

EY UK 2024 Audit Quality Report



EY

Shape the future
with confidence

EY UK Foreword



Annie Graham
Head of UK Audit

Firstly, I would like to express my excitement in taking up the role of Head of UK Audit and say how much I am looking forward to working with my 5,000 colleagues across the UK. I would also like to take this opportunity to thank my predecessor, Andrew Walton, for his hard work over the past four years. Under Andrew's leadership, we have made good progress towards delivering consistent high-quality audits.

We have developed our audit strategy in line with our stated purpose of protecting the public interest and taking personal pride in audit. To achieve this, our strategy is designed to deliver consistent high audit quality, give our people lifelong skills and experiences, and grow our business purposefully.

We will continue to engage the Financial Reporting Council's approach to audit firm supervision, and will keep working with them and other stakeholders to ensure our audits deliver on their public interest purpose. Going forward, our commitment to delivering high-quality audits will be further strengthened and supported by the new EY Global strategy 'All in' – a key part of which is an unwavering commitment to audit quality and significant investment in innovation.

'All in' is aimed at delivering purposeful growth, creating value and trust in audit, developing our people, and providing confidence to stakeholders. Investment and audit quality is at the centre of our strategy, with EY Global investing US\$1 billion in next-generation Assurance technology reinforcing trust, transparency and transformation. We work closely with EY Global to standardise and simplify our audit approach.

There is so much in 'All in' that resonates with my vision for EY UK – and I want everyone across our audit business to be "All in", being proud of who we are, the role we play, the decisions and challenges we make, the confidence we create and the difference that makes in society. Our audits help shape the future with confidence.



Adrian Roberts
UK Audit Quality Leader

As Annie notes, delivering consistent high-quality audits that serve the public interest is our priority and reflected in our audit quality purpose. It is clear that no one action can ensure audit quality. Instead, it requires a series of actions continuously assessed, prioritising areas that have the greatest impact on audit quality.

Our UK audit quality strategy has been refreshed for FY25 taking into consideration a number of data sources including feedback from our people, regulators, Root Cause Analysis and our inspection results.

In FY24, we focussed on four key priorities:

- ▶ More effective coaching and support
- ▶ Greater standardisation and simplification
- ▶ Rebalancing work intensity
- ▶ Purpose-led culture

Our FY25 strategy is an evolution of these key areas and captures the EY Global 'All in' strategy by focussing on how we want our people to feel when delivering high-quality audits.

Purpose-led culture remains at the heart of our strategy, ensuring our people embed the right behaviours in respect of the culture of audit quality and are proud of the difference the work they do makes. The other key focus areas for FY25 are:

- ▶ **Curious mindset** – developing curious and confident individuals with strong commercial acumen and who are inspired to learn
- ▶ **Connected teams** – greater collaboration between our people, teams and specialists, harnessing the full power of EY, further enabled by proactive coaching
- ▶ **Continuous improvement** – individuals and teams striving for continuous improvement and driving excellence, supported by an increased focus on standardisation and simplification

Focussing on these areas leads to the creation of an inclusive 'one team' culture where people feel coached and valued, getting things right first time and helping to further rebalance work intensity. This is discussed further in page 8 to 15.

More than just an audit

Our purpose: at EY UK we are committed to consistently delivering high-quality audits that serve the public interest.

In an increasingly competitive global environment, it is vital that the UK remains a vibrant place to do business. This involves many elements, ranging from the need for strong business investment, to robust and liquid capital markets, to regulatory consistency and certainty.

The audit profession underpins trust and confidence in the financial system and the smooth functioning of the capital markets. As the volume, complexity and scope of assurance work continue to expand, the need to serve the public interest remains at the forefront.

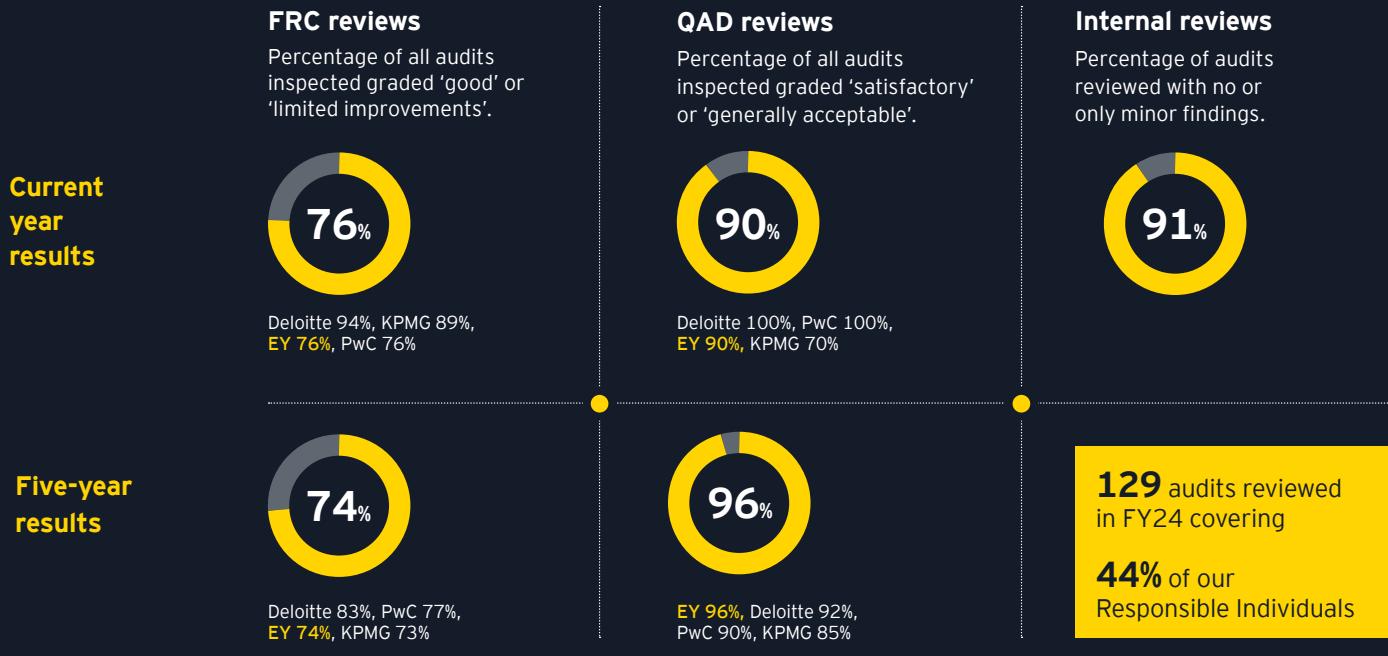
Audit quality is not defined in professional standards, and no single metric can be viewed as a definitive measure of audit quality. This is why we take the outcomes from all internal and external reviews, along with other indicators (including the monitoring and annual evaluation conclusions of our System of Quality Management), into account when assessing audit quality.

Our commitment to delivering high-quality audits is deeply held within EY UK and firmly embedded within our culture, driving the actions we take. We remain steadfastly committed to the ongoing journey of delivering audit quality and continue to actively engage with the Financial Reporting Council (FRC) in their approach to audit firm supervision.

We fully understand the importance of the role we have to play, and how pivotal our audits are in delivering on our public interest responsibilities and building trust and confidence in business and the capital markets. This is – and will continue to be – our utmost priority.

