

Ernst & Young LLP

Members' Annual Report and Financial Statements

3 July 2020

Registered No. OC300001
Registered in England and Wales



Members' report

The members present their report and financial statements for the 53 week period from 29 June 2019 to 3 July 2020 (the comparative period being the 52 weeks from 30 June 2018 to 28 June 2019).

Ernst & Young LLP

Ernst & Young Europe LLP ('EY Europe LLP') has voting control over Ernst & Young LLP and, indirectly, its subsidiaries (the "firm").

Management

The Europe Operating Executive (EOE) is responsible for strategy execution and management of EY Europe LLP. The EOE comprises: the Europe Managing Partner; the Europe leaders of Accounts, Talent and Risk Management; the Europe service line leaders of Assurance, Advisory, Transaction Advisory Services and Tax; and all Europe Regional Managing Partners. The EOE meets at least monthly.

The Country Managing Partner of the firm is appointed by the European Managing Partner, with the consent of the EOE. Steve Varley was the Country Managing Partner and Chairman of the Board of the firm for the full period.

Throughout the year the firm was managed as two Regions: UK and Financial Services. The Country Managing Partner and, where different, the Managing Partners of each Region, formed the Board together with eight other members appointed by EY Europe LLP. The Board is responsible for the commercial, financial and reputational standing of the firm as a whole, implementing the admission of new members, maintaining liaison with members, approving the financial statements and other matters delegated to it from time to time by the EOE. Board members during the period were:

Steve Varley

Omar Ali

Ian Baggs

Hywel Ball

Justine Belton

(Appointed: 1 July 2019)

Lisa Cameron

Christabel Cowling

Sue Dawe

Deborah O'Hanlon

Robert Overend

(Resigned: 1 July 2019)

Lynn Rattigan

The Board is also responsible for appointing the Designated Members. The Designated Members as of 3 July 2020 were Lisa Cameron, Lynn Rattigan and Hywel Ball. Hywel Ball replaced Steve Varley as a Designated Member from 1 July 2020.

Governance

EY Europe LLP has an elected Europe Governance Sub-Committee, which includes the Presiding Partner of each Regional Partner Forum in Europe. It serves in an advisory role to the EOE on policies, strategies and other matters. The Europe Governance Sub-Committee meets four times during the year. During the period, one representative on the Europe Governance Sub-Committee was a partner of Ernst & Young LLP.

The UK Audit Committee consists of four members of the UK firm who do not hold a management role. The Committee is responsible for approving the financial statements and recommending that Designated Members sign the financial statements on behalf of the members of Ernst & Young LLP.

Members' report

Tax governance

Our tax policy is one of transparency and cooperation with HMRC.

Our tax risk management strategy, which has operated for many years, is based on pursuing clarity and certainty on tax matters wherever feasible by raising significant compliance risks and uncertainties with HMRC and being compliant in law and regulation.

Our tax policy sets out an objective that all members must be on time and compliant with their personal tax filings and tax payments. The same objectives also apply to Ernst & Young LLP and its subsidiary entities.

Our tax team is required to operate according to the EY values, a clearly defined set of behaviours that includes acting with integrity and doing the right thing.

Commentary

The COVID-19 pandemic has affected people, businesses and communities everywhere, creating new challenges for us all. During this difficult period, our number one priority has been the safety of EY people, clients and communities. We moved quickly to a full working from home set-up and the efforts and flexibility of our people have enabled us to support our clients around the world during this unprecedented time. EY people also created a wide range of pandemic-related solutions for clients and provided pro-bono support to communities and governments.

EY is nothing without its people and the impact on our people has been at the heart of our decision making. We have held "return to office" and "extended working from home" workshops to ensure their views are considered in our decision making. Most of our offices have now re-opened although social distancing/COVID secure measures means that there are limits on the number of people that can be accommodated and we continue to comply with government requirements. This means that most people will continue to work remotely to varying extents in the short term, and the firm has put in place a number of measures to support this.

To date, a strong pre-COVID-19 pipeline has meant that the impact on our financial results has been limited and we have not had to make redundancies or furlough any of our people as a result of the pandemic.

Despite the challenging economic environment in the UK, the firm has achieved revenue growth of 5%, from £2,447m to £2,567m and net revenue increased by 6% from £2,058m to £2,183m.

The statutory profit for the financial period increased from £505m in 2019 to £509m in 2020 whilst the corresponding average statutory profit per partner decreased from £719,000 to £709,000 in 2020. The distributable profit before tax for the financial period increased from £477m in 2019 to £479m in 2020 and the corresponding average distributable profit per partner decreased from £679,000 to £667,000.

Revenue growth was strongest for Strategy and Transaction Services at 9.4%, followed by Taxation and Assurance which generated growth of 8.1%, and 7.8% respectively. Revenues for Consulting declined by 4.7%.

Our Transparency Report (accessible on our website) describes our approach to risk management and internal control. It also sets out how we have adopted the Audit Firm Governance Code which is intended to promote confidence and choice in the UK audit market and to provide a benchmark of good governance practice. We continue to monitor developments in audit reform closely and are working with the Financial Reporting Council (FRC) towards implementing their operational separation principles.

Members' report

Going concern

A project team comprising experts from across our service lines and functions was formed at the start of the pandemic to advise the Board and shape our response, and now reports into the Board on a regular basis. This has enabled us to closely monitor the impact of COVID-19 on our business and act pro-actively.

The firm has prepared multiple forecasts which reflect a wide range of possible severe but plausible scenarios including varying declines in revenue and cash collection rates. The impact on the firm's cash flows, borrowing facilities and associated covenants has then been considered, including reverse stress testing. As outlined in note 20, the firm has committed borrowing facilities of £310m. In addition, there are mitigating steps that could be taken to ensure that the LLP operates within its committed facilities and bank covenants, should the need arise, including:

- executing on identified cost reduction measures to improve both cashflow and profitability in the financial periods ending 2 July 2021 and 1 July 2022. These measures include but are not limited to halting recruitment, salary freezes, reduced or no bonuses or promotions and further reductions in our indirect costs;
- deferrals of payments to members; and
- additional capital commitment from members.

In addition to the uncommitted facilities of £117m outlined in note 20, the Designated Members are confident that additional uncommitted facilities of £50m and committed facilities of £100m will be obtained in the short term.

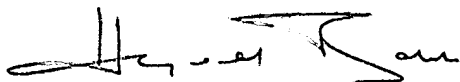
Looking ahead, the economic outlook is uncertain as we head into a period of recession. However, the Designated Members are confident in the resilience of the business and believe that the firm is well placed to manage its business risks successfully, including those arising as a direct result of COVID-19.

The Designated Members therefore have a reasonable expectation that the firm has adequate resources to continue in operational existence for at least a year from the date of signing the financial statements and so continue to adopt the going concern basis of accounting in preparing the annual financial statements.

