauline is a Transaction Services Financial Advisory Partner based in the 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 26 years.

- Exec meetings: attended 1/2 during FY18 (those to which she was invited, having joined the Executive in April 2018)



Vanessa Borchers, Managing Partner Clients and Markets*

Vanessa has been with Deloitte for over 26 years, serving large multinationals in a variety of industries and geographies including the UK, US, Netherlands and South Africa. Vanessa's previous roles include Managing Partner, Global Clients & Industries, member of the Deloitte Global Executive and Deloitte Global Diversity and Inclusion Leader.

- Exec meetings: attended 4/6 during FY18 (those to which she was invited, having joined the Executive in September 2017)



Emma Codd, Managing Partner Talent*

Emma is the Managing Partner for Talent. She also leads a client-facing team of over 50 people within the firm's Financial Advisory practice and has been with Deloitte for 21 years. Emma also sits on the Business in the Community gender leadership group and is a Trustee and member of the Patron Group of Access Accountancy.

- Exec meetings: attended 7/7 during FY18

* denotes the individual also holds an NWE leadership role.



Matt Ellis, Managing Partner Tax*

Matt is the Managing Partner of Deloitte's UK Tax & Legal Practice and is responsible for the strategic direction and performance of the business. Since 1 June 2018 Matt also leads the EMEA Tax & Legal practice. Matt's career in Tax spans over 31 years – 19 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.

- Exec meetings: attended 7/7 during FY18



Stephen Griggs, Managing Partner Audit & Risk Advisory*

Stephen is a senior Audit partner with over 30 years' experience including 20 years as a partner. He specialises 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 for the UK firm, member of the UK Board and Talent Partner for the Audit practice. Stephen joined Deloitte 16 years ago.

- Exec meetings: attended 6/7 during FY18



Andy Gwyther, Managing Partner Innovation

Andy is a member of the UK Tax Executive where he leads on Innovation & Technology. He is also a member of the Global Tax Digital Executive, responsible for Global Business Tax digital strategy. Andy has 23 years of Tax Management Consulting experience working with major UK and US multinational companies across a range of industry sectors. This market-leading team comprises over 1,000 professionals in global tax compliance outsourcing, tax strategy and operations, tax risk management, process improvement and technology integration.

- Exec meetings: attended 5/5 during FY18 (those to which he was invited, having joined the Executive in October 2017)



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 firm wide proposition. Richard joined Deloitte 16 years ago and has been a Financial Services Partner since 1998 after spending eight years in industry. He specialises in the design and delivery of complex, multi-year, major change programmes supported by sophisticated commercial arrangements.

- Exec meetings: attended 6/7 during FY18



Kirsty Newman, Managing Partner Private

Kirsty is a tax partner with a focus on advising private businesses and their owners. She was appointed Managing Partner Private in January 2017. She is also the Global Private Tax Leader and a member of the Global Deloitte Private Leadership Council, established to drive collaboration across all regions in this key market. Kirsty joined Deloitte in 1993 and has been a tax partner for 18 years.

- Exec meetings: attended 4/4 during FY18 (those to which she was invited, having joined the Executive in January 2018)



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. 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 26 years within the Consulting industry, 20 of which with Deloitte in the UK, he has significant experience in providing advisory and strategic services to clients across diverse business sectors.

- Exec meetings: attended 7/7 during FY18



Steve Ward, Managing Partner Quality and Risk

Steve is Managing Partner Quality and Risk and the firm's Risk & Reputation Leader. He has been a partner in the firm for 27 years and in this time has been a Board member, Head of Tax for the Regions and Head of London Tax. Steve has 33 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.

- Exec meetings: attended 7/7 during FY18

2. Former UK Executive members

The following were members of the Executive for some of FY18. Their meeting attendance for FY18 is shown below:



Neville Kahn

- Exec meetings: attended 5/6 during FY18 (those to which he was invited, before he left the Executive in April 2018)



Vimi Grewal-Carr

- Exec meetings: attended 2/2 during FY18 (those to which she was invited, before she left the Executive in September 2017)
-

3. Current Deloitte UK Oversight Board



Nick Owen, Chairman*

Before taking on his UK and NWE Chairman roles, Nick led Deloitte's Private Sector Consulting Industry Team. He joined Deloitte in 2002 and has 30 years' experience predominantly in the private sector working with oil & gas, media, telecommunications, life sciences, consumer and manufacturing businesses. Nick is also Chair of The Business Leaders Council of Teach First, a Council member of Heart of the City and represents Deloitte as founding partner of the 30% Club.

- UKOB meetings: attended 3/3 during FY18



Feergus Mitchell*

Feergus is a Consulting partner whose main market focus is in the areas of pensions, insurance, and advanced analytics. Feergus is responsible for the execution of global strategy and development of multi-disciplinary market propositions as part of the Consulting Leadership Team. He has been with the firm for 21 years.

