

Ms Rachel Reeves
Chair of the Business, Energy and Industrial Strategy Committee
House of Commons
London
SW1A 0AA

06 March 2019

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Dear Ms Reeves

Additional information requested - supporting my evidence provided on 30 January 2019

Thank you again for inviting me to provide evidence to your committee at the Future of Audit hearing on 30 January 2019.

Please find attached our response to your request for additional information in your letter dated 13 February 2019.

In preparing our response, we have endeavoured to provide you with the most fulsome information we can collate. However, there are some instances where we have been unable to source all the data you have requested.

We understand the importance of transparency in the BEIS inquiry. We respectfully ask that, should you decide to publish our responses, we have an opportunity to discuss the treatment of the commercially sensitive information provided before you do so.

If you have any further questions related to our submission, please do let me know.

Yours sincerely,



Steve Varley
Chairman

Cc: Chris Shaw, Clerk, Business, Energy and Industrial Strategy Select Committee

EY Response - Request for additional Information from the BEIS Select Committee - 06 March 2019

BEIS Select Committee Follow up:	EY Status:																											
<p>1. For each year for the last five years, what percentage of your FTSE350 audits cost significantly more (>10%) than originally budgeted. Of those that did cost more:</p> <p>a. How many did you take up with the audit committee?</p> <p>b. Of these, how many did you successfully renegotiate the fees for?</p>	<table border="1"> <thead> <tr> <th>Financial Year</th> <th>Percentage of EY's FTSE 350 audits that cost at least 10% more than originally budgeted</th> <th>Of those that did cost more, how many did EY take up with the audit committee</th> <th>Of these, how many did EY successfully renegotiate the fees for?</th> </tr> </thead> <tbody> <tr> <td>FY14</td> <td>25%</td> <td>54%</td> <td>100%</td> </tr> <tr> <td>FY15</td> <td>26%</td> <td>62%</td> <td>100%</td> </tr> <tr> <td>FY16</td> <td>31%</td> <td>67%</td> <td>100%</td> </tr> <tr> <td>FY17</td> <td>44%</td> <td>63%</td> <td>100%</td> </tr> <tr> <td>FY18*</td> <td>32%</td> <td>53%</td> <td>100%</td> </tr> </tbody> </table>	Financial Year	Percentage of EY's FTSE 350 audits that cost at least 10% more than originally budgeted	Of those that did cost more, how many did EY take up with the audit committee	Of these, how many did EY successfully renegotiate the fees for?	FY14	25%	54%	100%	FY15	26%	62%	100%	FY16	31%	67%	100%	FY17	44%	63%	100%	FY18*	32%	53%	100%			
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<p>Assumptions:</p> <p>For the purposes of this table, the companies included are those we audit who were in the FTSE 350 at the end of each EY financial year (i.e., the FY14 data is based on the companies who were in the FTSE 350 on 30 June 2014, which is EY's financial year end).</p> <p>Some of the fee discussions only covered the UK portion rather than the global fee.</p> <p>Agreed scope changes (e.g. additional audit procedures as a result of a major acquisition) are excluded from this analysis. This analysis captures, for example, additional time required due to client data and information inaccuracies, delayed response rates to our enquiries, changes in audit team members during the audit, etc.</p> <p>*Discussions with one of the FY18 companies is pending and is included in the first column only. The outcome of these discussions may influence the second and third column.</p>																												

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<p>2. How much did you spend overall on FTSE 350 client hospitality and entertainment provided to audit clients and how many such events were held, in each of the last five financial years?</p>	<table border="1"> <thead> <tr> <th>Financial Year</th> <th>Total hospitality and entertainment spend on FTSE 350 companies that EY audits (£)</th> <th>Number of events held</th> <th>Average cost per individual (£)</th> </tr> </thead> <tbody> <tr> <td>FY14</td> <td>141,849.72</td> <td>448</td> <td>55.11</td> </tr> <tr> <td>FY15</td> <td>218,097.28</td> <td>452</td> <td>88.12</td> </tr> <tr> <td>FY16</td> <td>193,989.21</td> <td>492</td> <td>63.75</td> </tr> <tr> <td>FY17</td> <td>116,442.72</td> <td>434</td> <td>43.84</td> </tr> <tr> <td>FY18</td> <td>98,213.52</td> <td>340</td> <td>43.83</td> </tr> </tbody> </table>	Financial Year	Total hospitality and entertainment spend on FTSE 350 companies that EY audits (£)	Number of events held	Average cost per individual (£)	FY14	141,849.72	448	55.11	FY15	218,097.28	452	88.12	FY16	193,989.21	492	63.75	FY17	116,442.72	434	43.84	FY18	98,213.52	340	43.83
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3. How much did you spend on FTSE 350 client hospitality and entertainment provided to non-audit clients, who subsequently became audit clients, in each of the last five financial years?	Financial year	Total hospitality and entertainment spend on non-audit clients for which EY subsequently became auditor (£)	Number of events held	Average cost per attendee (£)
	FY14	158,073.33	575	61.87
	FY15	115,297.29	296	78.75
	FY16	20,057.73	66	92.43
	FY17	10,856.22	68	17.18
	FY18	666.00	6	51.23