UK taxation of income

Under UK tax law, members of Ernst & Young LLP pay tax that is individually assessed on their share of profits. Income taxes are not assessed on the LLP itself and it is therefore not dealt with in these financial statements. The taxation payable on the LLP's profits is the personal liability of the members. A retention from profits is made to fund payments of taxation on members' behalf.

The tax expense recognised in these financial statements relates to corporate income taxes arising in the LLP's corporate subsidiaries at a rate of 19% (2019: 19%). Current tax liabilities are measured at the amount expected to be paid to the taxation authorities, based on tax rates and laws that are substantively enacted by the balance sheet date.



Hywel Ball
Managing Partner
Date: 29 October 2020

Energy and Carbon report

This report is provided to comply with the UK government's policy on Streamlined Energy and Carbon Reporting.

GHG emissions and energy data

	Year to 30 June 2020
ENERGY CONSUMPTION TO CALCULATE EMISSIONS	
Gas combustion Kilowatt Hours ('kWh')	3,680,100
Purchased electricity kWh	19,065,884
Transport fuel* kWh	5,482,909
Total energy consumption kWh	28,228,893
EMISSIONS	
Gas combustion tonnes CO2 equivalent ('tCO2e') (Scope 1)	2
Purchased electricity tCO2e (Scope 2, location-based)	4,445
Business travel in employee-owned vehicles where the firm is responsible for purchasing the fuel* tCO2e (Scope 3)	1,710
Total gross emissions tCO2e based on above	6,157
INTENSITY RATIOS	
tCO2e per £m revenue	2.40
tCO2e per m2 of floorspace	0.06

* Represents fuel used in personal cars on business use for which the firm reimburses its employees following claims for business mileage.

Where relevant, emissions are reported on a 'Gross Calorific Value' basis.

Methodology

The emissions and energy data noted above has been collated, calculated and presented using the methodology set out in WRI / WBCSD The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition), March 2004, including separate guidance on Scope 2 and Scope 3 emissions.

Renewable energy

When reporting emissions related to electricity consumption, the appropriate years' DEFRA / DECC UK grid average emissions conversion factors have been applied to all electricity purchased, including those from renewable sources, non-renewable sources and those where the source is unknown e.g. landlord-supplied electricity. In addition to the location-based figures above, we also calculate Scope 2 (purchased electricity) emissions using a market-based approach.

The firm purchases 100% renewable electricity and biogas for all UK offices where it can control the energy supply and appropriate tariffs are available. This is backed by recognised certification schemes (i.e. REGOs, GGCS), which provide evidence that the energy is from appropriately accredited renewable sources.

Energy and Carbon report

Data assurance

As part of our commitment to corporate responsibility, and to help build confidence in the accuracy and completeness of the data reported, the firm's Climate Change & Sustainability Services team has conducted a review of the data included in this report.

Their review did not identify any errors or exclusions that would materially affect the accuracy and completeness of the data. For full details on the scope of the review and work-steps undertaken during this assurance process, please see our website: https://www.ey.com/en_uk/corporate-responsibility/ey-uk-and-ireland-approach-to-assurance-of-our-ghg-emissions-data.

In addition, the firm's full emissions data set is audited by Carbon Trust on a bi-annual basis as a requirement of Ernst & Young LLP's certification to the Carbon Trust Standard. The data provided in this Energy and Carbon Report will undergo such review during our recertification audit, scheduled for December 2020.

Energy efficiency actions taken

At the beginning of the financial year, the firm embarked on a major project to drive down carbon emissions in our London Bridge office, which is by far the biggest user of energy across the UK estate. This has included several initiatives to reduce both gas and electricity consumption as follows:

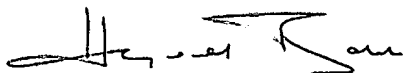
- All fluorescent lighting fittings replaced with low-energy LED lighting throughout the building
- Lighting controls replaced with a Digital Addressable Lighting Interface (DALI) based system to switch off lighting to non-occupied areas and dim down when natural lighting is available
- A new Trend based building management system installed to provide refined control of the Heating, Ventilation and Air-conditioning (HVAC) systems and operate systems to suit occupancy times
- Fan coil units (FCUs) upgraded, fan motors changed to the EC type and automated speed control installed to operate the FCU's on minimum speed when possible

It is expected that these initiatives will deliver energy savings of approximately 1.6m kWh per annum at a capital cost of circa £6m.

Future initiatives will involve reviewing office space usage out of non-core office hours to reduce energy expended on heating, cooling and ventilation.

Additional voluntary reporting activities

The majority of the firm's carbon footprint comprises Scope 3 emissions from business travel i.e. fuel associated with transport (trains, flights, taxis and / or transportation of goods) where the firm does not operate the vehicle / service. Although this data is outside the mandatory requirements of the 'Energy and Carbon Report, the firm voluntarily reports a full carbon emissions data set (including all Scope 3 emissions from business travel) on an annual basis. This is available to view via the following website: https://www.ey.com/en_uk/corporate-responsibility/ey-uk-and-ireland-ghg-emissions.



Hywel Ball
Managing Partner
Date: 29 October 2020

A list of the members of the LLP can be found on the Companies House website.

Statement of members' responsibilities

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 ('LLP Regulations') require the members to prepare financial statements for each financial period. The members have elected to prepare financial statements for the firm and the LLP in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

IAS 1 'Presentation of Financial Statements' requires that financial statements present fairly for each financial period the limited liability partnership's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Members are also required to:

- properly select and apply accounting policies;
- make judgments and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the firm's and the LLP's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the LLP will continue in business.

Under the LLP Regulations, the members are responsible for ensuring that adequate accounting records are kept which disclose with reasonable accuracy at any time the financial position of the firm and the LLP, and which enable them to ensure that the financial statements will comply with those regulations. The members have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the firm and to prevent and detect fraud and other irregularities. The members are responsible for the maintenance and integrity of the firm's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The members' responsibilities set out above are discharged by the Designated Members on behalf of the members. The Designated Members at the date of approval of the financial statements confirm that, so far as they are aware, there is no relevant information of which the LLP's auditors are unaware and each Designated Member has taken all the steps that ought to have been taken by them as members to make themselves aware of any relevant audit information and to establish that the LLP's auditors were aware of that information.

The firm, which is part of the EY global network, has considerable financial resources, contracts with a large number of clients across different industries and geographies and has talented and motivated partners and employees. Information about its capital and exposure to liquidity risk is set out in notes 13 and 20 to the financial statements. The Designated Members believe that the firm is well placed to manage its business risks successfully, despite the current uncertain economic outlook, and have a reasonable expectation that the firm has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements (see Members' report).