EY UK 2024 Audit Quality Report: Summary

What our inspection results say



What our people say



1. In previous years, the question asked was "I believe that EY recognises and rewards audit quality."

Our commentary

The FRC inspected 17 of our audits compared to 20 in the prior year. Of the 17, 76% were graded as good or requiring limited improvements. For the fourth consecutive year, no audits were identified as requiring significant improvements. When taking a longer-term view, our five-year average result of 74% is comparable to others in the Big Four.

As the FRC's samples are small and biased towards higher-risk audits, its report also recognises that other measures should be considered when evaluating overall audit firm quality. These include the results of the ICAEW's Quality Assurance Department (QAD), whose inspection rated 90% of EY audits reviewed in the category of good/generally acceptable. We also achieved an average result over five years of 96%, putting us first amongst the Big Four. In addition, our own internal audit quality review found 91% of 129 audits inspected required no or only minor improvements.

Actions taken

The areas where the FRC reported key findings related to the audit of revenue and journals, forecasts used in impairment and deferred tax assets assessments, and carrying value of investments in subsidiary undertakings.

Our culture is one of continuous improvement and we are already taking the actions needed to improve in these areas. We have undertaken root cause analysis on all the findings and addressed these through issuing additional guidance and training. We have revised our Audit Quality Strategy for FY25 factoring in these root causes, regulator insights, feedback from our people, and horizon scanning of emerging risks. We continue to develop our data capabilities and harness the collective skills of our EY colleagues across our firm, especially in more complex audit areas.

The findings overlap with areas of good practice identified by the FRC on our audits. This demonstrates that we need to be more consistent with our execution, and our FY25 strategy is focussed on achieving this. Refer to page 14 for details of steps taken.

Our commentary

We are pleased that the 2024 UK survey results indicate that our cultural alignment index remains high (see page 9). UK teams also continue to show a strong regard for delivering high-quality audits, and consider that leadership place sufficient emphasis on this and set a strong tone from the top to support this ambition. Although the results for resourcing and recognition for contributions to audit

quality are below where we would like these to be, both have shown a positive trend in recent years which is reflective of the investments and efforts applied through the audit quality agenda throughout FY24 and earlier. Whilst the continued improvement is noted, these areas remain in the forefront of the quality agenda, with the ambition to demonstrate a marked improvement in the coming years.

Actions taken – Resourcing

+4%

The four percentage point increase in the result mirrors the improvement in our work intensity index noted on page 7. This is a positive impact from resourcing interventions implemented under the rebalancing work intensity workstream in the FY24 audit quality strategy. The capacity of the UK audit business has grown by nearly 400 people in the last financial year. Actions also continue to be taken to implement new tools, resources and training to ensure there is greater standardisation across the portfolio of audits. Globally, new assurance technology capabilities, including advanced data analytics, enhance this approach and drive more consistent execution across

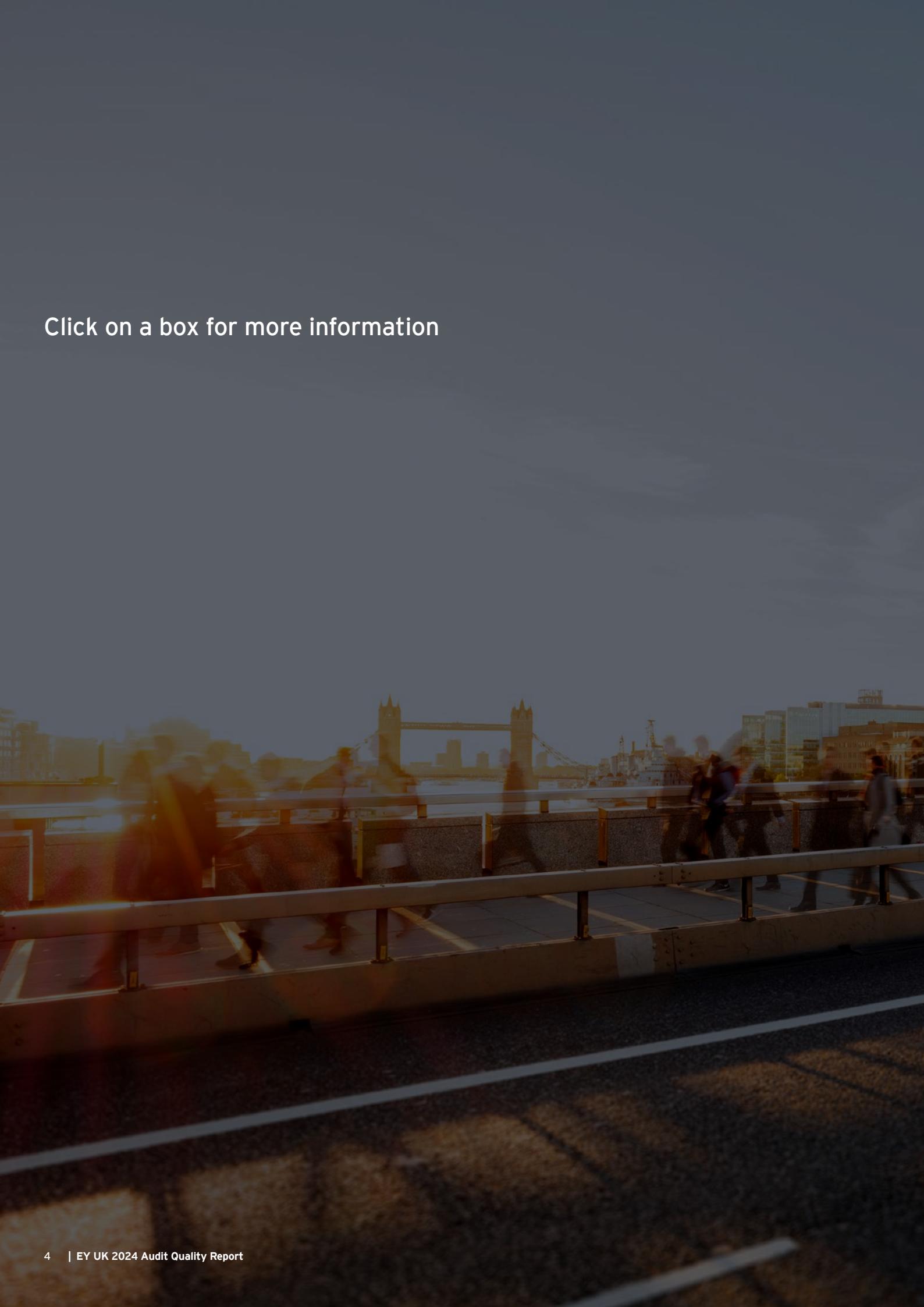
this business. Whilst no longer a separate workstream, activities to support an outcome of reducing work intensity are embedded in each of the workstreams within the refreshed strategy (see pages 7-15). The refreshed strategy aims to create an environment that provides teams with the circumstances to get things right first time with the right training, right coaching, and effective use of tools and enablement. In addition, by focussing time earlier in the audit cycle to identify risks, challenge the audit approach and improve project management, this will enable teams to continue to improve workload management.

Actions taken – Recognition for contributions to audit quality

+13%

The thirteen percentage point improvement indicates that our people are increasingly seeing the link between recognition and their contribution to audit quality. The global EY organisation has a performance management framework, LEAD, that supports EY people's careers, inspires their growth and recognises the value they bring to the firm. A key contributing factor to an individual's overall annual appraisal outcome in LEAD continues to be their rating in relation to audit quality. This rating is used as a primary input to compensation and reward programmes as well as providing a platform for further development opportunities for individuals.