- UKOB meetings:
 - Feergus attended his first UKOB meeting in July 2018
 - Feergus replaced Pauline Biddle on the UKOB. Pauline attended 2/2 during FY18 (those to which she was invited, before she left the UKOB in April 2018)



Steve Williams*

Steve has been with Deloitte UK for 17 years and a partner since 2003. In total he has spent 27 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.

- UKOB meetings: attended 3/3 during FY18

David Sproul, Senior Partner and Chief Executive*

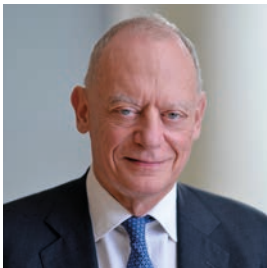
[See Deloitte UK Executive members]

- UKOB meetings: attended 3/3 during FY18

Stephen Griggs, Managing Partner Audit & Risk Advisory*

[See Deloitte UK Executive members]

- UKOB meetings: attended 3/3 during FY18



Sir Gerry Grimstone, Independent Non-Executive*

Sir Gerry Grimstone is Chairman of Standard Life Aberdeen and Chairman of Barclays Bank. 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.

- UKOB meetings: attended 2/3 during FY18



Ruth Markland, Independent Non-Executive

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. She was recently appointed Senior Independent Director of the newly listed Quilter plc. Ruth became a Deloitte INE in 2015.

- UKOB meetings: attended 3/3 during FY18



Sir Michael Peat, Independent Non-Executive

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. He is the 2018 recipient of the Institute of Chartered Accountants in England and Wales' Outstanding Achievement Award.

- UKOB meetings: attended 3/3 during FY18
-

Appendix 2 – Financial information

Disclosure in accordance with Article 13.2 (k) (i)-(iv) of the EU Audit Regulation and the schedule of The Local Auditors (Transparency) Instrument 2015

We have extracted the following financial information from Deloitte's unaudited financial statements and financial records for the year ended 31 May 2018. 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 for EU PIEs⁹ and non-PIEs and the levels of non-audit services provided to entities for which Deloitte is – and is not – the auditor:

Revenue	FY18		FY17	
	Amount	Percentage	Amount	Percentage
	£m	%	£m	%
Statutory audit (PIEs and their subsidiaries)	126	4		
Major local audit ¹⁰	0	0		
Statutory audit (non-PIEs and their subsidiaries)	291	9		
Audit & directly related services	417	13	418	14
Non-audit services (audited entities)	186	6	214	7
Non-audit services (non-audited entities)	2,488	80	2,309	79
Total (UK only)	3,091	100¹¹	2,941	100

⁹ See definition in Appendix 3.

¹⁰ In accordance with The Local Auditors (Transparency) Instrument 2015 and as noted in appendix 3, Deloitte signed an audit report for one 'major local audit' during the year to 31 May 2018, namely Imperial College Healthcare Trust. The revenues round down to £0m.

¹¹ Due to roundings.

2. From the unaudited financial information extracted from Deloitte's financial records showing the operating profit for the reportable segment:

Operating Profit	FY18	FY17
	£m	£m
Audit & directly related services	49	55

Revenue and operating profit have been 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 Value Added Tax. 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 based on an allocation of direct costs and an allocation of overheads (such as property and IT costs) on a pro rata basis. The basis of allocation is primarily on headcount and revenues as well as an allocation of costs directly attributable to the reported segment based on information in our management accounts. No cost is included for the remuneration of members of Deloitte LLP including partner annuities.

- Audit profitability has decreased in each of the past three 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 has arrested the decline in profitability but overall profitability has continued to fall due to increases in costs relating to provisions for claims costs and regulatory fines. Looking forward, the success we have had in audit capture across our markets together with a focus on fairly pricing our services recognising the underlying cost of operating in the audit market is expected to deliver revenue and profit growth.

Appendix 3 – Public interest entities

Disclosures in accordance with (1) Article 13.2 (f) of the EU Audit Regulation and (2) the schedule of The Local Auditors (Transparency) Instrument 2015

1. EU Audit Regulation

Regulatory context

The list below has been prepared in accordance with Article 13 of the EU Audit Regulation and is in respect of the year ended 31 May 2018. It contains details of the 311 entities that meet all of the following four conditions:

1. the entity is incorporated/established in the United Kingdom or Ireland;
2. Deloitte LLP signed an audit report on the entity's annual financial statements during the year ended 31 May 2018;
3. on the date that Deloitte signed that audit report, the entity was an EU PIE; and
4. the audit carried out by Deloitte was a statutory audit within the meaning of section 1210 of the Companies Act 2006.