Independent auditor's report

to the members of Ernst & Young LLP

Opinion

We have audited the financial statements of Ernst & Young LLP ('the Limited Liability Partnership' or 'EY') and its subsidiaries ('the Group') for the period ended 3 July 2020 which comprise the Consolidated and Limited Liability Partnership Income Statements, the Consolidated and Limited Liability Partnership Statements of Comprehensive Income, the Consolidated and Limited Liability Partnership Balance Sheets, the Consolidated and Limited Liability Partnership Statements of Cash Flows, the Consolidated and Limited Liability Partnership Statements of Changes in Members' Interests and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Limited Liability Partnership's affairs as at 3 July 2020 and of the Group's profit and the Limited Liability Partnership's profit for the period then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of the Companies Act 2006) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Limited Liability Partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were:
	• Revenue recognition and valuation of unbilled receivables • Completeness and valuation of provisions for professional liability claims and regulatory matters • Valuation of defined benefit pension liabilities • Accounting system migration • Implementation of IFRS 16 Leases
	Within this report, key audit matters are identified as follows when compared to the prior period:
	— Newly identified
	▲ Increased level of risk
	► Similar level of risk
	▼ Decreased level of risk

Independent auditor's report

to the members of Ernst & Young LLP

Materiality	The materiality that we used for the Group financial statements was £26m (2019: £25m) which was determined by applying 5% to a benchmark of profit before tax for the year ended 3 July 2020. Materiality for the Limited Liability Partnership financial statements was set at £24.4m (2019: £24.9m) and has been calculated on the same basis.
Scoping	Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. We designed an audit strategy to ensure we have obtained the required audit assurance for each component for the purposes of our Group audit opinion (ISA 600 (UK)). Components were scoped in to address aggregation risk and to ensure sufficient coverage was obtained of group balances on which to base our audit opinion.
Significant changes in the year	In the current year we identified two new key audit matters in addition to those in the prior period, as follows: • Accounting system migration, due to the level of audit focus required • Implementation of the accounting standard IFRS 16 - Leases, due to the material impact on the balance sheet and the key judgements and estimates used in the IFRS 16 calculations.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Members' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or Limited Liability Partnership's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and the direction of efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report

to the members of Ernst & Young LLP

Revenue recognition and valuation of unbilled receivables ►

Key audit matter description

The Group's accounting policy in respect of revenue recognition and their assessment of significant estimation are described in note 2 on page 22. Other related disclosures are presented in notes 3 and 13.

Revenue is recognised by reference to the stage of completion of the contract with a customer. This requires judgements and estimates in order to identify the performance obligations, the stage of completion, and the amount to be recognised as revenue, over time or at a point in time, in accordance with the specific contract with the customer.

To determine the timing of the recognition of revenue and the value of unbilled receivables to be recognised in the balance sheet, an estimate has to be made of the stage of completion of a performance obligation and the right to consideration at the year-end for each individual engagement.

This can involve complex and subjective judgements in determining the stage of completion of performance obligations and the value of future consideration receivable.

Resulting in revenue recognition and the valuation of unbilled receivables being assessed as a significant risk of material misstatement.

How we addressed the key audit matter in the audit

Control design: In components subject to full scope procedures, we evaluated the design and implementation of relevant controls in the revenue cycle intended to ensure revenue is recognised at the correct amount and in the correct period.

Test of controls: The effectiveness of key controls in the revenue cycle have been tested in significant components where revenue is an audit risk. This included signing of the contract with the customer, the accuracy of timecards, costs incurred on engagements, the automatic calculation of unbilled receivables and the confirmation of stage of completion at the year end.

Tests of detail: For engagements open at year end, we used specific characteristics of audit interest to identify outliers in the population. For a sample of client engagements that met any of these characteristics, we:

- Examined contract terms to check compliance with IFRS 15.
- Challenged the stage of completion, revenue recognised, and any provisions held against unbilled amounts through inquiry with the engagement teams and through obtaining corroborating evidence.
- Re-calculated the expected revenue to conclude whether it was determined in line with contractual terms and the Group's accounting policy.
- Performed a retrospective review of the samples selected for testing in the prior year against updated or finalised information to assess the accuracy of management's estimates.

Conclusion

We did not identify any significant deficiencies in internal control as a result of our audit work.

Based on the work performed we did not identify any indications that revenue and unbilled receivables has been materially misstated.

Independent auditor's report

to the members of Ernst & Young LLP

Completeness and valuation of provisions for professional liability claims and regulatory matters

Key audit matter description	The accounting policy for provisions in respect of claims and regulatory matters is included within note 2 on page 25 and noted as a financial statement area subject to significant accounting estimation. The disclosure for claims and regulatory matters is included in note 17. In accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', provision is made for claims for alleged professional negligence and regulatory matters when there is a present obligation as a result of a past event that gives rise to a probable payment and when the quantum of the payment can be reliably estimated. Determining whether to provide and if so, the amount to provide, involves a high degree of judgement and estimation uncertainty as to the costs to defend or settle these actual or potential matters. Resulting in completeness and valuation of provisions for professional liability claims and regulatory matters being assessed as a significant risk of material misstatement.
How we addressed the key audit matter in the audit	Control design: In components subject to full scope procedures, we evaluated the design & implementation of relevant controls established by management to ensure completeness and accuracy of provisions recognised for claims and regulatory matters. Test of controls: The operating effectiveness of relevant internal controls related to the completeness and valuation of the provisions for professional liability claims and regulatory matters have been tested. Tests of detail: Other audit procedures performed included: • Inspection of documentation verifying the existence of the Group's professional indemnity insurance cover and appropriateness of recognising reimbursements. • Inquiry of the Group's general counsel as to the status of claims and action by regulatory bodies corroborated to internal and third party documentation. • Obtaining and reviewing publically available information to determine whether the information obtained was complete. • Challenging judgements and estimates used to calculate the provisions by obtaining supporting documentation and considering management's ability to exercise bias. • Performing a retrospective review of a sample of prior year claims provisions against updated or finalised information to assess the accuracy of management's previous estimates.
Conclusion	We did not identify any significant deficiencies in internal control as a result of our audit work. We did not identify, either from external or internal sources, any material claims or regulatory matters or circumstances not already included in the internal reporting procedures. Based on the work performed, we did not identify any inappropriate judgements or estimates made by management in determining the provision for claims and regulatory matters.

Independent auditor's report

to the members of Ernst & Young LLP

We did not identify any disclosure deficiencies in relation to the disclosures in note 2 that describe the significant degree of inherent uncertainty in the assumptions and estimates used in valuing the provisions relating to claims and regulatory matters.

