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Regulatory context

This Transparency Report has been prepared in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 (the Instrument), made by the Professional Oversight Board (POB) of the Financial Reporting Council (FRC) on 3 April 2008. The Instrument came into force on 6 April 2008 and requires the publication of certain information by transparency reporting auditors, defined as statutory auditors that have made an audit report on the annual accounts of one or more public interest entities during the financial year of that statutory auditor. The Instrument applies in respect of any financial year of a transparency reporting auditor commencing on or after 6 April 2008; as such, Deloitte LLP (Deloitte) is required to prepare a Transparency Report. This Transparency Report is in respect of the year ended 31 May 2013.

In addition to the requirements of the Instrument, the POB issued the 'Audit Quality Framework' (the Framework) in February 2008 and has indicated that Transparency Reports may represent a useful opportunity for audit firms to set out the steps that they are taking to achieve audit quality by reference to the Framework.

This Transparency Report addresses all of the elements set out in the Framework. A reconciliation of this Transparency Report to the Framework has been supplied to the FRC. This Transparency Report has also been prepared with due regard to publications issued by and comments received from the FRC regarding transparency reporting by audit firms.

In January 2010, the Institute of Chartered Accountants in England & Wales (ICAEW) published the Audit Firm Governance Code. This Code sets a benchmark for good governance. This Transparency Report includes disclosures required by the Code (including those published on our website, www.deloitte.co.uk) and explains steps taken by Deloitte to comply with the Code. A reconciliation to the Code has been supplied to the FRC.

Section 1 – Introduction

I am delighted to present the sixth Deloitte Audit Transparency Report, in respect of the year ended 31 May 2013. This has been a year of great challenge and change. In particular, there has been scrutiny of the audit market in relation to competition and choice and the role of the auditor in relation to repairing trust in capital markets. We embrace these debates and recognise that as well as supporting our clients, a significant part of our role is to provide confidence and reassurance about business transparency.

Shaping the wider business environment

British businesses are already positioning themselves to capitalise on a new era of innovation and inspired global growth. Whilst the business community needs to seize opportunities in this new world, it is also important not to forget that recent times have done much in the way of breaking down confidence and relationships with society. These relationships need to be rebuilt, focusing on improving and communicating the contribution business makes to building a better and stronger society. At Deloitte we are committed to our role in restoring trust and confidence in the capital markets and the following section describes our overriding focus on audit quality and delivering a distinctive audit.

Building confidence in the marketplace

In the UK, the Competition Commission has been conducting an inquiry into choice and competition in the audit market. We remain a proactive and constructive participant in these discussions and are committed to delivering improvement in audit quality, independence of the auditor, and competition in the audit market. We understand that companies, investors, regulators and the wider business community place their trust in us – a fact that we should never take for granted. Everyone, at every level, within the firm has a responsibility to sustain this trust. Starting with the tone at the top and the strength and vision of our leaders, we must embed and live the values that warrant and sustain this trust – integrity, respect, fairness, objectivity and accountability.



David Sproul, Senior Partner and Chief Executive

Engaging with stakeholders

To demonstrate our commitment to enhanced dialogue with stakeholders, we held our first Stakeholder Forum in October 2012. This meeting was led by members of Deloitte's Board of Partners and Executive Group, including our Independent Non Executives. Over 25 stakeholders from our regulators, the professional bodies and the investor community participated in the event and there was a good level of debate and questions. Following very positive feedback on the format and content, plans are underway to run the event again on 1 October 2013.

Section 2 – Exceeding expectations, delivering a distinctive audit



Panos Kakoullis, Managing Partner, Audit

2.1 Exceeding expectations

The audit marketplace has changed significantly since the financial crisis, and continues to evolve. Organisations expect more from the auditor, regulators are increasingly challenging and investors and other stakeholders are showing more interest in the role of the auditor.

Our unyielding pursuit of quality gives us confidence we can meet these rising expectations.

But we want to do more.

We want to exceed expectations.

We want to deliver consistent, objective and insightful assurance and advice of the highest quality and reliability, underpinned by strong ethical principles, that earn the trust of our stakeholders.

Here is how we are responding:

More informative auditor reporting



We recognise that there is considerable value to our clients and to our wider stakeholders in providing clear, informative and unambiguous reports of the highest quality. This is why, with the support of Vodafone's Audit and Risk Committee, we have adopted new reporting requirements a year early on Vodafone Group Plc and issued the first expanded auditor's report incorporating a more detailed commentary on our audit. We have received very positive feedback from stakeholders in response to our report and we are working hard with other audit committees to raise awareness of this significant reporting development.

Changing the way we train our people

While developing our tools and technology, we have maintained our primary focus on aiming to provide world class learning led by our audit leadership team. This learning aligns closely to our strategic objectives and enables our people to deliver high quality audits, by implementing best practice from around the firm. We encourage our auditors to be out at the heart of the organisations they are auditing armed with a deep knowledge of the entity, which enables them to consider the adequacy of controls, processes and responses to business issues and risks with an appropriate level of professional scepticism. It is this depth of knowledge that also enables them to deliver valuable insights as part of our independent audit.

This year we have invested significantly in changing the way we deliver our annual training programmes to audit professionals, in the form of our Summer Audit Academy. The audit leadership team, our Audit Executive, were heavily involved in the development and delivery of this training. For the first time, qualified audit professionals were required to attend a national two and a half day residential course covering audit, accounting and wider business matters. Experienced partners led the delivery of the course, which helped to ensure consistency, quality and maximum impact. Training was delivered in an innovative, interactive and integrated way which empowered participants to share personal experiences, practical examples, and deep industry knowledge.

Our aim was to give our people a learning experience that they cannot get anywhere else; an experience to inspire them and promote a culture of personal growth and development.

"It was evident right from walking in the door that it would be a great event and obvious to everyone that there had been a huge amount of time and effort put into its development. What really came across was how committed the leadership team were to the training, and importantly that this was mirrored in the wider senior partner population, both by way of their attendance and contribution. In my view, this was the strongest message of all and really demonstrated a personal commitment from each of the partners there to the development of our people."

Audit Director, Birmingham

Section 2 – Exceeding expectations, delivering a distinctive audit

A bespoke audit approach

Evolution and innovation in audit is very important to us, as it is to our clients. 2013 will see the roll-out of Deloitte Audit across all our practice areas, transforming the way we plan and execute our audits.

Deloitte Audit:

- builds a bespoke audit based on the organisation's unique business characteristics;
- focuses our work on the key risks and judgement areas through robust risk mapping tools;
- enhances our control over large complex audits;
- provides real-time information on audit progress;
- embeds latest regulatory content and industry intelligence; and
- allows easy capture and reporting of key findings and insights.

Deloitte Audit focuses on partner leadership, early planning and response to significant risks to deliver a robust audit which evolves alongside the audited entity's business and delivers the assurance and value our clients require. The aim is an intelligent audit, delivered by insightful professionals who focus and challenge in the right areas enabled through the latest audit software and analytics' capabilities, bringing valuable independent perspective.

Innovation through the use of data analytics

An area of significant innovation in the audit will be through the use of analytics. By leveraging technology we are transforming our audit process with a clear focus on the judgements and audit risks that matter through implementing improved sophisticated analytical capability. We are very excited by the software tools we have developed and the capabilities they offer and believe they are at the forefront of performing audits in a more intelligent way.

These tools will allow us to interrogate business data with greater accuracy and immediacy, identifying unexpected anomalies or new trends more readily. This level of real-time interrogation can also equip management to provide investors with a more robust outlook on a company's financial performance and its overall risk profile.

The Competition Commission inquiry

The debate over the role of audit, the auditor and audit choice is ongoing. In particular, competition and choice in the marketplace, along with audit quality, continue to be scrutinised extensively. We welcome and encourage these debates through dialogue with our regulators and the investor community and continue to add our input to them. We have used our own story to demonstrate that significant change of market positioning is achievable through bold and effective investment, without the need for regulatory intervention.

We believe that the provisional remedies being considered have benefited from a rigorous exchange of views and discussion, both broad and deep, from all stakeholders, and we are making full use of these discussions to challenge the status quo and drive forward our vision for the future of our audit practice, where the current and future needs of shareholders are given the highest priority.

Increasing tender activity

We continue to see an increase in the number of invitations to tender for audit assignments. On the surface this might appear to be an obvious business opportunity, but we are responding in a measured way to this ongoing development. We consider each invitation on an individual basis within the parameters of our existing commitments and our ability to continue to provide audits of the highest quality of service for which we wish to be known. This means that there will be occasions where we may decline an invitation to tender. In addition, we will resist any attempts to use a tender process to reduce the audit fee below the level at which we believe a high quality audit can be performed. Throughout the whole competition and choice debate, our commitment to maintaining audit quality has been robust, and this remains the overriding priority.

The remainder of this section sets out the other key matters on which we focus and are required to report:

- our audit process;
- audit quality and risk management;
- independence and managing conflicts of interest; and
- regulatory reviews.

2.2 Our audit process

2.2.1 Partner-led approach

Engagement partners remain fully responsible for the services they provide and for understanding the audited entity's businesses. Their involvement is required from the very outset of any audit relationship and engagement, with partner-led audit planning key to our audit approach.

Where the professional services we provide are subject to external regulation, they are led by persons who are individually authorised by the appropriate regulatory body. For example, all partners and senior employees who act as audit engagement partner for statutory audits have been granted Responsible Individual status by the ICAEW under the ICAEW's Audit Regulations.

Our audit business is structured into specialist industry groups, led by senior partners with great depth of experience and expertise. These groups collaborate in order to share their understanding of market developments, risk assessments and emerging trends. This is particularly important at times of market turbulence and change. Our partners and people are continuously building their understanding of the audited entity's businesses, helping us to better conduct our audits in a way most beneficial to all stakeholders.