PIE definition

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

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

Entity name	UK company number
A.G. Barr PLC	SC005653
Aberdeen New Thai Investment Trust PLC	2448580
Aberforth Smaller Companies Trust PLC	SC126524
Admiral Group PLC	3849958
Admiral Insurance Company Ltd	4080051
AIB Group (UK) PLC	NI018800
Al Rayan Bank PLC	4483430
Albion No.3 PLC	9685761
Alfa Financial Software Holdings PLC	10713517
Alliance Trust PLC	SC001731
Alliance Trust Savings Ltd	SC098767
Alpha Bank London Ltd	185070
Ancient Order of Foresters Friendly Society Ltd (The)	F0000511
Anglian Water (Osprey) Financing PLC	7476767
Anglo American Capital PLC	4658814
Anglo American PLC	3564138
Anglo Pacific Group PLC	897608
Arsenal Securities PLC	5659810

Entity name	UK company number
Ashtead Group PLC	1807982
Assura PLC	9349441
Assura Properties PLC	6377349
Avenell Property PLC	3817411
Axis Bank UK Ltd	7554558
BA (GI) Ltd	3002
Bakethin Finance PLC	5074769
Bakkavor Group PLC	10986940
Bank Mandiri (Europe) Ltd	3793679
Bank of Beirut (UK) Ltd	4406777
Baptist Insurance Company PLC (The)	83597
Barratt Developments PLC	604574
Bath Investment & Building Society	B0000030
BBA Aviation PLC	53688
Berkshire Hathaway International Insurance Ltd	3230337
Biffa PLC	10336040
Bioquell PLC	206372
BlackRock Income and Growth Investment Trust PLC	4223927

Entity name	UK company number
BlackRock Life Ltd	2223202
Blue Planet Investment Trust PLC	SC192153
Bodycote PLC	519057
Brass No.3 PLC	8480121
Brass No.4 PLC	9182355
Brass No.5 PLC	9728202
Brass No.6 PLC	10917466
Brewin Dolphin Holdings PLC	2685806
British Gas Insurance Ltd	6608316
Brunner Investment Trust PLC (The)	226323
Bruntwood Investments PLC	8531723
Buckinghamshire Building Society	B0000091
CAF Bank Ltd	1837656
Caledonian Environmental Services PLC	SC156608
Cambian Group PLC	8929371
Canada Life Ltd	973271
Canary Wharf Finance II PLC	3929593
Capital & Regional PLC	1399411
Centrica PLC	3033654
Channel Link Enterprises Finance PLC	6169713
Charity Bank Ltd (The)	4330018
Charter Court Financial Services Group PLC	6712054
Charter Court Financial Services Ltd	6749498
Charter Mortgage Funding 2017-1 PLC	10814424
Chemring Group PLC	86662
Chesnara PLC	4947166
Churchill Insurance Company Ltd	2258947
Civil Service Healthcare Society Ltd	F0000463
Close Brothers Finance PLC	4322721
Close Brothers Group PLC	520241
Close Brothers Ltd	195626
CLS Holdings PLC	2714781
CNA Insurance Company Ltd	950
Coats Group PLC	103548
Connect Group PLC	5195191
ConvaTec Group PLC	10361298

Entity name	UK company number
Countrywide Assured PLC	2261746
Cumberland Building Society	B0000157
Custodian REIT PLC	8863271
Darlington Building Society	D0000159
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
Delamare Cards MTN Issuer PLC	6652499
Dialog Semiconductor PLC	3505161
Diploma PLC	3899848
Direct Line Insurance Group PLC	2280426
Dixons Carphone PLC	7105905
Drax Group PLC	5562053
DS Smith PLC	1377658
Dudley Summit PLC	4180439
Duncan Lawrie Ltd	998511
Dunedin Income Growth Investment Trust PLC	SC000881
Eastern Power Networks PLC	2366906
E-Carat 4 PLC	9146372
E-Carat 5 PLC	9349777
E-Carat 6 PLC	9696614
E-Carat 7 PLC	10368441
E-Carat 8 PLC	10611809
Ecclesiastical Insurance Office PLC	24869
Ecclesiastical Life Ltd	243111
Electra Private Equity PLC	303062
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
F&C UK High Income Trust PLC	SC314671
Ferrexpo Finance PLC	4914716

Entity name	UK company number
Ferrexpo PLC	5432915
FHW Dalmore (Salford Pendleton Housing) PLC	8623329
Fintrust Debenture PLC	2821428
FirstGroup PLC	SC157176
Flybe Group PLC	1373432
Foxtons Group PLC	7108742
Friary No.2 PLC	9000695
Fundsmith Emerging Equities Trust PLC	8756681
Gatehouse Bank PLC	6260053
Genus PLC	2972325
Ghana International Bank PLC	3468216
GKN Holdings PLC	66549
GKN PLC	4191106
Global Ports Holding PLC	10629250
Go-Ahead Group PLC (The)	2100855
Great Portland Estates PLC	596137
Guildford No.1 PLC	9182307
Gulf Marine Services PLC	8860816
Habibsons Bank Ltd	1719649
Halma PLC	40932
Hampden & Co PLC	SC386922
Hansteen Holdings PLC	5605371
Hardy Underwriting Group PLC	3217501
Health Shield Friendly Society Ltd	F0000050
Healthcare Support (Newcastle) Finance PLC	5314236
Heathrow Finance PLC	6458635
Hercules (Eclipse 2006-4) PLC	5895593
High Speed Rail Finance (1) PLC	8346271
Hobart Property PLC	3978071
Homeserve PLC	2648297
Howden Joinery Group PLC	2128710
Ibstock PLC	9760850
Independent Order of Odd Fellows Manchester Unity Friendly Society Ltd	F0000223
Indus (Eclipse 2007-1) PLC	6056094
Informa PLC	8860726