This is in line with one of the fundamental elements of the purpose-led culture (see page 8) of the UK audit business, which is providing people with the right reward. During FY24, we have also had a primary focus on 'moments that matter', which includes the recognition of good work, and giving and receiving timely feedback. The annual Audit Trust Awards – which launched in 2022 to recognise individuals who have really made a difference and helped to shape our culture and deliver high-quality audits – have also continued, further contributing to this reward and recognition improvement.



Click on a box for more information

Achieving our purpose

At EY UK we are committed to achieving our purpose to consistently deliver high-quality audits that serve the public interest.

Executing a high-quality audit is complex. This starts with independence, integrity and objectivity and involves assessing risks, working with data and emerging technologies, exercising judgement and performing responsive audit procedures.

Our focus is on giving audit teams the tools and skills to be successful, and creating an environment in which they are supported to deliver this.

The following details our approach to achieve this purpose, the challenges we face and our responses.



1

EY UK Audit Quality programme: Consistently delivering high-quality audits that serve the public interest

Our Audit Quality Strategy is underpinned by our Purpose-led culture (page 8), and is designed to achieve consistent execution across our engagement portfolio.

It is clear there is no one action that can ensure audit quality and our strategy is based on careful consideration of a series of actions across our business that impact our audits on a daily basis.

For FY25, the evolved strategy focuses on the following areas:

UK Audit Quality strategy

In FY24, we focussed on: purpose-led culture; more effective coaching and support; greater standardisation and simplification; and rebalancing work intensity, and achieved good progress in all areas. Key improvements included:

1. Issuing of good practice examples and standardised working papers for areas including: pension assets; leasing; business combinations; and specialists.
2. Launch of our pension assets centre of excellence (CoE) where work can be performed centrally and consistently.
3. Expansion of technology-enabled support including release of further task-specific tutorials and onboarding of our Financial Reporting Group and Government and Public Sector business to our queries and consultation application.

As part of our FY25 audit quality strategy refresh, we have considered the factors that contribute to a high-quality audit outcome:



As a result of this analysis and consideration of the wider feedback from our people, inspection findings and root cause analysis, our FY25 audit quality strategy focusses on the following areas:

- ▶ **Purpose-led culture**
- ▶ **Curious mindset**
- ▶ **Connected teams**
- ▶ **Continuous improvement**

Whilst some of the areas are different, the key focus areas of our FY24 strategy are still embedded within the evolved FY25 strategy. More effective coaching and support and greater standardisation and simplification are key priorities within connected teams and continuous improvement, respectively. Rebalancing work intensity is expected to be an overall outcome of the success of the FY25 focus areas combined. We want our people to be proud of the work they do, the opportunities it gives them and the difference it makes.

4. Enhancement of our Audit Quality Support Team (AQST) through greater upfront and ongoing facilitated coaching of audit teams.
5. An improvement in our work intensity index, developed to quantify and track the work intensity of our people, over the last two years. This is a reflection of additional heads in the business and detailed review of people's portfolios undertaken, including the phasing of work.
6. Continued roll-out of our Culture of Audit Quality roadshows visiting a number of local offices across the UK to consider and discuss the importance of a purpose-led culture, 'moments that matter', and how to make a positive impact on audit quality.
7. An ethical training programme that was initially focussed on partners has been tailored and delivered to all staff across EY UK.

The development and implementation of our strategy has been subject to ongoing review and challenge by our independent Audit Non-Executives (ANEs) and we regularly monitor the effectiveness of the strategy to ensure that it continues to assist in delivering against our audit quality purpose.



1a

Purpose-led culture : Ensuring our people embed the right behaviours in respect of the culture of audit quality

A purpose-led culture is fundamental to our audits – this leads to the right teaming, the support and confidence to constructively challenge, and being professionally sceptical at all times.



Overview

The fundamental elements underpinning the culture of our audit business, as can be seen in the icon opposite, are:

- ▶ The essential attributes of our audit business (right resources, right first time, and right reward); and
- ▶ Our people, focussed on a common purpose – serving the public interest and taking personal pride in both the profession and the work that they do.

We want our people to have the courage to do the right thing, embracing the values and behaviours that are integral to audit quality and prioritise stakeholder confidence and public interest over 'client service'. By equipping them with the right skills, we will enable them to have confidence in the work that they do, creating an environment for individuals to be heard and acknowledged and ultimately feel safe and supported.

The focus of this area is:

Continue our culture of high audit quality

During FY24, we have continued to drive a mindset shift to embed the right behaviours in respect of the culture of audit quality through ongoing delivery of the Culture of Audit Quality roadshows. The 2023 sessions were hybrid across our regional offices and London homes focussing on embedding constructive challenge and professional scepticism. We recently completed our 2024 sessions where the main focus has been on 'moments that matter' (examples include: recognition of good work; giving and receiving feedback; and time pressure ahead of an imminent deadline), encouraging our people to be mindful of how their behaviour can influence others and of how certain situations can result in a change in behaviour. We added working group sessions this year discussing: how to support people in those moments that matter ensuring they feel empowered to find the right response to any situation while harnessing the full power of EY; what they could do to ensure a fair balanced workload for everyone; and how to improve the effectiveness of audits to achieve high-quality.

Providing our people with the right tools

We have delivered a number of training sessions to ensure our people have the right tools to focus on how to effectively manage challenging conversations internally and with audit entity management. We also continue to schedule regular 'better me' dedicated time, allowing our auditors across every grade time to focus on training and personal development. In addition to this, an ethical training programme that was initially focussed on partners has been tailored and delivered to all staff across EY UK. Given that purpose-led culture is at the centre of our strategy, this training on ethical behaviour delivered to all staff sets the tone from the top and helps to create a culture where all our people feel empowered to challenge.



Partner support

Each of our newly-promoted audit partners is allocated a mentor, and we are in the process of creating a new partner support network with the aim of improving performance through allowing a clear outlet for sharing, providing support in difficult situations, and helping to reduce stress and increase coping abilities within the wider audit partner group.

How do we know it is working?

During the past year, the FRC conducted a thematic review of culture across the audit profession and has communicated with audit firms about the results. Whilst individual firms' results are not being released publicly, the findings are supportive of our own approach to building and strengthening our purpose-led culture. In addition to this, our 2024 Audit Quality Culture survey was completed in July with our cultural alignment index remaining high at 90% (2023 – 96%). This result continues to show EY UK Audit as a high-performing organisation and benchmarks favourably against the professional services industry and the EY UK all-client culture health benchmark of 73%. Our people continue to describe our culture in positive terms on aspects including: coaching/mentoring; attention to detail; scepticism; and continuous learning. We are in the process of analysing the detailed results to determine any further resulting actions that may be required.

Feedback to date on the Culture of Audit Quality roadshows has been positive, with people finding that the most valuable parts of the sessions have been the opportunities for discussion, getting leadership views, perspectives of others and understanding the culture survey results for their specific office/department. All of this has helped to embed the right behaviours in respect of the culture of audit quality across EY UK.

The partner mentoring programme is designed to support our newly-promoted partners by giving them access to a mentor – a more experienced partner who can offer coaching and support in the form of perspective, giving advice, sharing experiences and providing a sounding board and challenge. This will lead to greater self-awareness, enhanced curiosity, a deeper network, and an appreciation of different perspectives. We will obtain feedback to confirm the effectiveness of the programme, with initial feedback being positive and the overriding benefit being the coaching and support given.