Assumptions:

For the purposes of this table, the companies included are those we audit who were in the FTSE 350 at the end of each EY financial year (i.e., the FY14 data is based on the companies who were in the FTSE 350 on 30 June 2014, which is EY's financial year end).

The date a non-audit client becomes a company we audit is determined based on the start of the professional engagement period (as set out in the US Securities and Exchange Commission rules).

For certain events, the total spend relates to both individuals from the audited company **and** EY staff. We have therefore included the average cost per individual, which is calculated by dividing the total spend by the number of attendees.

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This data has been extracted from the firm's accounting systems and records for expenses incurred on: (i) individual hospitality for companies we audit; (ii) events provided by external providers; and (iii) mass marketing events (e.g. the Tate art galleries) attended by representatives from a variety of companies we audit.

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	<p>In respect of our mass marketing events, we have provided the available data. However, please note that this data is limited in places due to (i) the absence of a centralised record-keeping system for this data, and (ii) our GDPR compliance practices, adherence to the data minimisation principle.</p> <p>We do not retain records of invitations to events (as opposed to attendance). Accordingly, in response to the request in question 4 for data concerning invitations to events, and in the hope that it may assist, we have substituted attendance data.</p>
<p>4. For each new FTSE 350 audit client taken on over the last five years, how many hospitality and entertainment events did you invite them to before they became a client?</p>	<p>Please see above.</p>
<p>5. What targets are senior audit managers set to progress to audit partner level?</p> <p>Can you provide progression letters and appraisals¹ which illustrate the targets used and how they are assessed?</p>	<p>Targets and expectations for EY's UK senior managers aspiring to progress to partner level are set against the EY Global Rank Expectations along with the Professional Responsibilities and Audit Quality Expectations.</p> <p>Senior manager targets and expectations are assessed against five key pillars: 1) Quality, risk management and technical excellence; 2) Business leadership which includes business acumen and innovation; 3) Client leadership; 4) Team leadership; and 5) Personal leadership.</p> <p>Both the Professional Responsibilities and Audit Quality Expectations are focused on the behaviours that EY requires all senior managers globally to demonstrate. EY provides senior managers with examples of both the minimum requirements as well as 'Gold Standard' behaviours, which act as aspirational or stretch goals developed to guide and challenge our people when striving to be the best - particularly in demonstrating the highest standards of quality, risk management and technical excellence.</p> <p>Indicators of our senior managers' performance are then considered against these expectations and the performance outcomes captured in the annual Continuous Development Plan (CDP). Performance metrics consist of both quantitative and qualitative measures. The quantitative measures include category grading on any internal or external inspection, and the extent to which the senior manager has embedded into their audit engagements key audit enhancements such as Purpose Led Outcome-oriented Thinking (PLOT). The qualitative measures include feedback from the</p>

¹ Considering our obligations under the EU General Data Protection Regulation and the Data Protection Act 2018, we have not included information which contains personal data as defined therein, such as appraisal forms or progression letters.