Valuation of defined benefit pension liabilities ►

Key audit matter description	The accounting policy and related disclosures for defined benefit pension schemes are shown in note 2 on page 26 and in note 19. The gross defined benefit pension scheme liabilities are measured on an actuarial basis using the projected unit credit method which includes assumptions relating to mortality and is discounted at a rate determined by reference to the current estimated rate of return on high quality sterling corporate bonds of equivalent term to the scheme liabilities. The provisions for post-employment benefits currently result in a significant defined benefit pension scheme deficit. The measurement of these liabilities in accordance with IAS 19 (Revised) 'Employee benefits' is based on a number of variables requiring significant judgment and complex actuarial assumptions and calculations. The provisions accounted for are sensitive to variation in the underlying assumptions; as a result, small variations in those assumptions can lead to a materially different value of the defined benefit pension scheme obligations. Resulting in the measurement of pension scheme liabilities being assessed as a significant risk of material misstatement.
How we addressed the key audit matter in the audit	Test of detail: Our audit procedures performed included: Consideration of the appropriateness and adequacy of the audit evidence provided by the Group's internal actuaries, including: - Assessing the accuracy of the underlying member data used by the Group's internal actuaries by agreeing it to supporting documentation from the external administrator. - Engaging our own actuarial specialist to independently challenge management's assumptions and valuation methodology, whilst considering the ability of management to exercise bias when setting assumptions or applying methodology. Ensuring the disclosures in the financial statements are in line with the requirements of the accounting standard. Recalculating the disclosed sensitivities of the key assumptions used by management in determining the amount of the pension liability.
Conclusion	We consider that the evidence provided by the Group's internal actuaries was appropriate and agreed to underlying records. Based on the work performed, we did not identify any inappropriate assumptions made by management or indications of bias in determining the defined benefit pension liabilities and also that the assumptions did not fall outside acceptable ranges. We did not identify any deficiencies in relation to the disclosure in notes 2 and 19 to the financial statements that describes the significant degree of uncertainty in the underlying assumptions and estimates.

Independent auditor's report

to the members of Ernst & Young LLP

Accounting system migration —

Key audit matter description	The Group migrated to SAP, a new Enterprise Resource Planning ('ERP') system on 3 October 2019. The new system is a fully integrated financial accounting and reporting system. This replaced several previous platforms used for recording the underlying business transactions across the Group. This was a significant project impacting the financial and operating reporting across the Group. The transfer of data and operation of new systems needed to be carefully managed during the transition period to ensure that the integrity and accuracy of data transferred from legacy systems was maintained and the new system operates as intended. Due to the magnitude of the project and the pervasive risks involved in migrating to a new ERP system, this was considered a key audit matter.
How we addressed the key audit matter in the audit	Control design: We evaluated the design & implementation of relevant processes and controls established by management to ensure the completeness and accuracy of the data migrated to the new accounting system. Test of detail: Our audit procedures performed included: Discussions were held with management to understand the detailed implementation plan for the new ERP system as well as the revised business processes, related controls, and control activities. Our IT specialists were engaged to assess the quality of controls in place during the implementation of SAP, as well as, the associated segregation of duties and configuration of relevant automated application controls. Completeness and accuracy of the migration of financial data, both automated and manual, from the legacy IT system to the new ERP system was corroborated, including re-performing detailed reconciliations at a general ledger level, between the two systems at the date of transition.
Conclusion	We did not identify any material deficiencies as a result of the work performed on the quality of controls, segregation of duties, and configuration of relevant automated application controls during the implementation of SAP. Based on the work we performed we did not identify any material variances in the migration of data relevant to the recording of financial transactions from the legacy IT system to the new ERP system.

Independent auditor's report

to the members of Ernst & Young LLP

Implementation of IFRS 16 Leases —

Key audit matter description	IFRS 16 Leases is effective for the first time in the current financial year. Both the impact and the accounting policy are disclosed in the summary of significant accounting policies in note 2 on page 23 and 24. After determining which leases, or arrangements containing a lease, need to be accounted for and disclosed in line with the new standard, judgement is required to identify the expected lease term, subsequent modifications and extensions, and in identifying the discount rate implicit in the lease or estimating the incremental borrowing rate to be used in the calculations. Use of inappropriate judgements and estimates could materially impact the valuation of the right-of-use asset and lease liability and the resultant depreciation, and finance charges.
How we addressed the key audit matter in the audit	Test of detail: Our audit procedures performed included: Review of management's accounting policy, the transition methodology, practical expedients taken, changes in key judgements from transition and financial statement disclosure against the requirements of the standard. Consideration of whether any other contracts fall within the scope of IFRS 16 through review of the reconciliation to the prior year operating lease disclosure and review of key expense codes in the general ledger. Challenge of the judgements and key assumptions used in determining the incremental borrowing rates for each lease, agreeing inputs to third-party support. Agreement of key terms for a sample of leases to the underlying contracts and recalculation of the right-of-use asset and lease liability.
Conclusion	We did not identify any reportable misstatements or significant deficiencies as a result of our audit work. Based on the work performed, we did not identify any inappropriate estimations and judgements made in identifying leases and determining key inputs to the calculations, and we did not identify any deficiencies in relation to the disclosure in notes 2 and 16 to the financial statements relating to the transition to IFRS 16 Leases. We did not identify any material variances in relation to the valuation of the right-of-use asset, the lease liability, the depreciation charge or the finance charge.

Independent auditor's report

to the members of Ernst & Young LLP

Our application of materiality

The concept of materiality applies not only to monetary misstatements, but also to other disclosures in the financial statements. We apply the concept of materiality both in planning and performing our audit. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We have determined materiality based on our professional judgement for the financial statements as a whole as follows:

	Group	Parent Limited Liability Partnership
Materiality	£26m	£24.4m
Basis	5% of profit before tax	
Rationale	Profit before tax is the principal consideration for users of the financial statements in assessing the financial performance.	

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality of the Group should be set at 75% (2019: 75%) of the above materiality level. Performance materiality is the amount set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. We use performance materiality to determine the extent of our testing. We agreed with the Audit Committee that we would report to the Committee all individual audit differences in excess of £1m (2019: £1m). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Significant components	Following the change to the accounting system from which the financial statements were prepared, the scope of our work for the Group audit focused on two significant components (2019 – one), which were both subject to full scope audit procedures. Materiality applied to the audit of the financial information of the significant components ranged from £24.4m to £14.6m (2019: £24.9m). The significant components contribute to 99% (2019: 100%) of the Group profit before tax and 98% (2019: 99%) of the Group revenue. The two components considered to be significant were Ernst & Young LLP, the parent entity, and Ernst & Young Services Limited.
Remaining components	All other components were non-significant and scoped in for analytical review procedures to confirm our conclusion that there were no significant risks of material misstatement for the aggregated financial information.

All components were subject to audit by BDO LLP directly, as the Group auditor.