These steps aim to ensure that our partners and professionals understand the audited entity's business and adhere to the principles underlying auditing and ethical standards.

2.2.2 Professional scepticism

We are continually addressing the challenges of demonstrating enhanced professional scepticism and innovation as part of our commitment to the continuous improvement in the quality of our audits. We achieve this through a combination of ongoing initiatives, including guidance, innovative audit techniques, benchmarking and analytics. We also focus on behaviour and culture, with emphasis on the potential for fraud, the sharing of knowledge and evidencing the level of challenge in our audit documentation. This is particularly important when auditing critical judgements during the audit, such as impairments which are inherently dependent on assumptions and judgements made by the directors. Our audit work and our reports to those charged with governance seek to challenge the key assumptions and judgements, for example the discount or growth rates used, so that it is clear how we have exercised professional scepticism and reached our conclusions. The key message remains for our audit professionals to challenge and look for what could be wrong, and then to document that challenge fully in the planning, performance and review of our audit.

Section 2 – Exceeding expectations, delivering a distinctive audit

2.2.3 People development

Our approach to continuing professional development is based around targeted learning programmes, including regular audit and industry-specific training that keeps our people at the forefront of new developments and regulations. These are designed with the aim that our work is of the highest quality, that we comply with regulations and that we do not accept any assignments that would compromise our integrity or independence.

All of our partners and people are supported in their legal, ethical and quality & risk management responsibilities by appropriate technical and other learning programmes as well as supervision by more senior team members and our partner-led audit process. These responsibilities include compliance, personal independence, anti-money laundering and anti-bribery. Over and above the comprehensive mandatory audit learning and development syllabus for our professionals, we run online, monthly technical briefings.

Our approach allows us to develop our people, not only through structured learning but also by appropriate mentoring, on-the-job training, appraisal and other support activities. Partner leadership of these activities is an important aspect of their value and success. Individual appraisals set considerable store by feedback provided on specific engagements. Our use of web-enabled technology to capture 360 degree feedback from peers as well as team members and partners allows us to obtain a rounded view of individuals' performance and development needs. The evaluation of our people for promotion involves a detailed scrutiny of their personal performance, by reference to our wide-ranging competency model, which includes competencies relating to building distinctive relationships, delivering the client experience, quality, innovation and brand and delivering our talent contract.

We strive to create an environment where achieving high quality is valued, invested in and rewarded and that our appraisal and reward systems for partners and our people promote the characteristics essential to quality auditing. Quality and ethics form the foundation of our appraisal criteria; audit partners and professionals are not evaluated or remunerated by reference to the selling of non-audit services to their audited entities. A quality dashboard is produced for each audit partner and our policies require any quality matters raised to be addressed in the appraisal and the partner's objectives include an appropriate response to the matter. Our policies require audit partners to have a specific objective which is associated with performing a high quality audit, however this is an area where the FRC's Audit Quality Review team (AQR) has raised a recommendation for improvement based on the findings of their most recent inspection (further details on this inspection are provided in section 2.5). We have agreed an action plan with the AQR and have communicated this to our audit partners. In addition, these steps seek to ensure that professionals performing detailed on-site audit work have appropriate capabilities, experience and competence, are appropriately supervised by partners and managers and that sufficient training is given to audit personnel in audit, accounting and industry specialist issues.

2.3 Audit quality and risk management

Audit quality is achieved through effective internal quality control systems and a focus on leadership, communication, infrastructure, culture and performance management. We have developed processes, systems and tools which are designed to comply with International Standard on Quality Control (UK and Ireland)¹ and are supported by a culture which aims to promote the merits of consultation on difficult issues and support partners in the exercise of their personal judgement. These processes are in place not only where required by regulation, but as a cornerstone of our business. Our audit methodology and tools aim to ensure that our audit quality control procedures are effective, understood and applied.

Within the audit business, the internal quality controls and systems include:

- our dedicated professional standards review team (PSR) which provides a 'hot' review before any audit or other opinion is signed;
- dedicated technical advice and support;
- strategically focused second partner reviews and independent review partners (IRP);
- information security; and
- annual practice reviews of a selection of completed engagements.

In setting our fee structures, we acknowledge the importance of our role and the need to demonstrate a high-quality and value-added service that is efficient, fair and competitively priced. Our audit approach and, in particular, our focus on early engagement on key audit issues, aims to ensure that the collection of sufficient audit evidence is not constrained by financial pressures. We will continue to be robust in our pricing structures to ensure that the quality of future audits is not impacted by downward fee pressures.

In agreeing timetables, fees and responsibilities, we ensure that the reporting deadlines allow us the opportunity to carry out an audit without undue reliance on work performed before the end of the reporting period.

2.3.1 Our dedicated professional standards review team

We consider PSR to be a particularly strong feature of our firm's quality control procedures. The PSR team, reporting to Audit Quality and Risk Management, is operationally independent of the business units and audit engagements they are reviewing. PSR supports our high standards of professional scepticism and audit quality by providing a further independent challenge. Our PSR professionals challenge engagement teams throughout the audit process, focusing on significant accounting, auditing and financial reporting judgements, appropriate audit documentation and disclosure areas.

2.3.2 Dedicated technical advice and support

Engagement partners benefit from expert and strong technical support on accounting, auditing and regulatory matters as they affect our audited entities and the audit work itself. Our approach to the provision of technical advice is responsive and consultative, both externally and internally. In National Accounting and Audit (NAA), we have dedicated teams to support on UK auditing and accounting matters, IFRS and our audit methodology. Expertise is also available from Deloitte Touche Tohmatsu Limited (DTTL) and other member firms; our audit policies and methodology are developed and implemented globally to help deliver consistency and quality within the international network. Additionally, on IFRS and US accounting and auditing issues and SEC listing rules and regulations, the expertise of the Global IFRS and Offerings Services (GIOS) network is available to support our professionals. Both NAA and GIOS are key components of our audit service proposition, comprising partners and professionals.

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The organisations we audit and our people need swift, consistent and borderless responses to IFRS technical queries. DTTL member firms have established a network of nine IFRS Centres of Excellence around the globe (including one in the UK) manned by experts with day-to-day, first-hand experience of the issues of practical application of IFRS in different regulatory, legal and local accounting environments around the world. The leaders of these centres consult with each other with a view to reaching consensus on complex technical accounting matters. Designated experts drawn from this network are available to advise engagement partners dealing with complex accounting issues. The global IFRS technical activities of this network are led out of London, by a UK partner. The global IFRS communications activities are also led out of London.

Members of NAA also support the Deloitte Academy and engage with bodies representing the corporate sector, regulators and investors to respond to their needs. The Academy is a response to the increasing demands on directors of UK public companies and provides access to a programme of technical training, support and guidance across a wide range of management and governance issues relevant to business leaders. The Academy curriculum is customised to the specific needs of directors based on their role and company profile and is delivered in a dedicated purpose-built facility.

These resources and our partner-led audit approach (described in section 2.2.1) aim to ensure that our partners and professionals have sufficient time and resources to deal with difficult issues as they arise and that high quality technical expertise is available when the audit team requires it or encounters an unfamiliar situation.

2.3.3 Strategically focused second partner reviews and independent review partners

The strategically focused second partner role is separate from that of the IRP required under auditing standards¹, with the former providing second partner review (focusing on significant risks, significant components and other important audit issues), consultation and audit service support and the IRP acting as a third partner review, including an objective evaluation of the significant judgements made and conclusions reached. The IRP is not part of the audit team and is, therefore, able to bring a further independent viewpoint and challenge to the audit process.

We have established a small group of highly experienced senior audit partners to take on the IRP role for all the firm's FTSE 350 audited entities. This approach to IRPs demonstrates our commitment to the quality agenda, promoting a continuing high, consistent challenge to audit issues.

2.3.4 Information security

The importance of maintaining confidentiality around client and other relevant information is continually emphasised and our approach to encryption, ethical walls, clear desk policy and data leakage prevention underpins this commitment. Our policies require all confidential information held on the firm's laptops to be encrypted, and our people are educated to take the utmost care with such information, whether verbally, in hard copy or electronic form. We have supported this by significant investment in a document management system to refine our working practices and the adoption of encryption software to protect the security of information in our possession as well as training for our professionals on security. In conjunction with external regulatory inspections, we undertake our own regular security checks to confirm that our information security policies are being complied with and have a number of our clients successfully undertake their own reviews of our approach to information security.

1 Within Deloitte, the Engagement Quality Control Review required under auditing standards is referred to as an Independent Review Partner to emphasise the need for that review partner to be independent of the audit team.

During the year, we have maintained our ISO 27001 certification, the international standard for information security management. This is part of our ongoing commitment to our clients to improve the quality of our service to them. It gives our clients real independent assurance that when we handle their confidential information, we do so in an appropriate and secure way. Information security is increasingly a core business requirement and one we support through the delivery of extensive information, physical and technology risk services to our clients. Our own compliance to the standard demonstrates our commitment to this area.

2.3.5 Annual practice reviews of a selection of completed engagements

The practice review, which covers each of our audit partners at least once in a three year cycle, is subject to oversight by an independent partner from another member firm within the DTTL network. Engagements are selected across our audit business portfolio, with the files then subject to independent inspection by professionals from separate offices or groups. The purpose of the practice review is to determine whether we have complied, in all material respects, with the professional standards and the policies contained in the Deloitte Policies Manual and Audit Approach Manual, the applicable professional standards and applicable regulatory and legal requirements.

Our overall risk management procedures and the system of quality control are also evaluated with specific elements being reviewed over a three year cycle. Certain planned testing of the system of quality control was omitted from the 2012 practice review through oversight. This was identified by the Audit Quality Review team and completed separately in January 2013. The results of the practice review are communicated to the Managing Partner, Audit and to the Senior Partner and Chief Executive, as well as to the Global Managing Director, Audit & ERS, DTTL.