	<p>audit partner on the extent to which the senior manager engages in firm-wide audit quality initiatives, and feedback from the audited company (focusing on the clarity of complex technical advice).</p> <p>In addition to the above, the leadership behaviours and capabilities of candidates looking to progress to partner level are also reviewed and assessed against the EY Leadership Model. This forms part of the measurement process when considering a candidate's readiness and competence for promotion to partner.</p> <p>EY's enhanced development and career management system - called EY Leadership Evaluation and Development (LEAD) - came into effect in 2017 and introduced a gold standard metric which is designed to encourage high performance activities and outcomes measured in a 90-day cycle. These quarterly milestones are also linked to the candidate's longer-term aspirational goals.</p> <p>All partner candidates are expected to conduct a self-assessment against the Global EY defined gold standard, which is based on a 'Global Six Metrics' framework. These metrics are segmented into: 1) Qualitative metrics focused on delivering exceptional client service, quality and effective risk management and people engagement and teaming; and 2) Quantitative metrics focused on key performance indicators relevant to the candidate's work.</p> <p>Partner Admission Process:</p> <p>The EY Partner Admissions Centre business case template is completed by each partner candidate. It is used to document and assess an individual's personal and business case, and includes individual achievement of key financial metrics. Non- partner audit signatories (Audit Associate Partner) also complete the same process.</p> <p>Regional Service Line (SL) Quality Leaders conduct a quality and risk management interview. The SL Quality Leader and Independence Leader provide the results of the interviews and Personal Independence Compliance Testing (PICT) to a Regional Risk Management (RM) Leader. The RM Leader, in consultation with SL Quality and Independence Leaders, then make the decision on whether the candidate is ready for promotion.</p>
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	<p>Independence Assessment Process:</p> <p>EY's Regional Independence Team conduct PICT with all partner candidates. Associate partners and partners also complete a quarterly independence sign-off process within the EY Global Monitoring System (GMS).</p> <p>As part of the Internal Partner Admittance process, candidates are required to complete an individual partner scorecard, outlining their objectives for their first year as a partner. The appraisal form is required to be completed by partners and is used to measure and moderate performance annually.</p>
<p>6. Can you tell me how audit staff remuneration and progression is affected by audit quality issues and can you provide examples, such as appraisal forms², of how this is captured for each audit staff group (e.g. audit partners and audit managers)?</p>	<p>EY has a global assurance accountability framework for audit quality. Audit quality is fundamental to EY's purpose and role in serving the public interest by conducting high quality audits which support the effective functioning of the capital markets.</p> <p>EY uses a combination of internal and external evidence to recognise, reward and celebrate those who enable, execute, deliver and support high quality audits. We also evaluate fairly and hold our people accountable for identified lapses in audit quality.</p> <p>All participants in the audit process - from the engagement team to leadership at national level - are accountable. This includes specialists from other service lines who support the audit process. This also extends to the Managing Partner (MP), Assurance Managing Partner (AMP), Professional Practice Director (PPD) and Quality Enablement Leader (QEL) in each region, and the various teams that support these individuals.</p> <p>The regional Area Managing Partner (AMP), Professional Practice Directorate (PPD) and Quality Enablement Leader (QEL) provide perspectives on quality actions, results and outcomes that are to be considered in determining each region's quality rating.</p> <p>The rating is determined by the Area PPD and Area AMP with input from others. These ratings are then submitted to the Global Assurance leadership team, including the Global Vice Chair - Assurance, the Global Deputy Vice Chair - Assurance, and the Global Vice Chair - Professional Practice, for their input and review.</p>

² Considering our obligations under the EU General Data Protection Regulation and the Data Protection Act 2018, we have not included information which contains personal data as defined therein, such as appraisal forms or progression letters.

	<p>In the UK, EY follows the following process when remunerating and progressing audit staff:</p> <ol style="list-style-type: none">1. The performance of audit managers and senior managers is measured against Global Rank Expectations and Professional Responsibilities. Quality and risk management is part of an individual's overall performance. We have addressed this question in more detail above (BEIS Select Committee information request question 5).2. Through the EY UK appraisal process, managers are allocated a Quality rating on a scale of (high to low) described as: Noteworthy, Meets, Did Not Meet or Significant Quality Issue.3. For positive quality performance, managers are rewarded through a bonus structure linked to the overarching scorecard. EY also recognises performance through a discretionary bonus to reward individual achievement.4. Where internal or external reviews results in a high-quality rating, individuals will receive both an EY performance share and an EY performance award.5. If individuals receive an adverse quality outcome, consideration will be given to both the individual's level and contribution when determining if a sanction is appropriate.6. Where EY UK considers it is appropriate for an individual to be sanctioned in relation to audit quality, EY will not award a bonus.7. Individuals identified as not meeting EY expectations in relation to audit quality are not eligible for promotion, until any quality issues are remediated.8. The EY Audit Quality Outcome is captured through the annual CDP.
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EY UK audit partner remuneration is considered against the following:

1. Audit partners receive an EY LEAD quality rating on a scale of 1-5. This is determined by the EY Audit Quality Review Panel (which reports to the Audit Quality Review Board) that considers both the internal EY and external regulatory inspection result and 8 other criteria which we consider important to audit quality
2. This rating is captured as part of the EY Partner's Self-Assessment Form.
3. EY UK Audit comply with a "Cap" and "Floor" policy adopts a graded approach to performance.