Entity name	UK company number
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
Jordan International Bank PLC	1814093
JPMorgan American Investment Trust PLC	15543
JPMorgan Smaller Companies Investment Trust PLC	2515996
Just Eat PLC	6947854
Kexim Bank (UK) Ltd	2693038
Kingfisher PLC	1664812
Kyoei Fire & Marine Insurance Company (U.K.) Ltd	1235521
Laird PLC	55513
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
Manchester & London Investment Trust PLC	1009550
Marks and Spencer Group PLC	4256886
Marks and Spencer PLC	214436
Marshall's 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
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

Entity name	UK company number
Mitchells & Butlers PLC	4551498
Mitie Group PLC	SC019230
Monmouthshire Building Society	B0000377
Morgan Sindall Group PLC	521970
Morgan Stanley & Co. International PLC	2068222
Morgan Stanley Bank International Ltd	3722571
Moss Bros Group PLC	134995
Mothercare PLC	1950509
National Bank of Egypt (UK) Ltd	2743734
National Express Group PLC	2590560
National Grid PLC	4031152
National House-Building Council	320784
NewRiver REIT PLC	10221027
NEX Group PLC	10013770
Non-Standard Finance PLC	9122252
Northern Electric Finance PLC	3070482
Northern Electric PLC	2366942
Northern Gas Networks Finance PLC	5575923
Northern Powergrid (Yorkshire) PLC	4112320
Northern Powergrid Holdings Co.	3476201
Northumbrian Water Finance PLC	4326507
NRG Victory Reinsurance Ltd	157508
NWEN Finance PLC	8374655
Oak No.1 PLC	8814635
Oaknorth Bank PLC	8595042
Ocado Group PLC	7098618
Orbita Funding 2016-1 PLC	8494691
Pacific Life Re Ltd	825110
Pangaea Funding 1 PLC	9073391
Peel Land and Property Investments PLC	166957
Petropavlovsk PLC	4343841
Pinnacle Insurance PLC	1007798
Porvair PLC	1661935
Precise Mortgage Funding 2014-1 PLC	9033084
Precise Mortgage Funding 2014-2 PLC	9216431
Precise Mortgage Funding 2015-1 PLC	9387223

Entity name	UK company number
Precise Mortgage Funding 2015-2B PLC	9586660
Precise Mortgage Funding 2015-3R PLC	9769500
Precise Mortgage Funding 2017-1B PLC	10667429
Precise Mortgage Funding No. 1 PLC	8658031
Primary Health Properties PLC	3033634
Principality Building Society	B0000455
Provident Financial PLC	668987
PRS Finance PLC	9331085
Punjab National Bank (International) Ltd	5781326
R.E.A. Holdings PLC	671099
RAC Bond Co PLC	10084638
RAC Insurance Ltd	2355834
Ranger Direct Lending Fund PLC	9510201
Ranger Direct Lending ZDP PLC	10247619
Reach PLC	82548
Rechabite Friendly Society Ltd (The)	F0000218
Reliance Life Ltd	10559664
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
Saffron Building Society	B0000485
Schroder Income Growth Fund PLC	3008494
Scotland Gas Networks PLC	SC264065
Scottish Friendly Assurance Society Ltd	COLS0003
Scottish Investment Trust PLC (The)	SC001651
Securities Trust of Scotland PLC	SC283272
Severn Trent PLC	2366619
Severn Trent Utilities Finance PLC	2914860
SIG PLC	998314

Entity name	UK company number
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
Spectris PLC	2025003
Speyside Renewable Energy Finance PLC	9094282
Spirax-Sarco Engineering PLC	596337
SSB No. 1 PLC	7464396
St Ives PLC	1552113
Steamship Mutual Underwriting Association Ltd	105461
Student Finance PLC	10456685
Sun Life Assurance Company of Canada (U.K.) Ltd	959082
Talktalk Telecom Group PLC	7105891
Taylor Wimpey PLC	296805
Teachers' Building Society	B0000347
Templeton Emerging Markets Investment Trust PLC	SC118022
Tenecom Ltd	1084952
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
Torm PLC	9818726