1b

Curious Mindset: Development of curious and confident individuals who are inspired to learn

A curious mindset can lead to individuals being inquisitive, being more sceptical, having the confidence to constructively challenge and driving effective change. By asking better questions they can fully understand the businesses of the entities they audit and in turn better identify and address the associated risks. It is important that we give our people the opportunity to learn, equipping our teams with the digital agility and right skills to consistently deliver high-quality audits.



Overview

A curious mindset can lead to more confident individuals who can constructively challenge, apply professional scepticism, ask better questions, more fully understand the businesses of the entities they audit and in turn better identify and address the associated risks. This links closely with purpose-led culture as we want to create an environment where learning is something our people are inspired to do. By having these traits and skills, they will become even more effective auditors.

Therefore, this area is focussed on a:

Bespoke skills development programme

Whilst our audit quality and culture survey results indicate that our people apply professional scepticism and have an increased confidence to challenge both internally and with management of the entities we audit, this is a continuous process. Therefore, to capitalise on the naturally inquisitive mindset of colleagues and to assist individuals with broadening their commercial understanding, we are in the process of developing an interactive training session that will utilise the techniques and insights from transaction specialists to further develop business acumen skills focussed on a deeper understanding of the environment and companies that we audit. This will include the consideration and application of developing technologies. As our business and those that we audit are digitalised further, we want our teams to embrace the changes that are coming. New AI propositions are exciting and should result in more innovative audits and greater insight into the entities we audit. We aim to roll this training out to all audit managers through to partners in FY25.

The key outcomes expected from the programme include:

Equipping our teams with the right skills

The planned training programme is aimed at equipping individuals and teams with the right skills to enhance their commercial acumen, in order to enable them to have better conversations with management, be better equipped to identify and respond to audit risks, and ultimately result in consistent high audit quality.

Engaging our digital future

Technology is evolving at a fast pace – and whilst the development and deployment of this technology can allow the analysis of all data, leading to more efficient high-quality audits, it can also result in new and emerging risks. With this in

mind, our broader training will be aimed at building confidence in our people and giving them the digital agility to not only engage in deep conversations internally and with management on the topic of technology, but also to apply their learning in the application of new audit tools and to fully assess the risks and impact of technologies on the companies that we audit.

How do we know it is working?

We will consider the effectiveness of the bespoke skills development programme through:

- ▶ Feedback from participants on the content and delivery of the session and relevance to their audit experience.
- ▶ Improved survey results specifically in questions relating to: professional scepticism; confidence to challenge; and having sufficient training and development to enable the delivery of high-quality audits.
- ▶ More targeted risk assessment in audits evidenced through feedback from our internal review and quality control processes and our external inspections through their identification of good practice and absence of findings in this area.



1C



Connected teams: Greater collaboration between our people, teams and specialists, harnessing the full power of EY

At EY UK we have the benefit of collaborating with a number of different individuals, teams and specialists, enabling us to take advantage of their knowledge and experience to help to consistently perform high-quality audits.



Overview

At EY UK, we have access to a vast range of knowledge and experience that can be used to assist teams to consistently deliver high-quality audits that serve the public interest. This workstream will look at impactful ways of working as part of an inclusive 'One Team' culture and for our people to be and feel coached and valued.

Over the last two years our audit quality strategy has focussed on more effective coaching and support. We have created a quality enablement network that gives our teams access to dedicated audit quality representatives in each office. In addition to this we have developed technology-supported enablement giving people greater access to:

- ▶ On-demand coaching support and guidance through our task-specific tutorial videos.
- ▶ A queries and consultation application (EY Compass) with technical and audit methodology FAQs, and providing easier access to our audit quality team, professional practice department, financial reporting group and risk management.
- ▶ Upfront and ongoing facilitated coaching through the expansion of our Audit Quality Support Team (AQST).

With the creation of our connected teams workstream we are looking to continue the great work performed in the more effective coaching and support workstream, with a focussed lens on increasing connectivity and greater collaboration to fully harness the collective power of our people and skills we have across EY.

This area will focus on:

Purpose-led Outcome Thinking (PLOT) 'roadmap'

We will re-energise our Purpose-Led Outcome Thinking (PLOT) initiative to embed this mindset with the development of a 'roadmap' enabled to facilitate mini-PLOTs to assess core audit risk areas and planned responses. In addition, we are focussing further on building a strong team culture, leveraging our learnings from successful teams and utilising already developed enablement.

Proactive coaching

Continued proactive coaching using AQST and our Global coaching program to support an increased number of audits.

Connectivity and collaboration

The updates made to our global audit platform, EY Canvas, provide a new guided workflow as part of understanding the business and developing the audit strategy and related response assessment. This will help to facilitate full team discussions early, including with specialist colleagues from tax and technology risk.

How do we know it is working?

Findings and themes on good practice from inspections and Root Cause Analysis include those linked to positive coaching, including executive involvement and the good use of PLOT, early ongoing involvement of engagement quality reviewers and AQST.

We will continue to monitor the progress of this area through feedback from audit teams, internal quality reviewers and external inspections and resulting Root Cause Analysis.



1d

Continuous improvement: Individuals striving for continuous improvement and driving excellence

Working on an audit is a continuous learning and development experience. We want our people to drive excellence, embrace change and look at new and better ways of performing our audits, thereby improving the experience for both the companies we audit and our people.



Overview

Every audit engagement is different, varying in size, complexity, risks, and so on. This diversity, coupled with increasing regulation, is a major consideration in our efforts to achieve consistently high-quality outcomes right first time across every audit that we do. We want our people to have a mindset of continuous improvement, driving excellence and embracing change, looking for new and better ways of working.

We want to create an environment giving our people the best chance of getting things right first time. There will always be areas for further development, but with the right training, right coaching, and effective use of our tools and enablement, we will create the right environment to achieve continued high-quality audits. If we focus time earlier in the audit cycle on identifying risks and challenging our audit approach, and improve our project management, this will help us to get it right first time and will also help towards reducing and rebalancing work intensity for our people.

The key focus of this area is:

Simplification

- ▶ **Embed, create and share best practice and areas of simplification:** We will run a targeted campaign focussed on sharing and celebrating best practice and areas of simplification across the audit practice. The campaign will be designed to drive engagement and energy. We will use our quality enablement representatives and audit quality sponsors in each office to support the identification and promotion of examples identified to ensure they are used and embedded.
- ▶ We will develop a **clear and concise writing programme**, delivered online supplemented with locally activated sessions delivered in live groups to help improve documentation skills.