The practice review represents an investment of approximately 1,000 days of time from experienced professionals and significant senior partner resource and leadership. As set out in section 2.5, the practice review has been identified as an area for improvement based on the latest inspection results of the AQR.

We are seeking continuous improvement in the monitoring of the effectiveness of our firm-wide procedures. We have established an action plan which has been shared with the AQR team and implementation is being monitored by the Audit Quality & Risk Partner.

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

In accordance with the Schedule to the Statutory Auditors (Transparency) Instrument 2008, we confirm that we are satisfied, based on consideration of the quality management systems described in this report, including the findings from the practice review and regulatory inspections carried out in 2012, that, taken together, our internal quality controls and systems are, in general, robust and operate effectively and allow us to readily identify any areas of potential improvement or refinement. We continually seek to improve all aspects of our business and use the findings of the practice review, other internal reviews and external regulatory reviews to enhance our system of quality control.

2.4 Independence and managing conflicts of interest

We invest in systems to enable us to maintain our independence and avoid conflicts of interest in audit assignments. We review the personal investments of a sample of partners and professionals each year to safeguard the independence and objectivity of Deloitte, our people and our engagement teams. Our firm has a dedicated Independence and Ethics Partner, as well as a team of professionals to support our people with their compliance obligations. The Independence and Ethics Partner works directly with the Senior Partner and Chief Executive, and the Board of Partners, to set the strategy and priorities for ethics and compliance, and has operational responsibility for our compliance, independence and ethics programme.

Our engagement take-on, continuance, compliance, audit appointment and client database systems are all internally developed and comprise solutions to address the complexity of regulatory requirements; the tools are designed to be intuitive to use whilst facilitating timely compliance, reporting and monitoring.

Section 2 – Exceeding expectations, delivering a distinctive audit

Confirmation of review of independence practices and monitoring

We confirm that an internal review of our independence practices has been properly conducted in the year as part of the 2012 practice review. Our internal practice review and other monitoring processes provide us with assurance that these policies are, in general, appropriately observed and, where exceptions are noted, identify where further action is required. In addition, the practice review includes an assessment of compliance with DTTL and UK independence policies. The results of these internal reviews are reported to the UK Executive Group and Board of Partners and DTTL's Chief Executive Officer and Board.

2.5 Regulatory reviews

In addition to our internal reviews of audit quality described above, the Audit Quality Review team (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 finding of its 2012/2013 inspection of Deloitte LLP on 31 May 2013. The full report is available on the FRC's website at the following link:

<http://frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Inspection-Report-Deloitte-LLP.aspx>

The AQR's overview on Deloitte was as follows:

"The firm places considerable emphasis on its overall systems of quality control and, in most areas, has appropriate policies and procedures in place for its size and the nature of its client base. Nevertheless, improvements are required to those policies and procedures in a number of areas, as set out in this report. Our file review findings [set out in the AQR's report on Deloitte] largely relate to the application of the firm's procedures by audit personnel, whose work and judgments ultimately determine the quality of individual audits. The majority of the themes are similar to those in the previous year, although there has been an improvement in the nature and extent of the relevant findings, following actions taken by the firm."

2012/13 Audit Quality Inspection Report on Deloitte LLP

Eleven of the 14 audits reviewed by the AQR were performed to a good standard with limited improvements required (the highest grading available) and two audits were performed to an acceptable overall standard with improvements required. We were disappointed that one audit was assessed as requiring significant improvement mainly in relation to the audit of revenue and journal testing, although, in accordance with the stated AQR definition of "significant improvement required", this assessment did not necessarily imply that an inappropriate audit opinion was issued. These findings were shared with the client's audit committee and remedial action was taken to address the concerns raised by the AQR in the following year's audit.

We have also responded to these findings with refinements to our policies and procedures, and clear reminders to our people of the importance of diligence in the application of our procedures in these areas.

The AQR identified areas where they believe we should pay particular attention in order to enhance audit quality or safeguard auditor independence. The main areas for improvement recommended, which have already been communicated to audit partners and professionals and addressed in our materials, where appropriate, were:

- ensure audit teams pay more attention to the audit of revenue, including the approach to substantive analytical review procedures;
- ensure audit teams follow our sampling methodology for substantive testing purposes and that the sample sizes adequately take into account materiality and risk;
- improve the integration of the work of internal tax and IT experts within the audit, for example to ensure that matters raised by those experts are adequately addressed;
- ensure audit teams adequately identify and respond to threats to independence arising from non-audit services;
- place greater emphasis on rewarding partners for high quality work;

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- enhance our audit quality monitoring in relation to financial services audits and the monitoring of the effectiveness of the firm-wide procedures; and
 - implement our agreed actions in relation to the AQR's findings on a more timely basis.

We consider that the AQR's report provides a balanced view of the focus and results of its inspections and its recognition of the emphasis we place on our overall systems of quality control is welcome. We are working hard to respond to the AQR's comments and to manage the resulting changes in a more robust and proactive way.

In addition to the AQR's inspection, the Quality Assurance Department of the ICAEW undertakes inspection of audits which sit outside the remit of the AQR.

The external inspection process provides further impetus to our quality agenda and we give careful consideration to all comments and recommendations, as well as findings arising from our own quality review procedures. In many cases we have already taken concrete steps to respond to the themes arising, and are in the process of implementing a number of further actions.

Section 3 – Governance and Ethics



David Cruickshank, Chairman of the Board

3.1 Governance

We do not take for granted the trust placed in Deloitte by clients, investors, regulators and the wider business community, and sustaining this trust rests with every individual – at every level – within our firm. We recognise that embedding the values of integrity, respect, fairness, objectivity and accountability within our organisation to sustain that trust starts with the tone at the top and the strength and vision of our leaders.

Our leadership is shaped to meet continuing market challenges and to prioritise our continued investment in quality and our people. We have a structure for the leadership and management of the firm which includes governance structures to provide oversight of activities of the management team.

3.1.1 Audit Firm Governance Code

In January 2010, the Institute of Chartered Accountants in England and Wales (ICAEW) published the Audit Firm Governance Code. This Code applies to audit firms which have issued an audit report on the annual accounts of one or more public interest entities and sets a benchmark for good governance. We recognise the value in demonstrating our own commitment to good practice and are pleased to record that we continue to be compliant with the Code's requirements.

We consider two particular aspects of the Code to be noteworthy:

- **Independent Non Executives (INEs):** We have appointed three INEs to our main Board of Partners (Gerry Grimstone, Dame DeAnne Julius and Sir Michael Peat) so that they can have full oversight of all aspects of the firm's activities. Working with the other Board members, the INEs oversee the public interest aspects of our business, and engage in an active dialogue within Deloitte that helps to direct and influence our firm, not only in the interest of greater transparency and our public interest obligations, but also in helping determine the future of our business.

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

- 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 IFAC.

Our INEs comprise the Public Interest Oversight Committee (PIOC), which oversees public interest matters as they affect our firm. The terms of reference for the Public Interest Oversight Committee can be found on our internet site at http://www.deloitte.com/view/en_GB/uk/about/our-leadership-and-governance/index.htm and there is a report from the PIOC in Section 4.

- **Investor dialogue:** we welcome the Code's requirements for audit firms to engage with the investor community. We consider open discussion and dialogue between auditors, investors and audit committees to be an important aspect of ensuring that the auditing profession understands the needs of its key stakeholders.

As described in the introduction, we held our first Stakeholder Forum in October 2012, led by members of Deloitte's Board of Partners and Executive Group, and with our Independent Non Executives in attendance.

We covered:

- our governance structure;
- the regulatory environment; and
- audit quality.

During the year, we have held discussions with a number of key investors and other market participants and commentators. We have found the emerging dialogue both informative and constructive, and have concentrated our efforts in recent months to conduct the dialogue in the context of our governance structures. I have played a central role in these discussions as have our INEs.

We also seek to understand what is important to our stakeholders and how we can respond more effectively to their needs, particularly in our annual and other reporting. We are committed to being transparent about these aspects of our organisation, and our senior leadership team and the INEs took questions during the course of the presentation. Following positive feedback, the event will be repeated in October 2013.

3.1.2 Governance structure

The principal activities of Deloitte are the provision of audit, tax, consulting and corporate finance services in the United Kingdom and the Channel Islands and, through its subsidiaries, in Switzerland. In addition, corporate finance services are provided in the Middle East by a joint venture with the local DTTL member firm.

Deloitte operates an integrated business model: each of the four service lines apply a common set of procedures and policies where appropriate, and each has developed additional policies and guidance to reflect the specific requirements of its business offerings. For the purposes of transparency reporting under the Instrument, this report contains information about Deloitte which is relevant to all of the service lines, as well as specific matters relevant to our audit business.

Biographical details of members of the firm's governance structures and management team are given in Appendix 3, along with meeting attendance details for the year in Appendix 4.

The UK presence on the Board of DTTL is explained in Appendix 5 – Legal structure and network.