Independent auditor's report

to the members of Ernst & Young LLP

Other information

The Members are responsible for the other information. The other information comprises the information included in the Members' annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Group and the Limited Liability Partnership, or returns adequate for our audit have not been received from branches not visited by us; or
- the Group and the Limited Liability Partnership financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Members

As explained more fully in the Statement of Members' Responsibilities, the Members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Members are responsible for assessing the Group's and the Limited Liability Partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Members either intend to liquidate the Group or the Limited Liability Partnership or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditor's report

to the members of Ernst & Young LLP

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Limited Liability Partnership's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Limited Liability Partnership's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Limited Liability Partnership and the Limited Liability Partnership's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Diane Campbell (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

29 October 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated income statement

for the period ended 3 July 2020

		2020 (53 weeks) £m	2019 (52 weeks) £m
	Notes		
Fee income	3	2,567	2,447
Expenses billed to clients		(384)	(389)
Net revenue		2,183	2,058
Other operating income		332	285
Operating expenses	4	(1,976)	(1,815)
Operating profit		539	528
Finance revenue		1	1
Finance costs	6	(18)	(10)
Profit before taxation		522	519
Tax expense in corporate subsidiaries		(13)	(14)
Profit for the financial period		509	505

Reconciliation to profit distributable to members

Profit for the financial period (in accordance with IFRS) (before tax)		522	519
Adjustments made in determining distributions	7	(36)	(32)
Fixed allocation of current period profits		(7)	(10)
Profit for the financial period distributable to members (before tax)		479	477
Tax expense in corporate subsidiaries		(13)	(14)
Profit for the financial period remaining to be divided (after tax)		466	463

Consolidated statement of comprehensive income

for the period ended 3 July 2020

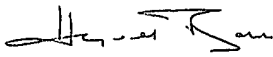
		2020 (53 weeks) £m	2019 (52 weeks) £m
	Note		
Profit for the financial period		509	505
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurement losses on retirement benefit liabilities	19	(224)	(72)
Fair value (losses)/gains on equity investments		(4)	10
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Other fair value gains/losses		–	(3)
Total comprehensive income for the financial period		281	440

Consolidated balance sheet

at 3 July 2020

Registered number OC300001

		3 July 2020	28 June 2019
	Notes	£m	£m
Assets			
Non-current assets			
Intangible assets and goodwill	8	35	19
Plant and equipment	9	122	124
Right-of-use assets	10	367	–
Investments	12	32	36
		<u>556</u>	<u>179</u>
Current assets			
Trade and other receivables	13	798	859
Amounts due from members		58	62
Prepayments		33	26
Cash and cash equivalents		185	53
		<u>1,074</u>	<u>1,000</u>
Total assets		<u>1,630</u>	<u>1,179</u>
Equity and liabilities			
Current liabilities			
Trade and other payables	15	423	380
Payments on account		87	73
Lease liabilities	16	44	–
Members' capital		6	4
		<u>560</u>	<u>457</u>
Non-current liabilities			
Lease liabilities	16	365	–
Provisions	17	38	27
Annuity obligations	18	32	35
Retirement benefit liabilities	19	401	211
Lease incentive		–	32
		<u>836</u>	<u>305</u>
Members' capital		168	162
Total liabilities		<u>1,564</u>	<u>924</u>
Equity: Members' other interests		<u>66</u>	<u>255</u>
Total equity and liabilities		<u>1,630</u>	<u>1,179</u>


Hywel Ball
Designated Member
Date: 29 October 2020


Lynn Rattigan
Designated Member
Date: 29 October 2020

Consolidated statement of cash flows

for the period ended 3 July 2020

	Notes	2020 £m	2019 £m
Profit before taxation		522	519
Adjustment for:			
Net finance costs		17	9
Depreciation, impairment and amortisation		70	31
Loss/(profit) on disposal of plant and equipment		1	(1)
Retirement benefit contributions net of plan administration expenses	19	(36)	(35)
Past service cost on retirement benefit obligations	19	–	5
Gains on corporate bonds and corporate bonds funds		–	(4)
Decrease/(increase) in trade and other receivables		65	(29)
Increase in trade and other payables		63	24
Increase in provisions and annuity obligations		9	6
Cash generated from operations		711	525
Annuity payments	18	(5)	(6)
Corporate tax paid by subsidiaries		(21)	(15)
Net cash inflows from operating activities		685	504
Purchase of plant and equipment		(35)	(38)
Proceeds from sale of plant and equipment		6	6
Proceeds from sale of corporate bonds		3	–
Net disposal/(acquisition) of investments		1	(2)
Acquisition of subsidiaries, net of cash acquired	11	(15)	–
Interest received		–	1
Net cash outflows from investing activities		(40)	(33)
Payments to and on behalf of members		(469)	(464)
Members' capital introduced		20	19
Repayment of capital to retiring members		(12)	(17)
Payment of lease liabilities	16	(49)	–
Other interest paid		(3)	(3)
Net cash outflows from financing activities		(513)	(465)
Net increase in cash and cash equivalents		132	6
Cash and cash equivalents at beginning of period		53	47
Cash and cash equivalents at end of period		185	53

Consolidated statement of changes in members' interests

for the period ended 3 July 2020

	<i>Members' other interests</i>				<i>Amounts due</i>		
	<i>Profits to be divided</i>	<i>Other reserves</i>	<i>Fair value reserves</i>	<i>Total equity</i>	<i>Members' capital</i>	<i>to/(from) members</i>	<i>Total members' interests</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
At 29 June 2018	459	(178)	3	284	164	(71)	377
Total comprehensive income	505	(72)	7	440	–	4	444
Transfers between reserves	(32)	32	–	–	–	–	–
Profit allocations	(469)	–	–	(469)	–	469	–
Payments to and on behalf of members	–	–	–	–	–	(464)	(464)
Capital introduced	–	–	–	–	19	–	19
Capital repaid	–	–	–	–	(17)	–	(17)
At 28 June 2019	463	(218)	10	255	166	(62)	359
Total comprehensive income	509	(224)	(4)	281	–	3	284
Transfers between reserves	(36)	36	–	–	–	–	–
Profit allocations	(470)	–	–	(470)	–	470	–
Payments to and on behalf of members	–	–	–	–	–	(469)	(469)
Capital introduced	–	–	–	–	20	–	20
Capital repaid	–	–	–	–	(12)	–	(12)
At 3 July 2020	466	(406)	6	66	174	(58)	182

Notes to the financial statements

at 3 July 2020

1. Corporate information

Ernst & Young LLP is a limited liability partnership, incorporated and domiciled in England and Wales.

The group and LLP financial statements of Ernst & Young LLP for the period ended 3 July 2020 were approved and authorised for issue by the Board on behalf of the members on 29 October 2020.