Driving consistency

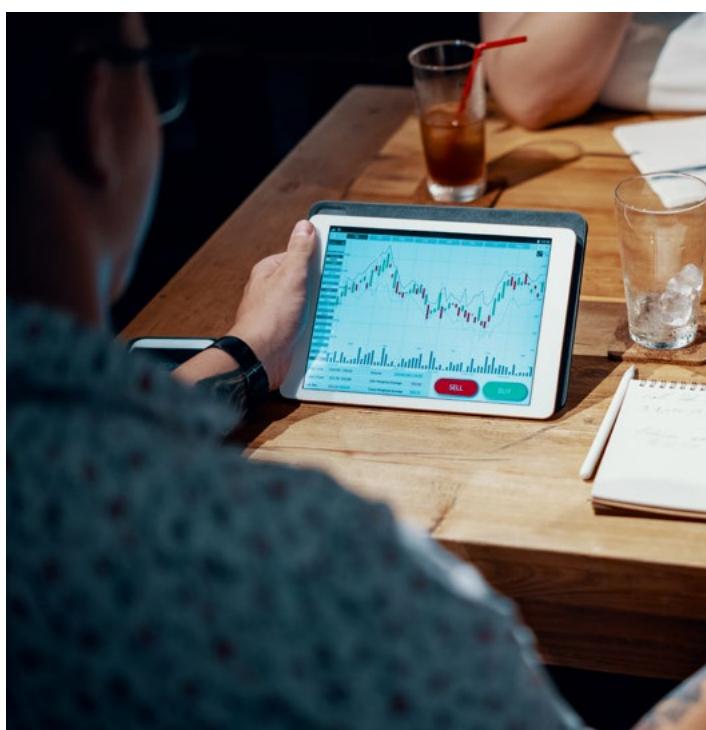
- ▶ **Industry-standardised audit work programmes** – we will develop industry-standardised work programmes focussed on sector-related significant and fraud risks in industries with multiple audits or similar characteristics.
- ▶ We will also develop and continue to mandate the use of **standardised working papers** across routine areas of the audit and, in parallel, increase the use of centres of excellence and offshore delivery centres.

How do we know it is working?

Various survey and polling questions have indicated that the majority of our people have used the guidance and enablers released to date – and of those that had used them, 95% found them useful. In addition to this, positive feedback has been received from teams during our Root Cause Analysis process in relation to the enablement documents and how these contributed to high audit quality.

We will continue to monitor the progress in this area though:

- ▶ Reduced duplication of audit effort through simplified processes, documentation and enablers – tracked through feedback from teams;
- ▶ Clear, concise and consistent documentation – tracked through feedback from our internal review and quality control processes; and
- ▶ Feedback from our external inspections through their identification of good practice and absence of findings in areas where best practice enablement has been developed.



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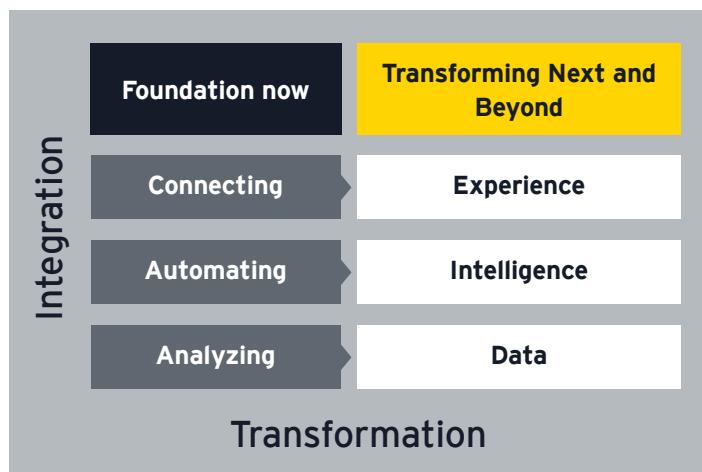
Technology in the audit: Cutting edge global technology driving high- quality audits.

Using our data-driven methodology, our digitally skilled audit teams drive value by providing:

- ▶ Confidence in the quality and rigour of the challenges facilitated by objective analysis and understanding of full data populations.
- ▶ Data-driven insights supporting deeper risk focus and continued high-quality audits.
- ▶ Context by delivering right-sized digital audit approaches, which change over time to align to companies' transformational agendas and changing technologies.

Technology is evolving at a rapid pace – and whilst the development and deployment of this technology can allow the analysis of all data, leading to more efficient high-quality audits, it can also result in new and emerging risks. EY UK has developed – and continues to develop – tools to address these risks. In addition to this, the global EY organisation is investing more than US\$1b in next-generation Assurance technology. This investment is building on the strength of the existing leading-edge audit technology suite – **integrating** advanced technologies under one seamless platform while driving **transformation** by harnessing:

- ▶ Next-generation **data** access capabilities and advanced analytics
- ▶ Artificial **intelligence** (AI) at scale
- ▶ An elevated user **experience**



Spotlight on driving quality through technology

Next-generation data access capabilities and advanced analytics

Advanced data capabilities help to drive quality by supporting the analysis of entire data populations – supporting data-driven auditing that is embedded into our Global Audit methodology. EY Helix, our global suite of analytical tools, already supports the use of mature analytics throughout the audit – allowing EY UK teams to drill down on the right data at the right time and better understand the audited company and its risk landscape. By further integrating advanced analytics directly into the workflow of EY Canvas, we will significantly elevate the user experience, and further build the confidence and digital skills of our auditors. Furthermore, this forms a strong foundation to expand the use of AI at scale and capture the opportunities the technology developments provide for the quality of our audits.

Enhancing data capture and analysis capabilities helps to provide further confidence in a high-quality audit by widening the range of data used to obtain audit evidence, including both disaggregated and nonfinancial data.

AI at scale

AI at scale and other intelligent capabilities will help to drive quality by standardising processes and leveraging data to provide risk guidance and relevant insights and breadth of knowledge to EY UK teams. Existing smart automation capabilities enable teams to focus more quickly on the risk areas within a task, such as EY Intelligent Checklist, and automate and enhance routine audit activities, such as EY Financial Statement Tie-out, again allowing greater effort to be spent on higher-risk areas. Looking ahead, additional guided workflow and other AI enhancements will take this to the next level, using the knowledge and learnings of other EY UK teams to support deeper risk focus and continued confidence in a high-quality audit.

An elevated user experience

A leading-class experience helps to drive quality by facilitating highly integrated and consistently executed audits worldwide. EY Canvas sits at the centre of the audit experience today, supporting effective coordination, consistent documentation and easier collaboration between EY teams and companies around the world. Integrating a guided workflow, data and knowledge under a single platform empowers EY teams to access all the capabilities involved in providing high-quality audits whilst also empowering company users with new features to better understand the status of the audit.

Investing in talent

Investing in talent is critical to providing high-quality audits that drive value for audited companies and the broader stakeholder community. EY Assurance has worked extensively to develop tailored, technology-focussed career frameworks that help EY professionals forge a career path built on advanced digital skills and proficiencies.

EY Badges – Comprehensive digital badges in topics such as data visualisation and AI – are available to EY Assurance professionals globally. They help teams to stay at the forefront of the latest emerging technologies, both from a company-impact and audit-impact perspective.

Tech-focussed MBAs – We have partnered globally with Hult International Business School to provide accredited corporate MBAs in Technology and Business Analytics that are linked directly to the EY Badges programme.

3

Governance: Clear structure for oversight and monitoring of audit quality in the UK



There are several global roles and functions that have direct accountability for creating, implementing, improving and monitoring activities related to audit quality control. We have embedded and built upon these global roles to develop a clear structure for the oversight and monitoring of audit quality in the UK.

Below is a summary of each of the key Boards and Committees that perform the oversight and monitoring of audit quality in the UK. Further details on each is included in the [EY UK 2024 Transparency Report](#).

EY UK Board

The EY UK Board is the ultimate governance body of EY UK and is responsible for promoting and protecting the interests of the firm and the general and operational management of the firm as a whole, including overseeing compliance with all applicable professional regulatory and legal requirements.