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

	Role and responsibilities	Membership
The Board of Partners	<p>Responsible for the promotion and protection of partner interests and for the oversight of management.</p> <p>Determines Deloitte's long-term strategies and has specific oversight of risk and quality.</p> <p>Meets at least nine times per annum.</p>	<p>The Chairman.</p> <p>The Senior Partner and Chief Executive.</p> <p>The INEs.</p> <p>A further eleven elected partners (who must not be members of the Executive Group).</p> <p>Three Executive Group partners proposed by the Senior Partner and Chief Executive and affirmed by the partners.</p>
Board Sub-Committees	<p>Have oversight of management.</p> <p>Covers audit and risk, compensation, remuneration, nomination, public interest oversight and corporate responsibility.</p> <p>Ensures that Deloitte adheres to applicable corporate governance, quality and risk management requirements, and discloses these matters in full.</p> <p>A detailed explanation of the role of each Committee is given in Appendix 3.</p>	<p>Elected members of the Board of Partners who are independent from the Executive Group.</p> <p>The INEs.</p> <p>Other members of the partner group.</p>
The Executive Group	<p>Assists the Senior Partner and Chief Executive in managing the firm.</p> <p>Implements the policies and strategies of the firm as determined by the Board of Partners.</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 Group has specific responsibilities with an emphasis on the group working as a team to lead the firm.</p> <p>Every member of the Executive Group is also actively engaged with our clients.</p>
The Audit Executive	<p>Delivery of Deloitte's business objectives within the UK audit service line.</p>	<p>Appointed by the Managing Partner, Audit with oversight from the Executive Group.</p>

Section 3 – Governance and Ethics

The role of the Senior Partner and Chief Executive

The Senior Partner and Chief Executive, David Sproul, has full executive authority for the management of Deloitte. The Senior Partner and Chief Executive is nominated by the Board of Partners and elected by the partners for a four year term of office.

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 and implementation of policies and strategic direction;
- financial performance;
- partners, including the development and management of our talent goals; and
- international, representing the UK firm in its association with DCTL.

The Senior Partner and Chief Executive communicates regularly with the partner group and with all of our people, in person and by a series of webcasts, voicemails and email alerts.

3.2 Ethics

The relentless pursuit of the highest quality and integrity in our professional work remains one of the cornerstones of our firm's continuing success, allowing us to deliver excellence to our stakeholders. We see 'doing the right thing' as being a principle that is fundamental, not just to the public interest, but also to the reputation of our firm, partners and people. During the year a project was launched to refresh our ethics policies and training to ensure they remain up-to-date and relevant to our firm.

We have well-established systems and procedures to help safeguard the objectivity of our people and the firm, to avoid conflicts of interest and to comply with ethical and other applicable standards. We continue to balance carefully the straightforward approach outlined in our ethical framework, the Deloitte Code, and the increasing levels of regulation and professional requirements in this area.

Our online anti-money laundering, anti-bribery, information security and ethics awareness learning programmes are undertaken by all relevant employees of the firm. More focused online learning programmes on personal independence as well as business relationships are required to be completed by our professionals as appropriate to their grade. Ethics learning is also embedded into various classroom-based learning programmes across the firm, including at the induction stage. In addition, our helplines allow our people to request information, ask questions or report issues confidentially to senior members of National Quality and Risk Management (National QRM). There is also provision for anonymous reporting where needed, via an external helpline, introduced in July 2013 as part of the ethics refresh project.

Section 4 – Report from the Public Interest Oversight Committee

DeAnne Julius, Gerry Grimstone and I were appointed as Deloitte’s Independent Non-Executives (INEs) in 2011. This followed the publication, in 2010, of the Audit Firm Governance Code by the ICAEW. The Code requires the INEs to be the majority on a body that oversees the firm’s public interest matters. Deloitte has called this body its “Public Interest Oversight Committee” (PIOC) and has constituted the PIOC as a sub-committee of the Deloitte UK main Board of Partners.

This is the PIOC’s second annual report.

The PIOC’s terms of reference can be found at http://www.deloitte.com/view/en_GB/uk/about/our-leadership-and-governance/index.htm

4.1 The INE’s three roles and 2012/13 activity

Put simply, the INEs have three roles. (i) To be the members of the PIOC, (ii) to be the non-executive members of the main Board of Partners, and (iii) to be an additional channel of communication for external stakeholders.

(i) The PIOC

The PIOC’s remit is to help ensure that Deloitte acts in the public interest and continues for the long term as an important contributor to the success of the UK economy and wider society. Deloitte’s contribution includes confidence and integrity in commercial and financial markets, wide ranging and widely disseminated expertise and experience, and training and development for thousands of high value-adding people. In fulfilling its responsibilities the PIOC’s activities are co-ordinated with those of the main Board, the Audit and Risk Committee and the Remuneration Committee.

The PIOC met on five occasions during the year to the end of May 2013. The matters which it considered included the following.



Sir Michael Peat, Chairman of the Public Interest Oversight Committee

- (a) The overall governance of the firm; for example, the division of responsibility between the main Board, the Executive and other committees, the effectiveness of the Board and its various sub-committees, and the assessment and remuneration of partners. The INEs provided comment on the Chairman and Senior Partner and sat as Board members at the meeting which considered whether the process of profit allocation among partners was fair and equitable. One of us also attended the final meeting for the financial year of the Remuneration Committee to help ensure that proper process had been followed.
- (b) Ethics and the steps being taken to reinforce the firm’s commitment to high professional and ethical standards and to embed further these standards in the DNA of the firm and of its partners and professionals. This included attending meetings to consider new, more innovative approaches for embedding high ethical standards, in addition to published procedures, regular training and e-learning.

Section 4 – Report from the Public Interest Oversight Committee

- (c) The effectiveness of the firm's quality and risk management. This included reviews of the firm's enterprise risk framework, regular meetings with all Quality and Risk Partners and attendance at meetings of the Audit & Risk Committee. With effect from April 2013 one INE attends every Audit & Risk Committee meeting. A member of the PIOC also attended the final meetings, at which their conclusions were presented, with the FRC's Audit Quality Review unit and the ICAEW's Quality Assurance Department. The Committee also reviewed reports on aspects of the firm's work from other regulators, as well as the conclusions of the firm's internal practice reviews. In addition, there is a quarterly discussion with the Director of the firm's Assurance Group (i.e. internal audit department).
- (d) Specific public interest issues, including the firm's contribution to the discussions regarding the regulation of audit and related services and its approach to the provision of tax advisory and planning services. The Committee was briefed in detail in respect of these matters, including information about the firm's audit pricing strategy and the updating of the firm's internal guidance for the provision of tax advisory and planning services. The public interest matters considered extend beyond audits and auditing. This is because, as an integrated firm, the actions of any part of Deloitte can undermine public trust and, therefore, the firm's ability to undertake audits.

When it established the PIOC, Deloitte went beyond the requirement of the Audit Firm Governance Code by providing that its three INEs should not just comprise the majority but the entire membership (to ensure a rigorously independent outlook) of the Committee. The INEs meet on their own for some of each meeting. Meetings are also attended by the Chairman of the main Board of Partners, the Managing Partner for Public Policy, the Chairman of the Audit & Risk Committee and others, to provide briefings and explanations.

The performance of the Committee was subject to self-assessment for the year under review; however, an independent assessment is to be undertaken in 2014, either by a Deloitte specialist in board performance evaluation or by an external party.

(ii) Non-executive members of the main Board of Partners

It has been helpful in fulfilling our responsibilities that Deloitte decided not just to ask us to be members of the PIOC, as suggested in the Code, but also to sit on the main Board of Partners. This has enabled us to be kept up-to-date on a continuing basis, in the same way as other Board members, and to have first-hand experience of how the firm is run, of the "tone from the top" and of the main opportunities and challenges which the firm faces. Board meetings include regular updates about and from other DCTL member firms. This helps give us an understanding of the broader international context. Board meetings have also been helpful in enabling us to consider the public interest implications of potential acquisitions and enterprise risk matters more fully. In addition to this, our membership of the Board enables us to provide input and public interest objectivity, challenge and appropriate scepticism on a real-time basis and, more generally, to encourage, counsel and warn. This is, in particular, to help ensure that risks and broader and longer term issues continue to be identified and given due weight, even at times of stress.

(iii) An additional channel of communication for external stakeholders

An important part of the INEs' role is to help ensure that there is clear communication and appropriate transparency. This is (a) to give shareholders of the companies it audits and other stakeholders confidence in Deloitte's work and systems; and (b) to encourage and facilitate excellent stakeholder dialogue and feedback as a basis for continuing development and improvement, for the benefit of the firm, its clients and the UK generally. During the course of the year we attended and spoke at Deloitte's annual Stakeholder Forum, met individual institutional investors, went to three meetings with representatives of the FRC and encouraged and assisted with the structure and content of the firm's first Impact Report. An important part of our role is to encourage candid feedback from the firm's stakeholders and we will always be delighted to receive any comments about Deloitte and our roles and responsibilities, and to meet to discuss the firm or matters relating to auditing and good governance more generally. As part of this, I have written to investor representatives to mention our 2013 Stakeholder Forum, to ask for any feedback they wish to provide and to offer a meeting.

4.2 Areas of focus for 2013/14

With respect to the current financial year, the PIOC will continue to maintain our constructive challenge to the Executive team on all public interest matters. During the next few months we will, in particular, continue to focus on:

- the firm's policy for tax advisory and planning work;
- stakeholder communications;
- innovative measures to embed further high professional and ethical standards in the firm's DNA;
- the development of a "well-being dashboard";
- value based billing;
- the firm's responsible business agenda;
- the firm's ability to withstand financial and other shocks; and
- managing risk in unregulated parts of the firm's business.

4.3 Conclusion

Our conclusion, for this our second annual report, is again that Deloitte is a well-run organisation with high professional standards and ethics. The firm has a strong focus on serving the public interest and looking to the long term, on quality and risk management and on stakeholder dialogue. The firm's management and ourselves as INEs are, however, very aware that there is never cause for complacency and that there is always more to do.

With respect to the latter, and as I have said, DeAnne, Gerry and I would be very grateful for any advice or input that readers of this report can provide and very much look to forward to hearing from you.

Section 5 – Report from the Audit & Risk Committee



Chris Powell, Chairman of the Audit & Risk Committee

Given the increasingly challenging environment in which we operate, the Audit & Risk Committee plays an ever more fundamental role in our risk management and quality process taking responsibility for monitoring the reporting, accounting, financial and control aspects of the Executive Group's activities.