Entity name	UK company number
Tower Bridge Funding No.1 PLC	10801292
TP ICAP PLC	5807599
Transfercom Ltd	5773175
Tullow Oil PLC	3919249
UIA (Insurance) Ltd	IP02898R
UK Insurance Ltd	1179980
Ultra Electronics Holdings PLC	2830397
Union Bank of India (UK) Ltd	7653660
Unite Group PLC (The)	3199160
United Trust Bank Ltd	549690
University of Leeds	RC000658
Uropa Securities PLC	6169724
Vanquis Bank Ltd	2558509
Wales & West Utilities Finance PLC	6766848
Weatherbys Bank Ltd	2943300
Wellcome Trust (The)	CHARITY 210183
Wellcome Trust Finance PLC	5857955
Western Power Distribution (East Midlands) PLC	2366923
Western Power Distribution (South Wales) PLC	2366985
Western Power Distribution (South West) PLC	2366894
Western Power Distribution (West Midlands) PLC	3600574
Western Power Distribution PLC	9223384
Western Provident Association Ltd	475557
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

2. Local Auditors (Transparency) Instrument 2015 (as defined in The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014)

Regulatory context

The organisation below is the only relevant authority:

- (a) Which constitutes a 'major local audit' for the purposes of Regulation 12 of The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014 (SI 2014/1627); and
- (b) For which Deloitte LLP signed an audit report on its annual financial statements during year ended 31 May 2018.

Name of audited entity

Imperial College Healthcare NHS Trust

Appendix 4 – 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 partner¹² performance, a strong contribution in the following areas is expected from all partners and is essential, notwithstanding the level of partners' contribution in other areas:

- **Quality:** Uncompromising quality in all professional work.
- **Risk:** Consistent and strong contributions across all areas of risk.
- **Performance:** Strong performance against key metrics and objectives.
- **Leadership:** Demonstration of strong leadership skills and partner behaviours which reflect the organisation's culture and Deloitte Leader framework.

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 management, including people development, coaching and mentoring.
- **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 NWE Board's approval of the profit sharing strategy proposed by the Senior Partner and Chief Executive and concluding with the NWE Board's review of the recommended profit allocation and equity group for each individual partner. An NWE Board sub-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 the Delivering quality audits section. 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.

12. 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.

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

UK equity partners contribute the entire capital of Deloitte LLP. Each equity partner's capital contribution is linked to 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.

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

Independent Non-Executives

The INEs, Sir Gerry Grimstone, Ruth Markland and Sir Michael Peat, are paid a fixed annual fee for their work for the UK firm, based on an agreed number of days' service per annum. In the year to 31 May 2018, this amounted to £75,000 each.

Appendix 5 – EU/EEA audit firms

Disclosure in accordance with Article 13.2 (b) (ii)-(iv) of the EU Audit Regulation

EU/EEA Member State (Article 13.2 (b)(iii) EU Audit Regulation: the countries in which each audit firm that is a member of the network is qualified as a statutory auditor or has its registered office, central administration or principal place of business)

Name of audit firms carrying out statutory audits in each Member State (Article 13.2 (b)(ii) EU Audit Regulation: the name of each audit firm that is a member of the network)

EU/EEA Member State	Name of audit firms carrying out statutory audits in each Member State
Austria	Deloitte Audit Wirtschaftsprüfungs GmbH
	Deloitte Burgenland Wirtschaftsprüfungs GmbH
	Deloitte Niederösterreich Wirtschaftsprüfungs GmbH
	Deloitte Oberösterreich Wirtschaftsprüfungs GmbH
	Deloitte Salzburg Wirtschaftsprüfungs GmbH
	Deloitte Schwarz & Schmid Wirtschaftsprüfungs GmbH
	Deloitte Tirol Wirtschaftsprüfungs GmbH
	Deloitte Wirtschaftsprüfung Styria GmbH
	F.X. Priester GesmbH
	Kapferer Frei und Partner Wirtschaftsprüfungs- und Steuerberatungs GmbH
	MPD Wirtschaftsprüfungs-GmbH & Co KG
Belgium	Deloitte Bedrijfsrevisoren – Reviseurs d’Entreprises
Bulgaria	Deloitte Audit OOD
Croatia	Deloitte d.o.o. za usluge revizije
Cyprus	Deloitte Limited
Czech Republic	Deloitte Audit s.r.o.
Denmark	Deloitte Statsautoriseret Revisionspartnerselskab
Estonia	Deloitte Audit Eesti AS
Finland	Deloitte Oy
France	Deloitte & Associés
	Deloitte Marque & Gendrot
	Deloitte Marque Gendrot
	Anne-Marie Torres Commissaires aux comptes
	Audalian Commissaire
	Audit Aquitaine Commissariat aux comptes
	Auitex
	BEAS