Public Interest Board (PIB)

The remit of the PIB is to enhance the firm's performance in meeting the purpose of the Audit Firm Governance Code (AFGC), which has the following principal objectives: to promote audit quality; to safeguard the sustainability and resilience of the audit practice and EY UK as a whole; and to ensure EY UK takes account of the public interest in its decision-making particularly in audit. In connection with the AFGC's purpose, the PIB is responsible for the independent oversight of the firm's policies and procedures in relation to financial resilience, governance and leadership, values and culture, and risk management and resilience. Bi-annual updates on the UK people strategy and people policies, to help ensure the public interest is protected, are included on the PIB agenda.

Audit Board and Audit Remuneration committee

The Audit Board and Audit Remuneration Committee were established in order to fulfil the Financial Reporting Council's requirements on operational separation. The role of the Audit Board is to provide independent oversight of the firm's pursuit of audit quality improvement by ensuring that people in the EY UK Audit Practice are focussed above all on the delivery of high-quality audits in the public interest, having regard to the need to ensure that audit remains an attractive and reputable profession and to increase deserved confidence in audit. EY UK has also established an Audit Remuneration Committee as a sub- Committee (ABRemCo) of the Audit Board. The Audit Remuneration Committee's role is to oversee the remuneration of audit partners, with audit quality being a key consideration.

Accountable Executive Committee

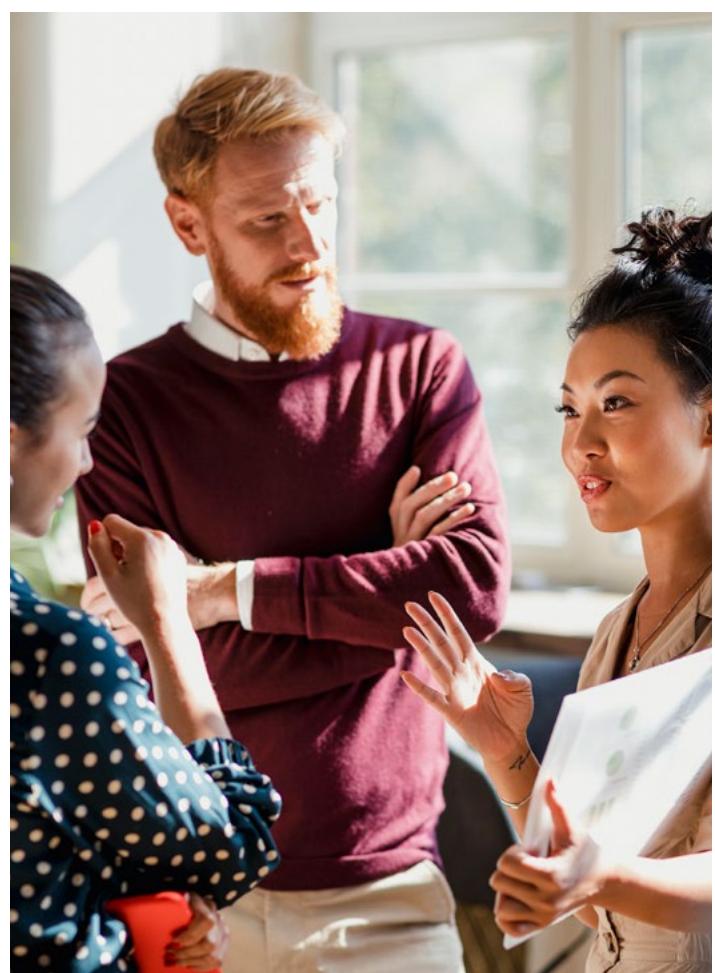
The Accountable Executive Committee is responsible for ensuring the FRC's principles and outcomes for operational separation are delivered, embedded and monitored.

Audit Quality Executive Committee (AQE)

The AQE oversees all matters relating to audit quality and meets monthly. Specialist oversight committees have also been put in place to monitor specialist resourcing, training and communication as part of operational separation.

UK Country Committee (UKCC)

The purpose of the UK Country Committee (UKCC) is to manage the operations of the firm with respect to matters that have, or may have, a UK country-specific impact, including legal, regulatory, and reputational matters and financial resilience. This includes reviewing and approving matters related to ISQM1 controls. See [EY UK 2024 Transparency Report](#) for further details in relation to our system of quality management. The UKCC reports directly into the EY UK Board.



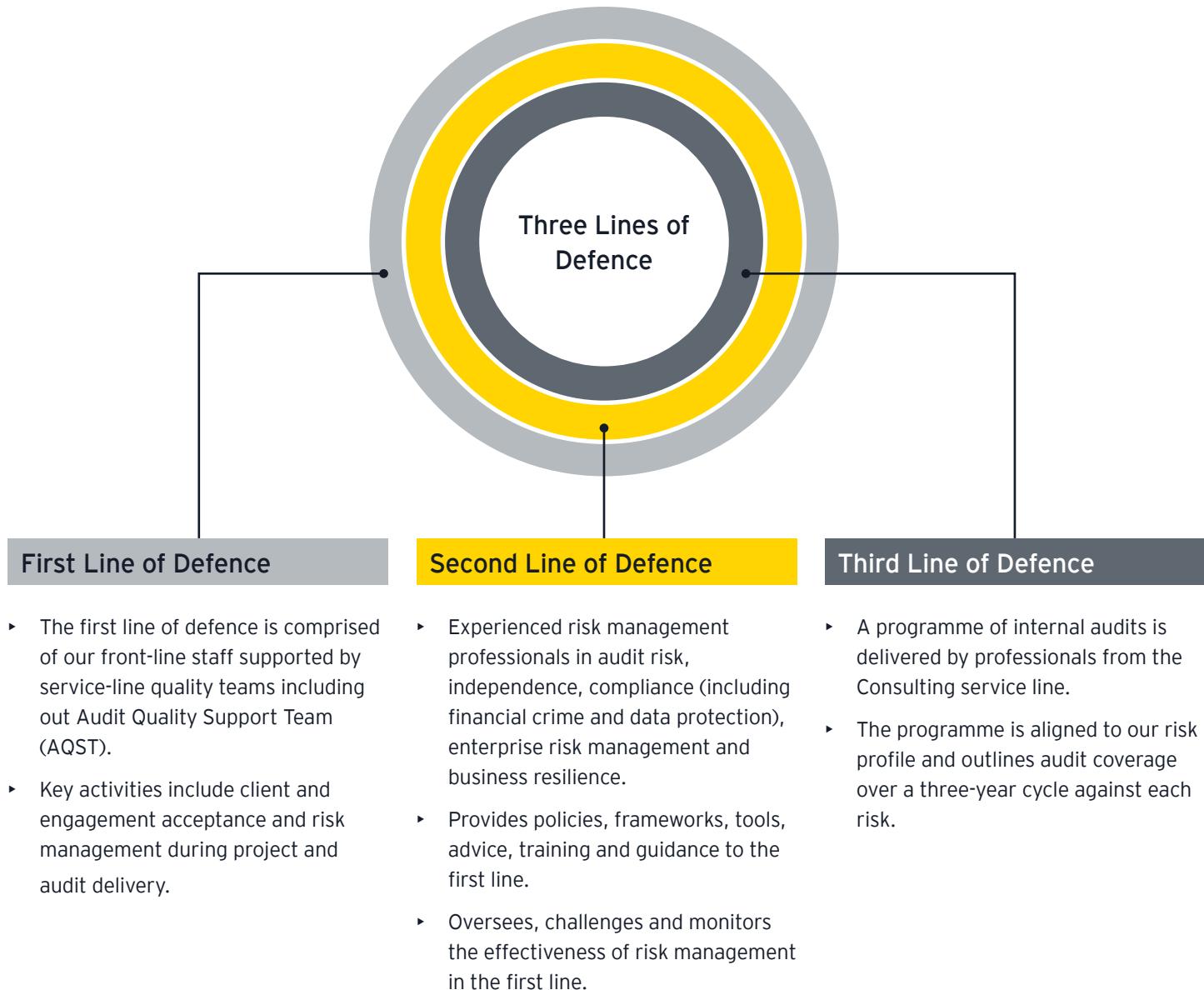
4

Three Lines of Defence: EY UK operates a robust 'Three Lines of Defence' model for risk management