Each year the Board of Partners (the Board) has appointed an Audit Committee which operates in accordance with such written terms of reference as the Board may determine. The Committee is made up of at least three partners (excluding any partners who are members of the Executive Group and holders of such senior management appointments as the Board may determine). The Board appoints one member of the Committee as the Chairman of the Committee and I was privileged to be reappointed as Chairman for a second year.

Recognising the challenges and the importance of the Committee's role, in September 2012 I met the Board Chairman, Managing Partner Quality & Risk, and the Head of National Quality & Risk Management to formulate a proposal in relation to the roles and responsibilities of the firm's various risk bodies and in particular the future roles and responsibilities of the Committee. As a result, in November 2012, the Board extended the Committee's duties in relation to risk management and internal control and specifically to receive regular reports from the firm's Quality & Risk leaders covering service quality and risk management, regulatory compliance, business resilience, contentious matters and risk financing. The Committee met as an Audit & Risk Committee for the first time in December 2012.

The Board also reviewed the Committee's composition and agreed that Independent Non-Executives would attend the Committee meetings on a rotational basis in 2013. Details of attendance are set out in Appendix 4.

To further enhance our effectiveness from our February 2013 meeting the Committee met in closed session prior to the attendance of the invitees.

Our activities and areas of focus during the year are discussed below.

5.1 Accounting matters

During the year we received and discussed updates from the Managing Partner Finance on accounting matters and reviewed the proposed accounting treatment in relation to these.

We also reviewed in detail the draft FY13 report and financial statements presented by the Managing Partner Finance with a particular focus on matters of disclosure and reconciliation with the firm's management accounts.

5.2 Statutory auditor appointment

Grant Thornton UK LLP was appointed as our auditor in 2003, following a competitive tender process, when Deloitte registered as a Limited Liability Partnership and became subject to audit requirements. Following completion of the 2012 audit a client satisfaction review was undertaken, with a senior partner of Grant Thornton UK LLP who was not involved in the audit process, through a meeting with senior members of our finance function. We concluded that we were satisfied with the performance of Grant Thornton UK LLP and that there were no matters arising from the review of the 2012 audit and proposed to the Board of Partners that they be re-appointed. The review of the 2013 audit will take place prior to the October 2013 Committee meeting.

At our October 2012 meeting we considered our policy for tendering the audit and decided that, in order to avoid potential issues of commercial sensitivity, we would not put the audit out to tender at this stage.

We carefully monitor the provision of non-audit services. In the current year the only non-audit services provided by Grant Thornton UK LLP were in relation to the provision of assurance on environmental performance data presented in the Deloitte Impact 2013 report. The fee for this work was £22,000. We were consulted about this appointment and were satisfied that Grant Thornton's independence would not be impaired as a result of undertaking the assignment.

5.3 Statutory audit

We reviewed, discussed and approved Grant Thornton UK LLP's statutory audit strategy and plan at the start of the external reporting process in December 2012. This set out the nature and scope of work which would be undertaken and an initial indication of the key audit risks. At the April 2013 meeting, we reviewed their interim findings and the impact on the audit approach.

At the July 2013 meeting, at the conclusion of the audit of the FY13 financial statements, we reviewed the findings of the audit with Grant Thornton UK LLP with emphasis on their areas of audit focus namely:

- revenue recognition – including cut-off, the recoverability of receivables and judgements related to the recognition of income in respect of engagements with specific characteristics, e.g. those with contingent fee arrangements;
- claims' provisions – in relation to professional liability claims;
- pension and annuities provisions – including the underlying assumptions;
- other provisions – including provision for onerous leases; and
- intangible assets and acquisitions – particularly in relation to prior acquisitions.

5.4 Narrative and other reporting

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

We also reviewed this Transparency Report and the annual financial statements and, in particular, disclosures in relation to:

- the work of this Committee;
- the adoption of the going concern basis of preparation;
- risk management and internal control;
- our principal risks and uncertainties; and
- our 'responsible business' reporting.

5.5 Enterprise risks

The firm's Executive Group's assessment of the potential risks to the achievement of the firm's strategy and to maintaining its reputation is set out in an Enterprise Risk Framework (ERF). The Executive updated its ERF in September 2012 and undertook a full refresh in March 2013.

Section 5 – Report from the Audit & Risk Committee

In December 2012 and May 2013 we reviewed the results of the update and full refresh reported to us by the Managing Partner Quality & Risk. We specifically discussed in detail the Executive's assessment of the firm's enterprise risks including, for each, a rating of residual risk exposure, trending, speed of onset and the status of further actions, if any. We also reviewed the disclosure in the financial statements of the enterprise risks which the Executive Group consider have the most potential significant impact on the firm's reputation, if they materialised, and related key mitigations.

5.6 Ethics, whistle-blowing and fraud

We considered reports from National Quality & Risk Management on fraud-related matters and on arrangements in place for professionals to raise concerns about possible improprieties or unethical behaviour, including reports on the update of the firm's whistle-blowing arrangements, and the introduction of a new 'Speak-up' hotline in July 2013. We considered the implications to the Firm and our stakeholders of the reported instances and whether instances reported constituted fraud, breaches of firm policy and regulatory or legal requirements, including any potential breaches of The Bribery Act 2010. We also reviewed details of the investigation and follow-up of any issues raised.

We also considered a report from the firm's Anti Money Laundering Reporting Officer who also acts as our Anti-Bribery Officer covering our compliance with the Money Laundering Regulations and Bribery Act and on potential developments arising from the EU Fourth Money Laundering Directive.

5.7 Quality & risk

The firm's Quality & Risk teams play a vital part in ensuring quality is at the heart of all we do and that risk is appropriately managed. In addition to the other matters set out above we received reports from:

- the firm's Independence and Ethics Partner on the processes to manage potential conflicts and independence including business relationships, regulatory compliance and the impact of audit rotation;

- the firm's Head of National Quality & Risk Management on the results of the Firm's portfolio risk review and compliance with Deloitte Touche Tohmatsu Limited (DTTL) key performance standards;
- the firm's Head of National Quality & Risk Management on FSA compliance and the impact of its replacement by the Prudential Regulation Authority and the Financial Conduct Authority in April 2013;
- the firm's Head of National Quality & Risk Management on claims, investigations, reputational issues and risk financing; and
- the firm's Audit Managing Partner and Quality & Risk Partner on the management of quality and risk in the Audit service line which is further discussed within this report.

5.8 Data security

The risk of loss of client or Deloitte data remains a priority enterprise risk for the firm and is a key focus for the Committee. At our May 2013 meeting our Head of Business Security updated the Committee on progress in implementing the firm's Business Security Strategy which was approved by the Board in January 2013. Given the importance of the topic the Committee has requested updates at alternate meetings on further progress.

5.9 The Assurance Group

Our Assurance Group is a key element of our continuous review of the effectiveness of our systems of internal control. The Group is responsible for maintaining the firm's assurance framework for each enterprise risk and the firm's Assurance Plan, for co-ordinating the assurance provided by the various assurance providers, for reviewing the effectiveness of the other assurance processes and for providing additional independent assurance where required.

The Group carries out independent assurance projects on the effectiveness of the firm's enterprise risk management and internal control processes, based on an annual plan agreed with the Managing Partner Quality & Risk and approved by the Committee. The Group also works closely with our external auditors and other assurance providers. It is staffed by a dedicated in-house team, making use of subject matter experts from within the firm where appropriate.

The Director of Assurance's authority and responsibilities are set out in an Assurance Group Charter approved by the Committee. The Director reports to the Managing Partner, Quality & Risk and has unrestricted access to the Senior Partner and Chief Executive, members of the Audit & Risk Committee and the Chairman of the Board in addition to reporting formally to the Committee. In addition the Director of Assurance meets quarterly with an Independent Non Executive. The Charter also gives the Assurance Group unrestricted rights of access to all records, personnel and assets that are required to discharge its responsibilities,

We considered the adequacy of the Assurance Group's resources, its authority, access to information and its standing within the firm. We reviewed and approved the Assurance Group plan and ensured the focus of the Group's work is on the management of risks which are of most concern to the Executive and Committee.

We considered in depth the results of the Group's activities, the co-ordination between the Assurance Group and statutory auditors, and particularly focused on progress in implementing actions raised as part of their work. In addition from December 2012 we asked the Group to include progress on implementing actions arising from the Enterprise Risk Framework in their follow-up and challenged management in areas where the Committee needs further clarification or assurance that these are being implemented.

We also considered the effectiveness of the Assurance Group and concluded that the Assurance Group is generally effective. The Group was subject to an effectiveness review by independent experts within the firm in 2011 and we intend to commission a further independent review in early 2014.

5.10 Risk management and internal control

The results of all the Committee's activities form the basis for our review of the effectiveness of the firm's system of internal control using the FRC's Internal Control Revised Guidance for Directors on the Combined Code (the Turnbull Guidance) as the framework for the review.