EU/EEA Member State	Name of audit firms carrying out statutory audits in each Member State
France (continued)	BH Audit
	Cabinet Barouh, Societe Anonyme D'Expertise Comptable Et De Commissariat Aux Comptes
	Cabinet Garnier In Extenso
	Cabinet Husson Sas Societe D'Expertise Comptable Et De Commissaires Aux Comptes
	Cisane
	COGES
	Constantin Associés
	Constantin Entreprises
	Consultants Auditeurs Associés
	Davec SAS
	DB Consultants
	Durand & Associés
	ECA Audit
	Espace Audit Et Conseil
	Extenso IDF Holding Audit Et Consulting
	Fiduciaire Expertise Commissariat et Développement
	In Extenso Audit
	In Extenso Bretagne
	In Extenso Centre Est
	In Extenso Centre Ouest
	In Extenso Charente
	In Extenso Dauphine Savoie
	In Extenso Dordogne
	In Extenso Eure
	In Extenso IDF Audit
	In Extenso IDF EX&Com Audit
	In Extenso IDF Harl Lefort et Associés
	In Extenso Ile de France
	In Extenso Mont Blanc
	In Extenso Nord Audit
	In Extenso Nord de France
	In Extenso Orne

EU/EEA Member State	Name of audit firms carrying out statutory audits in each Member State
France (continued)	In Extenso Picardie Ile de France
	In Extenso Provence
	In Extenso Rhône Alpes
	In Extenso SECAG
	In Extenso Strasbourg Nord
	Jacques Serra et Associés
	Laurens Michel Audit
	Lesaine, Casteleyn, Lecrocq, Societe D'Expertise Comptable Et De Commissariat Aux Comptes
	MFG Audit
	Opus 3.14 Audit Et Conseil
	Pierre-Henri Scacchi et Associés
	Revi Conseil
	Sterenn
Germany	Deloitte GmbH Wirtschaftsprüfungsgesellschaft
	Deutsche Baurevision GmbH Wirtschaftsprüfungsgesellschaft
	SüdTreu Süddeutsche Treuhand GmbH Wirtschaftsprüfungsgesellschaft
Greece	Deloitte Certified Public Accountants SA
Hungary	Deloitte Könyvvizsgáló és Tanácsadó Kft.
Iceland	Deloitte ehf.
Ireland	Deloitte Ireland - Republic of Ireland
Italy	Deloitte & Touche S.p.A.
Latvia	Deloitte Audits Latvia SIA
Lithuania	Deloitte Lietuva, UAB
Luxembourg	Deloitte Audit
Malta	Deloitte Audit Limited
Netherlands	Deloitte Accountants B.V.
Norway	Deloitte AS

EU/EEA Member State	Name of audit firms carrying out statutory audits in each Member State
Poland	Deloitte Polska spółka z ograniczoną odpowiedzialnością Sp. k.
	Deloitte Polska Sp z o.o.
Portugal	Deloitte & Associados, SROC S.A.
Romania	Deloitte Audit S.R.L.
Slovakia	Deloitte Audit s.r.o.
Slovenia	Deloitte Revizija d.o.o.
Spain	Deloitte, S.L.
Sweden	Deloitte AB
United Kingdom	Deloitte LLP
	Deloitte Gibraltar Limited
	Deloitte NI Limited

Disclosure in accordance with Article 13.2 (b)(iv) of the EU Audit Regulation

The total turnover achieved by the audit firms that are members of the network, resulting from the statutory audit of annual and consolidated financial statements: € 2 billion¹³

13. Amount represents an estimate. Certain Deloitte audit firms registered to perform statutory audits in respective Member States provide statutory audit services as well as other audit, assurance and non-audit services. While Deloitte endeavoured to collect specific statutory audit turnover for each EU/EEA Deloitte audit firm, in certain cases turnover from other services has been included. The turnover amounts included herein are as of 31 May 2018, except for a limited number of instances where a Deloitte audit firm has a different financial year-end or has not finalised its reporting for such period. In these cases, turnover amounts are for the relevant financial year or preceding financial year. Where currency other than Euros is used in the Member State, the amount in Euros was translated using an average exchange rate in effect for the period 1 June 2017 to 31 May 2018.

Appendix 6 – Audit Firm Governance Code and EU Audit Regulation disclosure requirements

Audit Firm Governance Code

We cross-reference in the table below to where and how Deloitte LLP complies with the principles and provisions of the Audit Firm Governance Code published in July 2016.

Provision of the Code	How Deloitte LLP is addressing the provisions in the Code
A. Leadership	
A.1 Owner accountability principle The management of a firm should be accountable to the firm's owners and no individual should have unfettered powers of decision.	See Deloitte UK: governance 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 Deloitte UK: governance 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 NWE Governance and Deloitte network
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 Appendix 1
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 Deloitte UK: governance and Leadership & Governance pages on our website
A.2 Management principle A firm should have effective management which has responsibility and clear authority for running the firm.	See Deloitte UK: governance 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 Deloitte UK: governance and Leadership & Governance pages on our website

Provision of the Code

How Deloitte LLP is addressing the provisions in the Code

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 **Deloitte UK Ethics** and our Ethics Code on [our website](#)

B.1.1 The firm's governance structures and management should establish and promote throughout the firm an appropriate culture, supportive of the firm's public interest role and long term sustainability. This should be achieved in particular through the right tone from the top, through the firm's policies and practices and by management publicly committing themselves and the whole firm to quality work, the public interest and professional judgement and values.