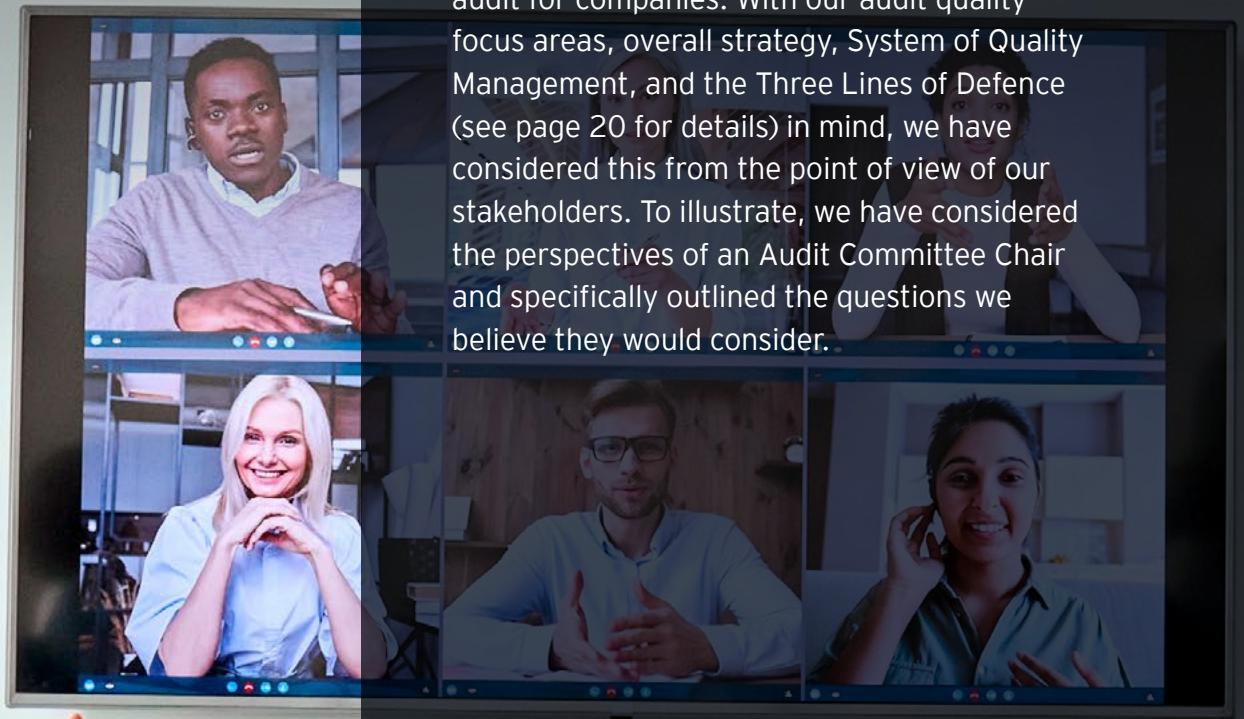
The environment in which we operate creates a broad range of diverse risks. Effective management of these risks is critical to safeguarding EY UK, delivering on its purpose and ambition, and ensuring alignment with the risk management principles of the Audit Firm Governance Code (AFGC). Consequently, we operate a robust risk management process to identify, assess, measure and monitor the risks it faces. There are also investments in initiatives to promote enhanced objectivity, independence and professional scepticism in the delivery of audits.



Our Three Lines of Defence are made up of:



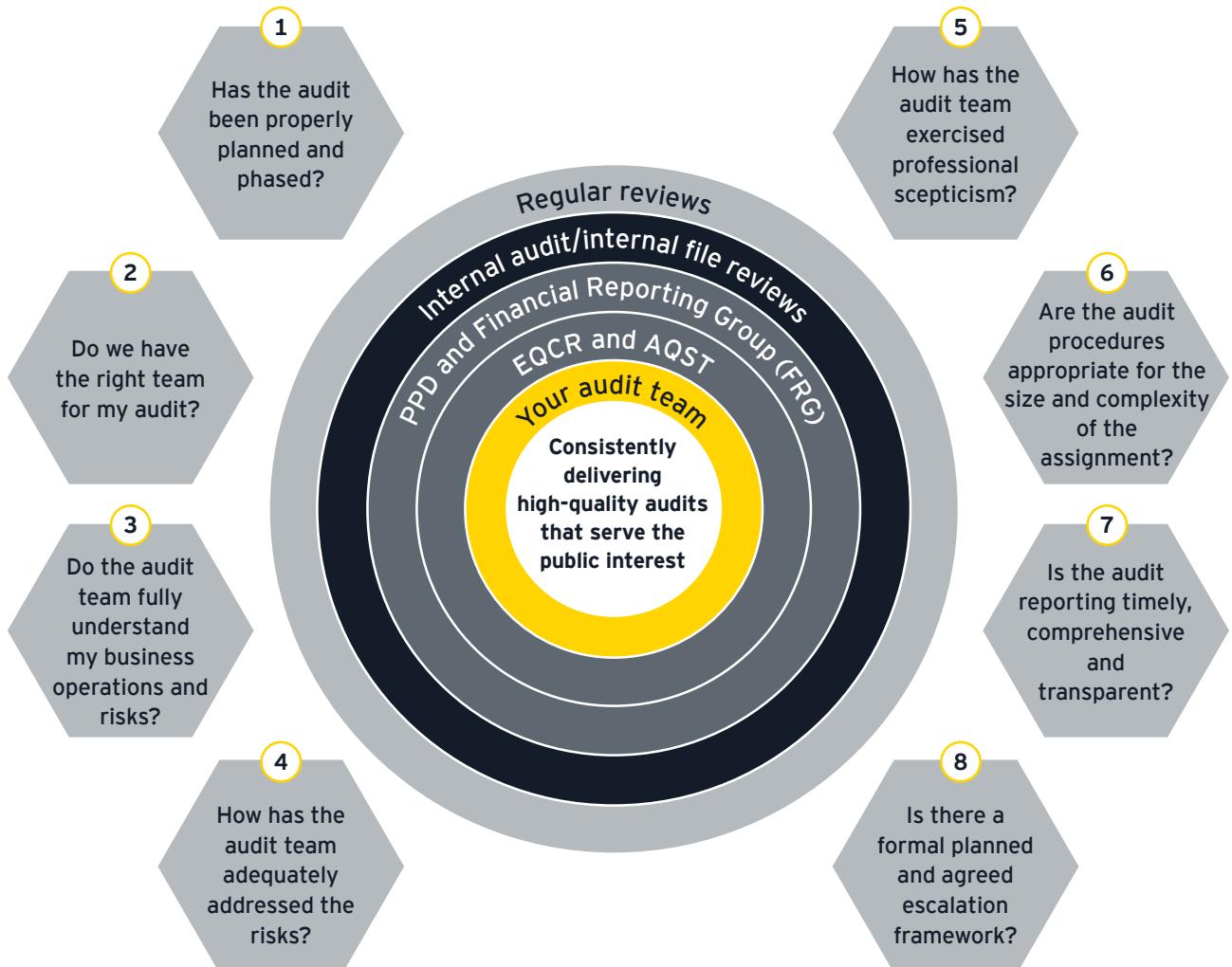
5



Translation into a high-quality audit for companies: Our strategy and governance structure paves the way for performing high-quality audits

On the previous pages, we have set out our key focus areas, actions and risks for FY25. We now look at how these translate into a quality audit for companies. With our audit quality focus areas, overall strategy, System of Quality Management, and the Three Lines of Defence (see page 20 for details) in mind, we have considered this from the point of view of our stakeholders. To illustrate, we have considered the perspectives of an Audit Committee Chair and specifically outlined the questions we believe they would consider.