The principal activity of Ernst & Young LLP is the provision of assurance, advisory, taxation and transaction advisory services in the UK and the Channel Islands. Its registered office is at 1 More London Place, London SE1 2AF.

2. Accounting policies

Basis of preparation

The group and LLP financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements have been prepared on the accruals basis of accounting using a number of measurement bases, including historical cost and fair value, as set out in the accounting policies below. The financial statements have been prepared on a going concern basis. The designated members have concluded that it is appropriate to adopt this basis having considered multiple forecasts covering a period exceeding a year from the date of signing the financial statements. The forecasts consider the impact of COVID-19 in a range of severe but plausible scenarios including varying declines in revenue and collection rates. The impact on the firm's cash flows, borrowing facilities and associated covenants has then been considered, including reverse stress testing. The firm has committed borrowing facilities of £310m. In addition, there are mitigating steps that could be taken to ensure that the LLP operates within its committed facilities and bank covenants, should the need arise. The designated members have therefore concluded that there is no material uncertainty relating to going concern and that it is appropriate to present the financial statements of the group and the LLP on a going concern basis. Further details of this assessment can be found within the Members' report.

The functional currency of the LLP and its subsidiaries is pounds sterling. The financial statements are presented in pounds sterling and, unless otherwise indicated, are rounded to the nearest million pounds (£m).

The financial statements have been drawn up for the 53 week period from 29 June 2019 to 3 July 2020 (the comparative period being the 52 weeks from 30 June 2018 to 28 June 2019).

Judgements and key sources of estimation uncertainty

The preparation of financial statements requires the application of judgement and the use of estimates that affect the amounts reported for assets, liabilities, revenues and expenses. Information about these judgements and estimates is included in the accounting policies and other notes, the most significant being revenue recognition, lease liabilities, provisions for claims and retirement benefit obligations. Although estimates are based on the best information available, actual outcomes could differ from the amounts included in the financial statements.

Basis of consolidation and business combinations

The group financial statements include the financial statements of Ernst & Young LLP and the entities it controls (its subsidiaries) drawn up to 3 July 2020. Control is achieved when the firm is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. All intra-firm balances and transactions have been eliminated in full.

Business combinations are accounted for using the acquisition method. When a business is acquired its identifiable assets and liabilities are measured at fair value at the acquisition date. Goodwill is measured at the excess of the consideration over the net identifiable assets and liabilities acquired less any accumulated impairment losses. Contingent consideration is recognised at fair value at the acquisition date, with subsequent changes in fair value recognised in the income statement.

Foreign currencies

Transactions in foreign currencies are initially recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Exchange differences are recognised in the income statement as they arise.

Notes to the financial statements

at 3 July 2020

2. Accounting policies (continued)

Revenue recognition

Fee income represents revenue earned under a wide variety of contracts with clients to provide professional services. Revenue is recognised when services are transferred to the client at an amount that reflects the consideration to which the firm expects to be entitled in exchange for those services.

Each contract is assessed to identify the performance obligation(s) and to estimate the total transaction price. The transaction price includes variable consideration only to the extent that it is highly probable it will not be subsequently reversed. The total transaction price is then allocated to each performance obligation within the contract.

The firm typically recognises the transaction price as revenue over time because most contracts give the firm the right to receive payment for work performed to date. Where this is not the case, the firm recognises revenue at a point in time, typically when the service has been completed and delivered to the client.

When recognising revenue over time, the firm measures progress towards complete satisfaction of the performance obligations using time and costs incurred as a proportion of the total estimated time and costs. The firm considers this to be the best measure of how services are transferred to clients over time.

The firm has concluded that it is the principal in the majority of its revenue arrangements, including where work is performed by other EY Member Firms, on the basis that the firm typically controls the services before transferring them to the client.

Payment terms are negotiated separately with each client, but typically involve periodic billings as services are provided. Where amounts billed to clients are less than the revenue recognised at the period end date, the difference is recognised as unbilled receivables. Where the amounts billed exceed the revenue recognised at the period end date, the difference is recognised as payments on account. The performance obligations related to any payments on account are generally satisfied within a year of such billing.

Significant estimates

In determining the amount of revenue to be recognised on incomplete performance obligations, it is necessary to estimate the stage of completion, the remaining time and costs to be incurred and the amounts that will be received for the services provided. These estimates, which are normally resolved within a year of the reporting date when the performance obligation has been fully satisfied and fees agreed, are made at a performance obligation level and a different assessment of any of these factors would result in a change to the amount of revenue recognised.

The effect of making different assessments could, in aggregate, have a material effect on the carrying amounts of unbilled receivables and/or payments on account which are shown in notes 12 and 13 respectively (notes 27 and 28 for the LLP). Revenue recognised in the current year in respect of performance obligations satisfied, or partially satisfied, in previous years amounted to £15m (2019: £24m), and includes revisions to such estimates.

Other operating income

Income earned from providing support services and the recharge of the cost of staff and members to other entities within the EY global network is recognised on the same basis as fee income and included in other operating income. Other operating income also includes insurance proceeds which are recognised when virtually certain.

Notes to the financial statements

at 3 July 2020

2. Accounting policies (continued)

Taxes

The taxation payable on the LLP's profits is the personal liability of the members and as a result such amounts are not dealt with in these financial statements. A retention from profits is made to fund payments of taxation on members' behalf.

The tax expense relates to corporate income taxes arising in the LLP's corporate subsidiaries at a rate of 19% (2019: 19%). Current tax liabilities are measured at the amount expected to be paid to the taxation authorities, based on tax rates and laws that are substantively enacted by the balance sheet date.

Plant, equipment and intangible assets

Plant, equipment and intangible assets are stated at cost less accumulated depreciation or amortisation and any impairment in value. The initial cost of an asset (other than one acquired in a business combination) comprises its purchase price and any costs directly attributable to bringing the asset into operation.

Depreciation or amortisation is charged so as to write off the cost of assets to their residual value over their expected useful lives using the straight-line method. The expected useful lives are as follows:

Leasehold property improvements	–	The shorter of the lease term and 10 years
Computer equipment	–	2, 3 or 5 years
Furniture and other equipment	–	5 to 7 years
Motor vehicles	–	5 years
Intangible assets	–	5 to 7 years

An item of plant and equipment or an intangible asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognising the asset is included in the income statement. The residual values, useful lives and depreciation or amortisation methods of assets are reviewed, and adjusted if appropriate, at each financial period end.

Leases

A lease is a contract or part of a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases are accounted for as a right to use the underlying asset and a lease liability from commencement date (i.e., the date the underlying asset is available for use). In the comparative period, lease payments were recognised as an expense on a straight-line basis over the lease term.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term of between 2 to 20 years.