In summary this review involved discussion by the Audit & Risk Committee including appropriate enquires of the Executive Group and reviews of:

- a report from the firm's Executive Group setting out the Executive's assessment of the firm's enterprise risks including, for each, a rating of residual risk exposure (which includes the current and target exposure, trending of the risk and speed of onset) and the status of further actions, if any, along with the related assurance framework.
- signoffs from the service line Managing Partners confirming:
 - the review of risk in their portfolio of engagements;
 - the appropriate design of systems to support engagement acceptance;
 - update and approval of the service offering risk analysis;
 - the acceptability of the portfolio of engagement risk and actions taken to protect the Deloitte brand;
 - the effectiveness of the systems of internal financial control and compliance with the Financial Controls Memorandum;
 - the service line accounts are in accordance with the firm's accounting policies and fairly reflect the operations and balance sheet;
 - they are not aware of any material post-balance sheet events which have not been accounted for; and
 - compliance with client money regulations.
- reports from the Director of Assurance summarising the results of projects carried out in the year and actions followed up in the period;
- a report from the partner responsible for the firm's audit transparency report including an opinion on the extent of compliance with the Code's risk management principles and provisions;

Section 5 – Report from the Audit & Risk Committee

- a report from the Head of National Quality & Risk Management summarising any whistle-blowing matters which he considers should be brought to its attention;
- reports from the Independence and Ethics Partner summarising any conflicts, independence and ethical matters which he considers should be brought to its attention;
- a report from the Money Laundering Reporting Officer summarising any money laundering or anti-bribery matters which he considers should be brought to its attention;
- a report from the firm's Head of Business Security on security matters covering an assessment of the firm's current security situation; and
- a report from the statutory auditors including a summary of misstatements, if any, identified by the audit and commentary on the design effectiveness of internal controls and adherence to risk management procedures.

No significant weaknesses were identified during this process. The Committee is therefore of the view that:

- there is an on-going process for identifying, evaluating and managing the firm's enterprise risks;
- the process had been in place for the year ended 31 May 2013 and up to the date of approval of the FY13 annual financial statements and this Transparency Report;
- the process is regularly reviewed by the Committee and accords with the Turnbull Guidance; and
- the results of the review were reported to and considered by the Board of Partners.

5.11 The Audit Firm Governance Code

In conclusion we continue to support the aims and principles of the Audit Firm Governance Code in practice. We reviewed and approved all relevant disclosures for the annual financial statements, this Transparency Report and on our website. Our activities and findings are reported to the Board of Partners. The Committee meets at least three times a year and met seven times during the year ended 31 May 2013. The members of the Committee are given in Appendix 3 and meeting attendance in Appendix 4 of this report.

Further details on the terms of reference and work of the Committee can be found on our website at http://www.deloitte.com/view/en_GB/uk/about/our-leadership-and-governance/index.htm

I would like to thank all the members of the Committee for their contribution and hard work during the year.

Appendix 1 – Financial information

The Statutory Auditors (Transparency) Instrument 2008 requires transparency reporting auditors to provide financial information for the firm's financial year, including "showing the importance of the auditor's statutory audit work".

We have extracted the following financial information from Deloitte's annual accounts and financial records for the year ended 31 May.

Year ended 31 May 2013

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

Revenue	Amount (£m)	Percentage (%)
Audit and directly related services	576	23
Non-audit work – audit clients	198	8
Non-audit work – non-audit clients	1,741	69
Total	2,515	100

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

Operating Profit	Amount (£m)
Audit and directly related services	97

Operating profit for statutory audit and directly related services is calculated based on direct costs, including staff costs, recorded on audit engagements, together with an allocation of overheads such as property and IT. Overhead costs have been allocated, on a pro-rata basis, based on headcount or revenues.

Year ended 31 May 2012

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

Revenue	Amount (£m)	Percentage (%)
Audit and directly related services	542	23
Non-audit work – audit clients	177	8
Non-audit work – non-audit clients	1,610	69
Total	2,329	100

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

Operating Profit	Amount (£m)
Audit and directly related services	106

Operating profit for statutory audit and directly related services is calculated based on direct costs, including staff costs, recorded on audit engagements, together with an allocation of overheads such as property and IT. Overhead costs have been allocated, on a pro-rata basis, based on headcount or revenues.

Appendix 2 – Public interest entities

A list of our public interest entity audits in respect of which an audit report was signed by Deloitte LLP in the year ended 31 May 2013 is provided on our website at the following link: <http://annualreport.deloitte.co.uk/audit-transparency-2013/at-pie-list-2013.pdf>

Under the provisions of the Statutory Auditors (Transparency) Instrument 2008, made by the Professional Oversight Board of the Financial Reporting Council, “public interest entity” means an issuer whose transferable securities are admitted to trading on a regulated market and the audit of which is a statutory audit within the meaning of section 1210 of the Companies Act 2006.

Appendix 3 – Executive Group and Board and Committee Members, as at 31 August 2013

Executive group



David Sproul, Senior Partner and Chief Executive

David Sproul is Senior Partner and Chief Executive of Deloitte in the UK. He is also a member of the D TTL Executive and Board. Until his election, he was Managing Director for Tax in EMEA and the UK.

He was previously Managing Partner for Operations at Andersen and has held various roles in Deloitte including leading Deloitte's Consulting and Advisory business from 2002 to 2004, and being responsible for developing our Talent agenda from 2004 to 2006.



Steve Almond, International Markets

Steve Almond was appointed Managing Partner, International Markets, Deloitte UK on 1 June 2011. He is also the Chairman of D TTL.

Previous roles include Deputy Global Chief Executive Officer, Clients and Global Managing Partner, Audit. During the past eight years Steve was also a member of the Global Management Committee and then the D TTL Executive. He was a member of the UK Board of Partners for 13 years.



David Barnes, Public Policy

David Barnes was appointed Managing Partner for Public Policy on 1 June 2012.

He was previously the Head of London Audit Financial Services in the UK, a role which he held for six years, and Chairman of the Deloitte Audit Committee.

He continues to work with a wide range of major financial service companies in either an audit or advisory capacity.

Appendix 3 – Executive Group and Board and Committee Members



Sharon Thorne, Regional Markets

Sharon Thorne is Managing Partner Regional Markets with responsibility for Deloitte's Services in our 17 practice offices outside London. She is also a member of the Deloitte UK Board.

She has held various leadership roles in the past including Managing Partner Talent and also spent four years on the Global Board of D TTL.

Sharon has over 25 years of experience auditing and advising clients cross a broad range of sectors and has substantial experience working with complex groups, co-ordinating our services across the globe.



Stephen Griggs, Finance

Stephen Griggs was appointed Managing Partner, Finance on 1 June 2011.

Prior to his appointment Stephen led the Technology, Media and Telecommunications division of the London Audit Practice. He was a member of the firm's Audit Leadership team and Audit Talent Partner between 2006 and 2011.



Emma Codd, Talent

Emma Codd was appointed Managing Partner for Talent on 1 June 2013; she is also a partner in the Deloitte Forensic practice where she established and manages the Business Intelligence Services team, advising clients on identifying and mitigating integrity risks when investing – and operating – in new geographical markets. Emma has been heavily involved in Deloitte's diversity, respect and inclusion agenda for the past few years and was sponsoring partner of the UK firm's Women's Network until her appointment to the Executive.



Simon Owen, Innovation and New Business Models

Simon Owen is the Managing Partner of Innovation and New Business Models for Deloitte UK, is a partner in Enterprise Risk Services and is the Deputy Global Leader for ERS.

Simon has nearly 20 years experience in process and technology risk, counter fraud and information security. He has represented Deloitte at the ICAEW's Technical Committee and is the firm's contact to the Government's Centre for the Protection of National Infrastructure (CPNI) on matters relating to digital security and counter-terrorism.



Vimi Grewal-Carr, Delivery Models

Vimi Grewal-Carr was appointed Managing Partner for Delivery Models on 1st June 2013.

She was previously a member of the Consulting leadership team and led Go To Market and Mergers & Acquisitions for Consulting. Vimi has over 20 years' experience working with Global Banking Financial Services clients, primarily leading mergers & acquisitions' integrations and large scale transformations.



Andy Hodge, Tax

Andy Hodge is the Managing Partner of our UK Tax practice and a member of the Deloitte Global Tax Executive.

Andy became a partner in Andersen in 1997 and joined Deloitte in 2002. He has held various leadership roles in the past several years. Most recently, he was in charge of the Global Employer Services practice both in the UK and EMEA, and the UK leader of our Employer and Personal Tax practice.

Appendix 3 – Executive Group and Board and Committee Members



Panos Kakoullis, Audit

Panos Kakoullis joined Touche Ross in 1989 and was admitted as a partner in 1999.

He is the Managing Partner of Audit. He has over 22 years experience combining audit work with due diligence, London Stock Exchange and Securities and Exchange Commission reporting on a wide range of significant multinational clients.



Neville Kahn, Corporate Finance

Neville Kahn was appointed the Managing Partner of our UK Corporate Finance business on 1 June 2013 and is a senior Insolvency Partner. Neville joined Deloitte in 2002 as a direct hire partner. He previously was the UK and Global head of Restructuring Services. His main client responsibilities include advising stakeholders in distressed businesses.



Vince Niblett, Senior Markets Group

Vince Niblett joined Deloitte in 1980 and became a partner in 1989. Most recently, he was Managing Director of Audit, UK.

Within the Clients and Markets sector of the new Executive Group structure he is Managing Partner, Senior Markets Group which is a team made up of the Practice Senior Partners, Vice Chairmen, Industry and Segment Leaders. It provides direct marketplace input to the Executive Group, and has the key task of supporting the Executive Group to increase the number and quality of trusted client relationships.



Richard Punt, Clients and Markets

Richard Punt is Managing Partner, Clients and Markets. He leads the strategy practice's Impact Programme and is one of the firm's most experienced strategy consulting practitioners, with a strong track record in advising clients on strategy development, execution and organisation.



Paul Robinson, Consulting

Paul Robinson has over 25 years' experience in the Consulting industry. He joined Deloitte in 1994 initially working in Canada and the US. He has been a Partner for 14 years during which time he has held a number of roles, namely Managing Director (UK Technology), Global CRM leader and Manufacturing and Life Sciences Industry Leader for EMEA.

In the last seven years he has been the Global Technology Leader for Consulting and has served on the Global Executive. Paul was appointed Managing Partner for UK Consulting in June 2011.