The questions above are all addressed by our audit quality strategy, specifically:

- ▶ Resourcing interventions, implemented under the FY24 rebalancing work intensity workstream and now business as usual, including:
 - ▶ Appropriate intervals of intensity built into portfolios allowing our people to be focussed, and able to think clearly and effectively whilst working on engagements. [Questions: 1, 2, 4, and 5]
 - ▶ Ensuring that we have appropriate teams with the relevant experience for each audit. [Questions: 1 and 2]
- ▶ The Curious mindset bespoke skills development programme will help our people to further develop business acumen skills, understanding the environment and businesses that we audit and promote professional scepticism. [Questions: 3, 4, 5, and 6] (see page 11 for further details)
- ▶ Continued additional support in the form of our AQST, Global coaching and engagement quality control review results in proactive coaching of teams. [Questions: 2, 4, 6, and 7] (see page 13 for further details)
- ▶ Re-energising our Purpose-Led Outcome Thinking (PLOT) initiative will result in early executive involvement ensuring upfront planning, considerations of risks and the determination of the need for any specialists in the audit. [Questions: 2, 3, 4, 5, 6, 7 and 8] (see page 13 for further details)
- ▶ Providing teams with the tools to clearly and concisely document the work done and challenges made through training and the release of standardised working papers and good practice examples [Questions: 3, 4, 5, 6, and 7] (see page 15 for further details)
- ▶ Through our Culture of Audit Quality roadshows and ethics training, we are promoting the importance of the right behaviours and having the confidence to challenge, both internally and externally, and remaining professionally sceptical. [Questions: 1, 2, 4, 5, 6, and 8] (see page 9 for further details)

6

Auditors in action: Achievements of our auditors in FY24

Some achievements of our auditors during FY24 including our audit trust award nominees and winners, exam success and EY Badges.



Over
400

nominations for our
Audit Trust Awards
across the 9 categories. Our 2023
overall winner was a team nominated
in more than one category. The team
demonstrated good communication
skills, scepticism, and confidence to
constructively challenge.

732

EY Badges initiated in FY24 on
a variety of topics including: Artificial
Intelligence; Cybersecurity; and Data
strategy.

494

People completed their professional
accountancy qualifications in FY24

Our other winners included

Contributions
to sharing
knowledge
and coaching
in relation to
adaptability
and innovation

Exceptional
coaches

Having the
confidence to
challenge

Demonstrating
a sceptical
mindset

Getting it
right first time

Over
16,000

Applause awards given to
recognise colleagues
in relation to our EY UK values



7

Audit in the spotlight: Reputational challenges and steps taken by EY

In recent years there have been various reputational challenges faced by EY globally, along with the wider profession. In this section, we have set out four notable issues and the steps we are taking to address them.



Ongoing FRC audit investigations

Over the last 12 months the FRC has issued sanctions relating to our 2017 audit of London Capital & Finance (LCF) and our 2021 audit of Evraz plc. The FRC also has open investigations into four EY audits with year ends ranging from 2018 to 2021. We are committed to working with the regulator to support the delivery of consistent high-quality audits and have already implemented improvements to address the issues identified during the investigations of our LCF and Evraz audits. As a firm we have a public interest responsibility to deliver high-quality audits and build trust and confidence in capital markets.

Our refreshed audit quality strategy emphasises the importance we place on a strong audit culture and professional scepticism, and we continue to make significant investments in our processes, people and technology. We have enhanced the capacity of our UK audit business, increasing headcount by nearly 400 people in the last financial year, and continue to implement new tools, resources and training to ensure there is greater standardisation across our audits. Globally, new assurance technology capabilities, including advanced data analytics, enhance our approach and drive more consistent execution across our business.

Further details on our open investigations can be found in the [EY UK 2024 Transparency Report](#).

Audit and corporate governance reform

In July 2024, the UK Government announced its intention to put forward a draft Audit Reform and Corporate Governance Bill. This legislation would introduce a range of audit and corporate governance reforms, including the establishment of a new regulator, enhanced director accountability and increased scrutiny over the audit of large private companies.

EY UK has consistently advocated for a stronger regulator and enhanced director accountabilities and we are pleased to see audit and corporate governance reform return to the legislative agenda. The UK's attractiveness as an investment destination, international competitiveness and economic growth depend on the implementation of smart, considered regulation. Given that many of these proposals were initially drafted several years ago, they will need to be updated to reflect the current UK market and we look forward to the publication of further details in the future.

Public sector audit

There has been a recognised deterioration in the timeliness of the completion of local public audits since 2017/18 across local government in England, with delays compounding during the COVID-19 pandemic. The challenges facing the existing

framework for local authority audits in England have been highlighted by auditors, the Redmond Review, the National Audit Office, PSAA Ltd, the Local Government Association and Parliament – through Select Committee hearings. The critical factors leading to these delays are multi-layered and are well documented through these forums. Measures to seek to address the local public audit market were first announced in July 2023. On 9 September 2024, the UK government tabled legislation in Parliament to address the local government audit backlog. This Statutory Instrument, laid alongside the revised Code of Audit Practice from the National Audit Office (NAO), will introduce backstop dates for local bodies and their auditors to publish audited accounts. For financial years up to 2022/23, the backstop date is 13 December 2024 and for 2023/24, 28 February 2025. The NAO has developed Local Audit Reset and Recovery Implementation Guidance notes (LARRIGs) to help auditors meet the requirements of the revised Code of Audit Practice.

EY UK remains committed to delivering high quality local audit in the public interest. In line with our strategy, EY UK continually reviews our portfolio of appointments to ensure the appropriate resourcing necessary to deliver high-quality public audit and to maximise the level of assurance provided. As such, in our successful appointment to a new PSAA contract starting from 2023/24, we bid specifically to reduce our market share to better match available audit resources. We continue to work with the system stakeholders to understand their expectations of all auditors to implement the government's policy proposals effectively.

Independence

Independence continues to be a key priority for our firm and our Global Independence Policy requires EY UK and our people to comply with the independence standards applicable to specific engagements (e.g., the IESBA Code) and the updated Financial Reporting Council Ethical Standard. We consider and evaluate independence with regard to various aspects, including: our financial relationships and those of our people; employment relationships; business relationships; the permissibility of services we provide to entities we audit; applicable firm and partner rotation requirements; fee arrangements; audit committee pre-approval or pre-concurrence, as applicable; and partner remuneration and compensation. In order to support this, we have a number of global applications, tools and processes available. Furthermore, during this year we have enhanced our consideration of threats and safeguards and related monitoring, and introduced further guidance and support on personal independence, including a related documentation service to assist individuals with their personal independence reporting to ensure that this is accurate and complete.

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