See **Delivering quality audits** and our Ethics Code on [our website](#)

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 **Appendix 1** (meeting attendance)

Upon the formation of the UKOB, an initial set of measures was established to monitor the Board's effectiveness. A year following its creation, a review of the UKOB's effectiveness is currently ongoing, and as a result a further set of KPIs on the performance of our governance system will be introduced.

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 **Deloitte UK Ethics** 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 Code into an internal code of conduct.

See our Ethics Code on [our website](#)

B.3 Openness principle

A firm should maintain a culture of openness which encourages people to consult and share problems, knowledge and experience in order to achieve quality work in a way that properly takes the public interest into consideration.

See **Delivering quality audits**

Provision of the Code

How Deloitte LLP is addressing the provisions in the Code

C. Independent Non-Executives

C.1 Involvement of Independent Non-Executives principle

A firm should appoint Independent Non-Executives to the governance structure who through their involvement collectively enhance the firm's performance in meeting the purpose of the Code.

See **Independent Non-Executives**

C.1.1 Independent Non-Executives should number at least three and be in the majority on a body that oversees public interest matters; and/or be members of other relevant governance structures within the firm. They should also meet as a separate group to discuss matters relating to their remit. They should have full visibility of the entirety of the business but should pay particular attention to and report on risks to audit quality and how they are addressed. If a firm considers that having three INEs is inappropriate given its size or number of public company clients, it should explain this in its transparency report and ensure a minimum of two at all times. Where the firm adopts an international approach to its management it should have at least three INEs with specific responsibility and relevant experience to focus on the UK business and to take part in governance arrangements for this market; or explain why it regards a smaller number to be more appropriate, in which event there should be a minimum of two.

The firm's three INEs are members of the UKOB and one of the INEs is a member of the Deloitte NWE Board.

C.1.2 The firm should disclose on its website and in its transparency report information about the appointment, retirement and resignation of Independent Non-Executives; their remuneration; their duties and the arrangements by which they discharge those duties and the obligations of the firm to support them. The firm should report on why it has chosen to position its independent non-executives in the way it has (for example, as members of the main Board or on a public interest committee). The firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes Independent Non-Executives.

See **Independent Non-Executives** and Leadership & Governance pages on [our website](#)
This Transparency Report is available 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:

- Promoting audit quality.
- Helping the firm secure its reputation more broadly, including in its non-audit businesses.
- Reducing the risk of firm failure.

See **Independent Non-Executives** and **Report on the work of the INEs**

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 **Report on the work of the INEs**

Provision of the Code

How Deloitte LLP is addressing the provisions in the Code

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 **Independent Non-Executives**

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 **Independent Non-Executives**

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.

See **Independent Non-Executives**

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.

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 **Report on the work of the INEs**

- Promoting audit quality.
- Helping the firm secure its reputation more broadly, including in its non-audit businesses.
- 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. See also **Independent Non-Executives**

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 **Independent Non-Executives**
This Transparency Report is available on our [website](#)

Provision of the Code

How Deloitte LLP is addressing the provisions in the Code

D. Operations

D.1 Compliance principle

A firm should comply with professional standards and applicable legal and regulatory requirements. Operations should be conducted in a way that promotes audit quality and the reputation of the firm. The independent non-executives should be involved in the oversight of operations.

See **Delivering quality audits**

D.1.1 The firm should establish policies and procedures for complying with applicable legal and regulatory requirements and international and national standards on auditing, quality control and ethics, including auditor independence.

See **Delivering quality audits**

D.1.2 The firm should establish policies and procedures for individuals signing group audit reports to comply with applicable standards on auditing dealing with group audits including reliance on other auditors whether from the same network or otherwise.

See **Delivering quality audits**

D.1.3 The firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest.

See **Deloitte UK Independence**

D.1.4 The firm should take action to address areas of concern identified by audit regulators in relation to the firm's audit work.

See **Delivering quality audits** and **External and internal audit quality monitoring**

D.2 Risk management principle

A firm should maintain a sound system of internal control and risk management over the operations of the firm as a whole to safeguard the firm and reassure stakeholders.

See **Report on the work of the UKOB**

D.2.1 The firm should, at least annually, conduct a review of the effectiveness of the firm's system of internal control. Independent non-executives should be involved in the review which should cover all material controls, including financial, operational and compliance controls and risk management systems as well as the promotion of an appropriate culture underpinned by sound values and behaviour within the firm.

See **Report on the work of the UKOB**

D.2.2 The firm should state in its transparency report that it has performed a review of the effectiveness of the system of internal control, summarise the process it has applied and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary.

See **Report on the work of the UKOB**

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 **Managing risk**

Provision of the Code

How Deloitte LLP is addressing the provisions in the Code

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 **Appendix 4** and **Delivering quality audits**

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 [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 **Report on the work of the UKOB**

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](#)

See **Report on the work of the UKOB** and **Report on the work of the Independent Non-Executives**

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.