Nick Sandall, Financial Services

Nick is the Managing Partner leading the UK FSI practice. Nick has 25 years experience working in consultancy and advisory covering various projects. He has been an FSI Partner for thirteen years, and has led the retail banking practice and the financial services consulting service line within Deloitte UK. He has led a wide range of consulting assignments across finance, operations and talent. He is a frequent commentator on retail banking and a strategic thinker in the branch banking area.



Steve Ward, Quality & Risk

Steve Ward is Managing Partner Quality & Risk and the firm's Risk and Reputation leader. He has been a partner in the firm for 22 years and in this time has been a Board member, Head of Tax for the Regions and Head of London Tax.

Steve has 28 years' tax experience with Deloitte advising a wide variety of publicly held UK and International groups. His industry focus is health care and life sciences.

Appendix 3 – Executive Group and Board and Committee Members

Board of Partners



David Cruickshank, Chairman

David Cruickshank was elected as Chairman of Deloitte in the UK on 1 June 2007 and was re-elected for a second four year term commencing 1 June 2011. He has been a DTTL Board member since 1 June 2007.

David chairs the following sub committees of the Board – the Nomination Committee and the Compensation Committee.

David provides advice to a number of large companies and other organisations and is advisory partner on a wide range of the firm's major clients.

Prior to being elected Chairman, David led the firm's Tax practice for eight years and has been a partner since 1988. Outside the firm, among other things, David chairs the Education and Employers Taskforce; is a Council Member of Heart of the City; leads the Business Support Group for Community Links and is a founder chairman of The 30% Club.

David Sproul, Senior Partner and Chief Executive *



Zahir Bokhari

Zahir Bokhari is the partner in charge of Deloitte's Banking and Capital Markets Audit Group, Head of the UK Banking sector, and responsible for Growth and Markets for the Audit service line. He is a member of both the Audit and the FSI Executive. Zahir has been providing audit, assurance and advisory services to the banking industry for more than 20 years.



John Cullinane

John Cullinane joined Deloitte in 2002 following the Andersen transaction. He is currently an elected member of the Board of Partners and the UK firm's Tax Quality & Risk partner. During his career John has specialised in financial, international and corporate tax and in advising public authorities and others on developing taxation systems and on tax issues concerning building successful financial centres.

He was President of The Chartered Institute of Taxation from 2006-2007.



Nick Edwards

Nick Edwards is the National Head of UK Restructuring Services and is a Licensed Insolvency Practitioner.

He became an elected Board member on 1 June 2011. He was the London Corporate Finance Talent Partner between 2004 and 2006.



Nick Owen

Nick Owen is a Consulting partner at Deloitte based in the UK and is also a Vice Chairman of Deloitte LLP. He leads the Private Sector consulting industry team. He has 27 years experience predominantly in the private sectors working with, Oil & Gas, Media, Telecommunications and Lifescience Businesses. He has served on our Consulting executive since 2002, and has served on the firm's executive.

Appendix 3 – Executive Group and Board and Committee Members



Chris Loughran

Chris Loughran is a Consulting partner and Practice Senior Partner for Deloitte in the Midlands. He was elected to the Board of Partners in December 2010.

From 2003 to 2010 he was a member of the Consulting Executive and led the development and growth of the firm's Technology Consulting practice. He specialises in leading and advising on large technology-enabled change programmes and has done so in both the public and private sectors.



Anna Marks

Anna Marks is an Audit Partner who, having spent most of her career in London, spent the last few years based in the Birmingham office, before transferring back to the South region in 2010.

Anna is an elected member of the UK Board of Partners and a member of the region's Audit Executive team with responsibility for Talent, Quality and Brand.



Ellie Patsalos

Ellie Patsalos is the DTT (Deloitte Touche Tohmatsu) Global Managing Partner, Financial Services Industry Tax, a partner of the DTT Global Employer Services Tax group, Vice Chairman of the Deloitte UK member firm and a member of the UK Board of Directors.

Ellie has been involved in high-level global human resources issues concerning policy and implementation strategies as well as advising on structuring pay for senior executives and board members of prestigious global organisations.



Chris Powell

Chris Powell is an experienced Audit partner, based in Leeds, who works with a range of large public and private companies and other organisations. He is the Partner in Charge of the Deloitte Audit business in the North of England covering our Leeds, Manchester, Newcastle and Liverpool offices.

Chris is a member of the UK Audit Executive, with responsibility for Talent and Brand. He is also a member of the UK Talent Executive, an elected member of the UK firm's Board of Partners, and Chairman of the Audit & Risk Committee.



Ian Steele

Ian Steele is a Corporate Finance Advisory Partner based in Glasgow. He is also Senior Partner for Scotland and Northern Ireland, with responsibility for Deloitte business across the Region – Edinburgh, Aberdeen, Glasgow and Belfast.

Ian is an elected member of the UK Board of Partners, and has been on the Board of Partners for over six years. He has chaired the Remuneration Committee for the last three years. He is Head of Global Advisory and Head of Advisory for EMEA.

Ian also sits on the Board of Ingeus – a joint venture between Ingeus Europe and Deloitte – as a Non-Executive Director.



Reto Savoia

Reto Savoia is the leader of the Swiss tax practice and a member of the Leadership Team of the Swiss firm. In his capacity as an international corporate tax partner he serves a variety of major Swiss and international clients of the firm across a range of industries. Reto maintains an international outlook by working closely with the UK and EMEA Tax Executive.

Appendix 3 – Executive Group and Board and Committee Members



Denis Woulfe

Denis Woulfe is the Practice Senior Partner for the South West and Wales region, Chair of our UK Compliance and Reporting Services business and is an elected member of the UK Board of Partners. He has considerable experience in advising a broad range of clients on tax and commercial issues.

Denis specialises in listed and large private companies and leads many such relationships for Deloitte either as Lead Client Service Partner or lead Tax Partner.

David Barnes *

Stephen Griggs *

Sharon Thorne *

Independent Non Executives



Sir Michael Peat, Independent Non Executive

Sir Michael Peat was appointed to the UK Board of Partners in October 2011. He joined Peat Marwick Mitchell in 1972, becoming a partner in 1985. In 1986 he led a management review of the Royal Household. From 1987 to 1990 he was the auditor of the Privy Purse and administrative adviser to the Royal Household. In 1990 he was appointed Director of Finance and Property Services of the Royal Household, while remaining a partner at KPMG.

Sir Michael retired from KPMG in 1993 and in 1996 was appointed Keeper of the Privy Purse and Treasurer to the Queen. In 2002, he became Private Secretary to The Prince of Wales, with responsibility for the household, finances and charities.

He is Senior Independent Non-Executive Director of Evraz plc and an advisor and member of the Global Advisory Forum of CQS.



Gerry Grimstone, Independent Non Executive

Gerry Grimstone was appointed to the UK Board of Partners in July 2011. He has had a long and distinguished career in government and financial services, and is currently Chairman of Standard Life. Gerry has held senior positions within the Department of Health and Social Security, HM Treasury and Schroders.



Dame DeAnne Julius, Independent Non Executive

Dame DeAnne Julius was appointed to the UK Board of Partners in July 2011. She is a distinguished economist, who was a founder member of the Monetary Policy Committee and former Chairman of Chatham House.

She has been a Non Executive Director of several major international companies and currently serves on the boards of Roche in Switzerland and Jones Lang LaSalle in the US.

Appendix 3 – Executive Group and Board and Committee Members

Board Sub Committees

Audit & Risk Committee

The Audit & Risk Committee plays a key role in our risk management and quality process, taking responsibility for monitoring the reporting, accounting, financial and control aspects of the Executive Group's activities. Section 5 explains the work of the Audit & Risk Committee in further detail.

Chris Powell, Chairman *

John Fotheringham

John Fotheringham is a Partner in Consulting and was an elected member of the Board of Partners until the end of June 2013. He is a member of the Consulting Leadership responsible for new business models.

Chris Loughran *

Anna Marks *

Denis Woulfe *

Compensation Committee

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

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

David Cruickshank, Chairman *

Patrick Loftus

Patrick Loftus is the Practice Senior Partner for our North West practice and advises many of our large plc and privately owned clients. Prior to becoming Practice Senior Partner, Patrick was the head of Audit for the North.

As well as his experience in Audit, Patrick has spent extensive periods in the firm's Computer Audit and Corporate Tax departments as well as over ten years leading the Corporate Finance team in the North.

Ken McFarlane

Ken McFarlane is a Partner and Vice Chairman of Deloitte in the UK. He is also a member of the Compensation and Nominations Committees of the Board of Partners. He has spent his entire professional career with the firm, being admitted to the partnership in 1990.

He has held various management roles in the firm including responsibility for the operations of the UK Tax Practice and Mergers and Acquisitions Tax service line in Europe.

Chris Powell *

Ian Steele *

Remuneration Committee

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

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

Ian Steele, Chairman *

John Cullinane *

Nick Edwards *

Ellie Patsalos *

Chris Powell *

Nomination Committee

Each year the Board of Partners sets up a Nomination Committee to oversee the selection of candidates to stand in Board elections. The Nomination Committee operates in accordance with policy objectives laid down by the Board of Partners and is made up of the Chairman of the Board who shall be the Chairman of the Committee, two partners who are non executive members of the Board of Partners and four partners (not being members of the Board of Partners or the Executive Group at the time of their election) elected by the partners.

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

David Cruickshank, Chairman *

Zahir Bokhari *

Chris Loughran *

Carol Arrowsmith

Carol Arrowsmith joined Deloitte in 2002 following the Andersen transaction. She is currently a member of the UK firm's Nomination Committee and the Partnership Committee.

During her career, Carol has specialised in advising Boards of leading companies in the field of executive remuneration.

Patrick Loftus *

Graham Pickett

Graham Pickett joined Deloitte in 1979 as a graduate trainee and was made partner in 1992. He is currently UK Head of Travel, Hospitality and Leisure (THL), global leader of Travel and Aviation as well as Practice Senior Partner for the South Region. Graham specialises in advising Travel and Aviation clients in the UK as well as globally.