Notes to the financial statements

at 3 July 2020

2. Accounting policies (continued)

Leases (continued)

Lease liabilities are measured initially at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable. The present value is determined using the firm's incremental borrowing rate (IBR) as the interest rate implicit in leases is not readily determinable.

Thereafter the amount of lease liabilities is increased to reflect the accretion of interest and reduced for lease payments made. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the remaining lease payments, for example following a rent review; the IBR is revised when a lease is modified or the lease term changes.

In the comparative period, lease payments were charged in the income statement on a straight line basis over the lease term. The transition approach and the impact of implementing the new accounting policy for leases are explained on pages 27 and 28.

Significant judgements

The firm cannot readily determine the interest rate implicit in its leases, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the firm would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. This requires estimation when no observable rates are available including the use of certain entity-specific estimates.

The firm also determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease, if it is reasonably certain to be exercised, or any options to terminate the lease, if it is reasonably certain not to be exercised.

Several of the firm's lease contracts include extension and termination options and judgement is applied in evaluating whether it is reasonably certain the lease will continue into these optional periods.

Of the total lease liability at the end of the period, £29m relates to reasonably certain periods, that is those covered by extension options that the firm considers it is reasonably certain to exercise, and termination options that it considers it is reasonably certain not to exercise. The undiscounted lease payments for periods that are not reasonably certain are £198m.

After the commencement date, the firm reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The effect of a change in the judgements made could have a material effect on the carrying value of the lease liability and right-of-use asset which are shown in notes 16 and 10 respectively.

Impairment of non-financial assets

The carrying value of non-financial assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable and goodwill is tested for impairment annually. If the carrying amount of an asset (or associated cash generating unit) is higher than its recoverable amount an impairment loss is recognised in the income statement.

Financial instruments

The firm recognises financial instruments when it becomes party to the contracts that give rise to them and they are derecognised on settlement. They are measured initially at fair value, normally being the transaction price. The subsequent accounting treatment depends on the classification of an instrument as set out below:

Notes to the financial statements

at 3 July 2020

2. Accounting policies (continued)

Receivables

Receivables are carried at amortised cost using the effective interest method if the time value of money is significant. Client debtors are carried at original invoiced amounts, less an allowance for all expected credit losses

Investments

Investments in equity instruments are designated at fair value with gains and losses recognised in other comprehensive income. Their value is determined by reference to recent sales prices if available or under a discounted cash flow model using projected cashflows unless cost is considered a reasonable approximation of fair value (level 3 in the fair value hierarchy).

Investments in corporate bond funds are classified at fair value through profit and loss. Investments in individual corporate bonds are classified at fair value with gains and losses recognised in other comprehensive income and interest income recognised in profit or loss using the effective interest method. Fair values are determined based on unadjusted quoted price in active markets (level 1 in the fair value hierarchy).

Investments in subsidiaries are carried at cost less provision for impairment.

Financial liabilities

Financial liabilities, including members' capital and other payables, are carried at amortised cost using the effective interest method if the time value of money is significant. Trade payables are generally carried at the original invoiced amount.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current balances with banks and short-term deposits with an original maturity of less than three months that are readily convertible to known amounts of cash.

For the purpose of the cash flow statement, cash equivalents are as defined above, net of outstanding bank overdrafts.

Provisions and contingencies

Provisions are recognised when the firm has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount of the provision represents the best estimate of the expenditure required to settle the obligation at the balance sheet date. In the case of the surplus property provision this takes account of expected rentals receivable under subleases. If the effect of the time value of money is material, the expected future cash flows are discounted at a rate that reflects current market assessments of the time value of money and, where appropriate, risks specific to the liability. Any increase in the provision due to the passage of time is recognised as a finance cost, and any increases due to revised estimates are recognised as an operating expense.

Significant estimates and judgements

In determining whether a provision should be recognised in respect of alleged professional negligence claims or regulatory matters, it is necessary to make a judgement as to whether the firm has a present obligation as a result of a past event that gives rise to probable payments and, if so, whether the obligation can be reliably estimated. When a provision is recognised the amount is based on the estimated cost to the firm of defending and settling claims. These judgments and estimates are made on a claim by claim basis and take account of all available evidence. A different assessment could result in a change to the amount of provision recognised. The effect of making different assessments could, in aggregate, have a material effect on the carrying amount of the claims provision, which is shown in note 17, and operating expenses. To the extent a claim is covered by insurance, the effect on operating expenses of changes to the provision will be mitigated by changes to the associated reimbursement right.

Notes to the financial statements

at 3 July 2020

2. Accounting policies (continued)

Provisions and contingencies (continued)

Contingent liabilities, including liabilities that are not probable or which cannot be measured reliably, are not recognised but are disclosed unless the possibility of settlement is considered remote. Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is probable.

Reimbursements from insurance policies that would be due on settlement of a provision are recognised as an asset. Separate disclosure is not made of any individual claim or of expected insurance recoveries where that disclosure might seriously prejudice the position of the firm.

Pensions and post-retirement healthcare benefits

Contributions to defined contribution schemes are charged to the income statement when they become payable. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Defined benefit pension and post-retirement healthcare benefit scheme liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate determined by reference to the current estimated rate of return on a high quality sterling corporate bond of equivalent term to the scheme liabilities. Defined benefit pension scheme assets are measured at fair value. Actuarial valuations are performed as at each balance sheet date based on full valuations obtained at least triennially and updated for subsequent changes in material assumptions. The resulting net defined benefit asset or liability is presented separately on the face of the balance sheet.

Significant estimates and judgements

Estimating the defined benefit obligation for the firm's pension scheme requires assumptions to be made about a number of financial and demographic variables. The assumptions used change from year to year which has a consequential effect, often material, on the measurement of the obligation and, primarily, other comprehensive income. The most significant variables are inflation rates, the discount rate and life expectancy rates and the assumptions used together with a sensitivity analysis showing the impact of changes in those assumptions are set out in note 19 along with the amount of the obligation.

The trustees cannot unconditionally wind up the plan or use a surplus to enhance member benefits without employer consent. Therefore whilst not explicit in the trust deed, the firm considers that it has an unconditional right to a refund of any surplus in the scheme, assuming the gradual settlement of the plan liabilities over time.

The net interest cost, determined by applying the discount rate to the net liability at the start of the period, is recognised as a finance cost. Remeasurements of the net liability, comprising actuarial gains and losses and returns on plan assets (excluding amounts included in net interest), are recognised in other comprehensive income.

Members' participations

Members' participations give rise to a number of rights, obligations and entitlements which result in the recognition by the firm of various assets, liabilities and residual interests in its net assets (i.e. equity) as set out below.

Members' capital

Members' capital, which is repayable when membership ceases, is accounted for as a financial liability.