Quality cap

Quality Rating	Performance category
3	No higher than "Differentiating"
2	"Progressing" or lower
1	Lowest LEAD category

Quality floor

Quality rating	Performance category
4	"Progressing" or higher
5	"Differentiating" or higher

4. When a deviation from the Quality Cap and Floor is proposed, the AMP and Area PPD are consulted before the LEAD category assignment is finalised.
5. An adverse quality rating would have an outcome of a quality rating below 3, indicating that the delivery of quality did not meet expectations and would result in a reduction of earnings. In addition, the EY partner would not be eligible for an Exceptional Performance Award (EPA).
6. With consideration to the partner's role on the audit, a positive internal or external result would be rewarded via partner earnings and/or an EPA.

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	<p>7. Audit partner and or Responsible Individuals (signatories) determined as restricted partners, are not permitted to have goal plans or recognitions that reward or encourage behaviours that contravene ethical guidelines.</p>
<p>7. Can you confirm that you will be collating and publishing your pay ratios and pay quartiles in respect of gender and BAME next year, and, if you already have this information, can you provide me with this?</p>	<p>EY UK publishes gender pay gap data in line with the mandatory reporting requirements. We have also gone beyond this and published our pay gap data for ethnicity (BAME) and incorporated data for our UK partners. This data includes pay quartiles for both gender and ethnicity. Details of our 2018 report can be found on our website.</p> <p>We also intend to voluntarily report our "Executive Pay Ratio" (e.g., CEO to median employee pay ratio) even though the relevant reporting requirements are not applicable to partnerships.</p>
<p>8. Do your internal reviews of audits change audit outcomes and can you provide examples?</p>	<p>Our EY UK audits are subject to different internal review processes before finalisation, depending on the nature of the audit.</p> <p>Please find incorporated as part of Appendix 1 a table which illustrates the audit review processes, scope of application, procedures and potential outcomes.</p> <p>As well as the processes set out in Appendix 1 all audit work for every EY audit engagement is reviewed first in detail and then by a second level reviewer.</p>
<p>9. Please list the technology you share with your network's member firms in other countries.</p>	<p>Our EY Global (EYG) network and member firms are committed to delivering high-quality services worldwide, through the implementation of global strategies, platforms and technologies. EY member firms are also required to comply with common standards, methodologies and policies, including those regarding audit methodology, quality and risk management, independence, knowledge sharing, human resources, and technology.</p> <p>In 2012, EY globally announced a significant investment in technology to support the delivery of consistent high-quality, digitally enabled, audits across all network firms. Since then some \$400m has been invested to develop technologies integrated with our global audit methodology.</p> <p>EY uses the integration globally of three main technologies to deliver audits:</p> <ol style="list-style-type: none"> 1. EY Canvas – our global audit platform lies at the heart of the audit and enables us to provide a high-quality audit. EY Canvas is an online platform that links all team members, wherever they are in the world, through one global audit methodology. It enables EY to provide a consistent in-country audit while also providing data security. Additionally, it allows us to