Ken McFarlane *

* Refer above for biography information

Public Interest Oversight Committee

The Public Interest Oversight Committee oversees public interest matters as they affect our firm. Section 4 explains the work of the Public Interest Oversight Committee in further detail.

Sir Michael Peat, Chairman *

Gerry Grimstone *

Dame DeAnne Julius *

Advisory Panel on Corporate Responsibility

The Advisory Panel on Corporate Responsibility has oversight and responsibility to the Board for the firm's charitable and philanthropic activities and for setting the firm's corporate responsibility strategy, approving the corporate responsibility plans, and monitoring performance. It focuses on the firm's direction, performance and leadership across the full suite of corporate responsibility, engaging in the wider corporate responsibility agenda and ensuring that the firm's corporate responsibility agenda is aligned with that DTTL policy.

Members are appointed by the Board and membership comprises the Chairman of the Board, three other Board members and up to four co-opted partners. The Committee meets four times a year.

David Cruickshank, Chairman *

Zahir Bokhari *

Ellie Patsalos *

Denis Woulfe *

Appendix 4 – Meeting Attendance*

Committee	Executive Group	Board of Partners	Audit Committee**	Compensation Committee	Remuneration Committee	Nomination Committee	Public Interest Oversight Committee	Advisory Panel on Corporate Responsibility
Number of meetings held during the year ended 31 May 2013	14	14	7	1	2	3	5	4
David Sproul	14	14						
David Cruickshank		14		1		3		4
Steve Almond	13							
Carol Arrowsmith						2		
David Barnes	14	10						
Zahir Bokhari		14				2		2
John Cullinane		13			2			
Nick Edwards		13			1	1		
John Fotheringham		14	7					
Sharon Thorne	14							
Stephen Griggs	14	12						
Gerry Grimstone		12					4	
Heather Hancock	13							
Andy Hodge	12							
Dame DeAnne Julius		11					5	
Panos Kakoullis	13							
Pat Loftus				1		3		
Chris Loughran		14	6			2		
Timothy Mahapatra	11							
Anna Marks		12	6			1		
Ken McFarlane				1		3		
Vince Niblett	14	10						
Ellie Patsalos		10			2			1
Sir Michael Peat		11					5	
Graham Pickett						2		
Chris Powell		13	7	1	2			1
Richard Punt	14							
Paul Robinson	13							
Nick Sandall	11							
Ian Steele		13		0	2			
Steve Ward	14							
Denis Woulfe		14	7					3

* – being attendance of individuals in their formal capacity as members of the relevant committees and excluding attendance by invitation. Please note that with effect from April 2013 one INE is invited to attend meetings of the Audit & Risk Committee plus one INE attends the final meeting for the financial year of the Remuneration Committee

** – became the Audit & Risk Committee with effect from November 2012 (see Section 5 for further details)

Appendix 5 – Legal structure and network

Deloitte LLP is a limited liability partnership, incorporated under the Limited Liability Partnerships Act 2000 and is wholly owned by its members (normally referred to as partners). Deloitte LLP provides audit services from 20 principal locations in the UK and Crown Dependencies. Deloitte LLP employs over 13,000 staff, with some 1,000 partners.

Deloitte LLP is the UK member firm of the Deloitte Network. The Deloitte Network is comprised of firms that are members of Deloitte Touche Tohmatsu Limited, an English company limited by guarantee (DTTL).

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. Member firms in the Deloitte Network provide services to clients, either directly or through their affiliates (member firms and their affiliates are collectively referred to herein as "Member Firms"). Member Firms operate under the Deloitte brand and related names, including Deloitte, Deloitte & Touche, Deloitte Touche Tohmatsu, and Tohmatsu.

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

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

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

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence. Aggregate revenue of DTTL Member Firms for the year ended 31 May 2012 was US\$31.3 billion.

There are governance and management structures at both the DTTL and Member Firm levels. At the DTTL level, the DTTL Board of Directors (DTTL Board) has adopted certain resolutions, policies and protocols regarding the governance of DTTL, professional standards and methodologies and systems for quality control and risk management in an effort to establish a consistently high level of quality, professional conduct and service in all Member Firms. Member Firms provide services to clients and are responsible for applying these policies as well as for setting their own policies and exercising professional judgement to ensure compliance with applicable professional standards and local laws and regulations.

The DTTL Board is the highest governing body of DTTL. DTTL's highest management body is the DTTL Executive, which is led by the DTTL CEO.

The DTTL Executive

DTTL's CEO is approved by the DTTL Board subject to ratification by a two-thirds majority of Member Firm partners, serves a term of four years and may be approved and ratified for one additional four-year term. The DTTL Executive currently consists of 23 members and includes senior DTTL and Member Firm leaders from various regions around the world. It is responsible for, among other things, fostering a common vision and helping to develop and direct DTTL's strategies. The DTTL Executive works in a collegial style and attempts to reach decisions through consensus.

Appendix 5 – Legal structure and network

The DTTL CEO, Barry Salzberg, leads the Executive and selects its members, subject to approval by the Governance Committee of the Board and the provisions of DTTL's governing documents. Manoj Singh is the Chief Operating Officer and Philip Rotner serves as DTTL General Counsel.

Global Audit Leadership Team

The Global Audit Leadership Team (GALT) is a senior leadership body for DTTL Global Audit. GALT is led by, and supports the work of, the Global Managing Director, Audit & ERS. GALT members consist of the Audit & ERS leaders of the DTTL Executive member firms, the three regional audit leaders, and on an as needed basis, partners leading key strategic or tactical areas. Responsibilities include developing audit strategies and driving key audit initiatives and policies including overseeing the implementation, execution and monitoring of such initiatives and policies across the Deloitte network and within their respective member firms.

The Board of Directors and the Governance Committee

The DTTL Board has responsibility for addressing governance issues within the competencies of DTTL. The DTTL Board must approve major initiatives of DTTL, such as strategies, plans, major transactions and significant policies.

The DTTL Board is led by the DTTL Chairman who is elected by the Board members. The current Chairman is Steve Almond, Managing Partner, International Markets of Deloitte UK. Steve was elected in 2011 and is serving a four-year term. The DTTL Board has 32 members: the DTTL CEO and 31 members appointed by Member Firms representing jurisdictions and regions around the world. The number of representatives from each Member Firm and region is determined by the DTTL Board based on a number of factors.

The Member Firms that hold seats on the DTTL Board are determined on the basis of such factors as size, revenues and clients. The persons who will hold the seats are selected by the Member Firms to which the seats are allocated, subject to approval of the Member Firms.

The DTTL Board also includes three regional seats, ensuring that smaller Member Firms are represented. Members serve a four-year term, and may be reappointed.

The DTTL Board is supported by its Governance Committee, which has oversight responsibility for DTTL's management and focuses particularly on the major strategic issues facing DTTL and the Member Firms. The Governance Committee comprises representatives from the largest Member Firms, plus the DTTL CEO (ex-officio and non-voting). Each Committee member has one vote on matters considered by the Governance Committee. To maintain independence and objectivity, a member of the Governance Committee may not also serve on the DTTL Executive, except for the DTTL CEO.

The DTTL Board also has a number of other committees that co-ordinate and recommend action on a wide scope of financial and administrative issues relating to DTTL's role. The Board committees include Risk Management, Audit and Finance, Membership Affairs and CEO Evaluation and Compensation.

- The DTTL Risk Management Committee performs oversight with respect to, among other things, DTTL's role in providing assistance to the Member Firms as they carry out their risk management responsibilities.
- The DTTL Audit and Finance Committee's purpose is to assist the Board in its oversight responsibility related to the quality and integrity of DTTL's financial reports and the adequacy and effectiveness of its internal accounting and financial controls.
- The DTTL Membership Affairs Committee oversees DTTL management's responsibilities regarding the rights and obligations of Member Firms and reports to the Board accordingly.
- The DTTL CEO Evaluation and Compensation Committee assists by proposing both the appropriate evaluation and the level of compensation of the DTTL CEO for the Board's consideration.

DTTL Governance and Member Firm Voting Rights

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

Appendix 6 – Partner remuneration

Partners' profit sharing

Partners' share of profits in Deloitte UK is based upon a comprehensive evaluation of their individual contribution to the achievement of the firm's strategic objectives.

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 the performance of partners, a strong contribution in the following areas is the benchmark for all partners, notwithstanding the level of their contribution in other areas:

- **Quality & Risk:** A role model for quality in professional work and risk management.
- **Talent:** Contribution to mentoring, leading, recruitment, engagement, development and training of our people.

In addition, the following criteria are also used for assessing the performance and contribution of each partner:

- **Clients:** Client portfolio managed and roles performed.
- **Brand and eminence:** market related activity including stakeholder relations, thought leadership, innovation and brand protection roles.
- **Revenue generation, growth and business building:** contribution to business development and relationship building.
- **Financial success:** overall contribution to the financial success of Deloitte.
- **Leadership and management:** contribution to the firm's broad success through leadership and management roles.

Our appraisal and promotion processes and consideration 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 should not be evaluated or remunerated on the selling of other services to their audit clients.

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 use an Audit Quality Dashboard to assist in the partner appraisal process. The Audit Quality Dashboard identifies objective metrics of quality and measures partner performance against those metrics. The results are considered alongside other sources of evidence in assessing partner contribution to quality and when setting objectives for the forthcoming year. We have found that the Audit Quality Dashboard has strengthened the linkage between audit quality and partner remuneration.

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

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

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

Equity partners draw a proportion of their profit share in twelve 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 partners with any excess being released to partners as appropriate.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

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Designed and produced by The Creative Studio at Deloitte, London. 29008A