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

Provision of the Code	How Deloitte LLP is addressing the provisions in the Code
E.3 Transparency principle A firm should publish on an annual basis in its transparency report a commentary on the firm's performance, position and prospects.	See Appendix 2
<p>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.</p>	See Managing risk
<p>E.3.2 The transparency report should be fair, balanced and understandable in its entirety.</p>	The Report is produced with extensive subject matter expert input, is coordinated centrally and is subject to review and approval by the UKOB
E.4 Reporting quality principle A firm should establish formal and transparent arrangements for monitoring the quality of external reporting and for maintaining an appropriate relationship with the firm's auditors.	See Report on the work of the UKOB
<p>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.</p>	<p>See Report on the work of the UKOB and our Leadership & Governance pages on our website</p> <p>The UKOB works in conjunction with the NWE Audit & Risk Committee, through providing oversight over how Deloitte UK manages and controls the material risks facing the business and how the UK firm meets its public interest responsibilities; as well as being responsible for meeting all the regulatory and financial reporting matters that relate to the UK business. Central to this objective is the continuous focus that the UKOB has on enhancing audit quality within the UK firm, providing oversight to help the firm secure its reputation more broadly, and reducing the risk of firm failure.</p>
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.	<p>Deloitte LLP prepares annual audited financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and UK laws and regulations.</p> <p>Our Financial Statements are available at Companies House</p>
<p>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.</p>	Our Financial Statements are available at Companies House
<p>E.5.2 The firm should state whether it considers it appropriate to adopt the going concern basis of accounting and identify any material uncertainties to its ability to continue to do so, with supporting assumptions or qualifications as necessary.</p>	

Provision of the Code

How Deloitte LLP is addressing the provisions in the Code

F. Dialogue

F.1 Firm dialogue principle

A firm should have dialogue with listed company shareholders, as well as listed companies and their audit committees, about matters covered by this Audit Firm Governance Code to enhance mutual communication and understanding and ensure that it keeps in touch with shareholder opinion, issues and concerns.

See **Report on the work of the INEs** and **External and internal audit quality monitoring**

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 **External and internal audit quality monitoring**. This is also reported on in conversations with stakeholders including the annual Stakeholder Forum

See our [Public Policy webpage](#)

F.2 Shareholder dialogue principle

Shareholders should have dialogue with audit firms to enhance mutual communication and understanding.

See **Report on the work of the INEs** and **External and internal audit quality monitoring**

F.3 Informed voting principle

Shareholders should have dialogue with listed companies on the process of recommending the appointment and re-appointment of auditors and should make considered use of votes in relation to such recommendations.

We consider that this principle is directed at shareholders hence not applicable for our firm

EU Audit Regulation

We cross-reference in the table below to where and how Deloitte LLP complies with the requirements of Article 13.2 of the EU Audit Regulation.

Provision of Article 13.2	Reference to where in this report Deloitte LLP addresses the provisions in Article 13.2
(a) a description of the legal structure and ownership of the audit firm;	Deloitte UK: legal structure and ownership
(b) where the statutory auditor or the audit firm is a member of a network: <ul style="list-style-type: none">(i) a description of the network and the legal and structural arrangements in the network;(ii) the name of each statutory auditor operating as a sole practitioner or audit firm that is a member of the network;(iii) the countries in which each statutory auditor operating as a sole practitioner or audit firm that is a member of the network is qualified as a statutory auditor or has his, her or its registered office, central administration or principal place of business;(iv) the total turnover achieved by the statutory auditors operating as sole practitioners and audit firms that are members of the network, resulting from the statutory audit of annual and consolidated financial statements;	Deloitte network Appendix 5 Appendix 5 Appendix 5
(c) a description of the governance structure of the audit firm;	Deloitte UK: governance
(d) a description of the internal quality control system of the statutory auditor or of the audit firm and a statement by the administrative or management body on the effectiveness of its functioning;	External and internal audit quality monitoring
(e) an indication of when the last quality assurance review referred to in Article 26 was carried out;	External and internal audit quality monitoring
(f) a list of public-interest entities for which the statutory auditor or the audit firm carried out statutory audits during the preceding financial year;	Appendix 3
(g) a statement concerning the statutory auditor's or the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted;	Deloitte UK Independence
(h) a statement on the policy followed by the statutory auditor or the audit firm concerning the continuing education of statutory auditors referred to in Article 13 of Directive 2006/43/EC;	Delivering quality audits
(i) information concerning the basis for the partners' remuneration in audit firms;	Appendix 4
(j) a description of the statutory auditor's or the audit firm's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7);	Delivering quality audits
(k) where not disclosed in its financial statements within the meaning of Article 4(2) of Directive 2013/34/EU, information about the total turnover of the statutory auditor or the audit firm, divided into the following categories: <ul style="list-style-type: none">(i) revenues from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity;(ii) revenues from the statutory audit of annual and consolidated financial statements of other entities;(iii) revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and(iv) revenues from non-audit services to other entities.	Appendix 2

Notes

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