	<p>quickly evolve our software to respond to changes in the accounting profession and regulatory environment.</p> <p>Using profile questions, audit engagements in EY Canvas are automatically configured with information relevant to an entity's listing requirements and industry. This helps to keep our audit plans customised and up to date, and provides a direct linkage to our audit guidance, professional standards and documentation templates. EY Canvas is built with a user interface that allows the team to visualise risks and their relationship to the planned response and work performed in key areas. It also allows for centralised planning and monitoring of group audits enabling our group audit teams to communicate inter-office risks and instructions into component files and to receive reporting deliverables directly back into the primary team file. Access to component team files also facilitates the required oversight of their work. Embedded functionality facilities are project managed by tracking progress against audit milestones.</p> <p>Audit engagement teams use globally developed EY forms and template working papers delivered through EY Canvas during various phases of an audit to assist in executing procedures, making and documenting audit conclusions, and performing analysis.</p> <p>There are also a range of mobile apps that work together with EY Canvas, enhancing the digital experience for the company and our engagement teams.</p> <ul style="list-style-type: none">• EY Canvas Pulse allows our teams to provide real-time status updates to companies on the go, thanks to the instant visibility of the engagement status, timelines and team performance.• EY Canvas Engage helps our teams keep the audit moving and meet deadlines by displaying the actions required on an engagement. Its camera feature allows our people to capture audit evidence and securely upload it into EY Canvas.• EY Canvas Inventory allows our teams to record inventory counts on their mobile devices and upload them directly into EY Canvas. <p>EY Canvas includes a Portal to assist teams in communicating with companies that EY audits, streamlining requests and providing better security of data. The portal allows teams to monitor the progress of audit requests in real time and delivers information provided straight into the audit file.</p>
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	<p>2. EY Helix - is our global analytics platform which includes a suite of data capture and analytics tools for use in audits across the world. At EY, we are making data analysis integral to our audits. Our use of data and analysis is not about additive procedures or visualisations. It is about taking large populations of company data, and applying our globally consistent technology (EY Helix) and methodology to audit that data. These data analysers are transforming the audit through the analysis of larger populations of audit-relevant data, identifying patterns and trends in that data, and helping to direct our audit efforts. The use of data analytics also allows us to obtain better perspectives, richer insights and a deeper understanding of transactions and areas of risk.</p> <p>EY is deploying data analysers to assess the business operating cycles of the companies that we audit, supported by analytics-based audit programmes to aid the application of these data analysers. Using the EY Helix library of data analysers, our engagement teams can enhance their audit risk assessment, enabling the audit of higher risk transactions, and assisting our people in asking better questions about audit findings and evaluating the outcomes.</p> <p>3. EY Atlas - is our cloud-based global technology platform. It enables our auditors to access the latest accounting and auditing content, including external standards, EY interpretations and thought leadership. This research platform is integrated into EY Canvas and provides seamless access to global accounting and financial reporting information. It is also enabled for mobile usage allowing access while on the move.</p> <p>We also have a subscription-based edition of EY Atlas, enabling companies access to EY technical insights relating to accounting, financial reporting and regulatory filings.</p> <p>There are several other technologies and systems that EY uses both globally and in local jurisdictions to support aspects of the audit process, to assess and maintain our independence. The most commonly used technologies, made available to all member firms, are listed below:</p> <ul style="list-style-type: none">• GPCIP (Global Public and Private Company Independence Procedures)• GIS (Global Independence System)• BRET (Global Business Relationship Evaluation and Tracking tool)• GMS (Global Monitoring System)• GWL (Global Watch List)• GIIRS (Global Independence Incident Reporting System)• SORT (Service Offering Reference Tool) - provides a detailed listing of services, and service-specific Markets, Quality and Risk Management guidance.
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	<ul style="list-style-type: none">• ARD (Accounts Records Database)• EIDS (Economic Interests and Directorship Systems)• PRD (Partner Rotation Database)• EMEIA Directorship Evaluation Tool (DET)• Client Acceptance - PACE (Process for Acceptance of Clients and Engagements) - is our global risk management enabler that empowers teams to better identify, evaluate, and mitigate risks when accepting clients or engagements.• Anti-Money Laundering (AML) tool• B&PR (Budget and Planning Request) tool• Retain - resource planning tool• ARC (Archive record centre) - stores completed audit files -• Gifts & Hospitality Register• LEAD (Leadership Evaluation and Development) - global talent tool developed to measure performance of audit partners/staff and Web Based Learning training• Other various global EY SharePoint Communities have been developed to share things such as audit report and engagement letter templates. <p>Where specialist involvement is required to support our audit teams (for example, when dealing with complex valuations of assets), these specialists may also deploy globally and locally developed tools to perform their procedures.</p> <p>Globally, EY also has access to a suite of third party technologies which may be used to develop bespoke solutions to deliver high quality audits.</p> <p>We continue to invest globally to innovate and integrate new technologies into our audit process to keep pace with technological change. We have four emerging technologies:</p> <ol style="list-style-type: none">1. Artificial Intelligence (AI) techniques2. Blockchain3. Robotic Process Automation (RPA)4. Drone technology
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