Notes to the financial statements

at 3 July 2020

2. Accounting policies (continued)

Allocation of profits

Profits are allocated for division amongst members at the discretion of the Board with the approval of EY Europe LLP. The members participate fully in the firm's allocated profits. Unrealised gains, including those arising on investments, are allocated for division amongst members when realised. Amounts paid to members in advance of profit allocation are recoverable from them and are recognised as a receivable. Profit allocations are recognised as a deduction from equity when payment is no longer discretionary.

Members' annuities

Members are required to make their own provision for pensions by contributing to personal pension plans. However, contractual arrangements exist under the terms of which certain former and current members are entitled to receive annuities following their retirement in respect of services rendered prior to 1996. The estimated payments are included within annuity obligations which are valued on an actuarial basis and accounted for as a provision.

Members' interests

Members' other interests include profits to be divided and other equity reserves. In the event of a winding up, members' other interests along with members' capital rank after unsecured creditors.

Total members' interests represent the firm's equity and members' capital, less amounts due from members.

Charges in respect of the EY network

EY Member Firms, including Ernst & Young LLP, have entered into agreements under which certain expenses of, and investments in, the global network will be charged to the Member Firms. An annual charge is levied on each Member Firm existing at the time based on a percentage of the Member Firm's revenues for that period. These charges are recognised as an expense in the period in which the revenues are earned. No liability is recognised in respect of potential future charges because no current obligation is considered to arise at the year end.

New and amended accounting standards and interpretations and other changes to the financial statements

IFRS 16 Leases

The firm adopted IFRS 16 Leases for the first time in these financial statements using the modified retrospective approach of adoption with a date of initial application of 29 June 2019. This approach does not require restatement of prior years.

Upon adoption of IFRS 16, the firm recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases including those with lease terms that ended within the current period and leases of low-value assets. The right-of-use assets were recognised based on the amount of the lease liabilities, adjusted for the previously recognised lease incentive liability, provisions for losses on surplus leasehold property and prepaid and accrued lease payments. Lease liabilities were recognised based on the present value of the remaining lease payments discounted using the incremental borrowing rate at the date of initial application. Since the firm recognised the right-of-use assets at the amount based on the lease liabilities there was no impact to equity.

The standard provides specific practical expedients of which the firm has elected to apply the following:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application

Notes to the financial statements

at 3 July 2020

2. Accounting policies (continued)

New and amended accounting standards and interpretations and other changes to the financial statements (continued)

The effect of adopting IFRS 16 as at 29 June 2019 (increase/(decrease)) is as follows:

	<i>£m</i>
Assets	
Right-of-use assets	367
Other receivables	2
Total assets	369
Liabilities	
Lease liabilities	410
Accruals	(8)
Lease incentive	(32)
Surplus property provisions	(1)
Total liabilities	369

The operating lease commitments at 28 June 2019, summarising future minimum rentals payable and receivable under non-cancellable operating leases, based on rental charges applicable at that date, were as follows:

	<i>£m</i>
Future minimum lease payments payable:	
Within one year	41
In the second to fifth years inclusive	156
After five years	291
	488

The difference of £78m between the the operating lease commitments as of 28 June 2019 and the lease liabilities at 29 June 2019 is as a result of the effect of discounting the lease liabilities using the weighted average incremental borrowing rate as at the date of initial application of 2.2%.

Standards that are not yet effective

A number of standards and other pronouncements are in issue that are not yet effective and have not been adopted, none of which are expected to have a material impact on the financial statements.

Notes to the financial statements

at 3 July 2020

3. Fee income

	2020 £m	2019 £m
Assurance services	694	644
Consulting services	610	640
Taxation services	784	725
Strategy and transactions services	479	438
	<u>2,567</u>	<u>2,447</u>

Revenue to be recognised by the firm from satisfaction of performance obligations that were unsatisfied or partially unsatisfied at the period end was estimated to be £1,000m (2019: £1,100m) of which £200m (2019: £300m) is expected to be recognised in more than one year.

4. Operating expenses

	2020 £m	2019 £m
Staff costs (note 5)	1,365	1,230
Other operating charges (including depreciation and amortisation)	611	585
	<u>1,976</u>	<u>1,815</u>

Profit is stated after charging/(crediting):

	2020 £m	2019 £m
Operating lease expense	–	42

Fees payable to the LLP's auditor for the audit of the group and LLP financial statements were £460,000 (2019: £287,000). Fees payable to the LLP's auditor and their associates for the audit of subsidiary financial statements were £95,000 (2019: £39,000), £6,000 (2019: £6,000) for the audit of grant claims and £16,000 (2019: £nil) for an accountant's report to the Solicitors Regulation Authority. No other services were provided by the auditors.

Notes to the financial statements

at 3 July 2020

5. Staff costs

The aggregate employment costs of staff (excluding members) were:

	2020 £m	2019 £m
Salaries and benefits	1,197	1,074
Social security costs	111	101
Other pension costs	57	50
Past service cost (note 19)	–	5
	<u>1,365</u>	<u>1,230</u>

The average number of staff (excluding members) during the period was:

	2020 No.	2019 No.
Client service staff	11,706	11,579
Support staff	3,157	2,999
	<u>14,863</u>	<u>14,578</u>

6. Finance costs

	2020 £m	2019 £m
Net interest on retirement benefit liabilities (note 19)	2	2
Interest on annuity obligations (note 18)	1	1
Interest on members' capital	3	4
Interest payable on bank loans and overdraft	3	3
Interest on lease liabilities (note 16)	9	–
	<u>18</u>	<u>10</u>

7. Members' shares of profits

The average number of members during the period was:

	2020 No.	2019 No.
Average number of members	718	702

The profits distributable to partners are determined in accordance with policies which differ from IFRS. The principal differences relate to retirement benefit liabilities, lease accounting and goodwill.

Based on these financial statements, the estimated profit share attributable to Andy Baldwin, who is the member with the largest entitlement to profits but not the Chairman of the Board was £3.5m (2019: estimated profit share attributable to Andy Baldwin was £2.9m, actual profit share £3.5m).

Notes to the financial statements

at 3 July 2020

7. Members' shares of profits (continued)

The estimated share of profits to be allocated to key management was £15.7m (2019: estimated profit share £16.8m, actual profit share £17.7m). Their capital at 3 July 2020 was £6.0m (2019: £5.3m), annuity obligations were £nil (2019: £0.3m) and amounts due from them were £1m (2019: £1m). Key management of the firm and the LLP consists of the Board and UK members who serve on the Europe Operating Executive.

8. Intangible assets and goodwill

	<i>Intangible assets £m</i>	<i>Goodwill £m</i>	<i>Total £m</i>
Cost: At 29 June 2018, 28 June 2019	4	18	22
Acquisition of subsidiaries (note 11)	4	14	18
At 3 July 2020	8	32	40
Amortisation:			
At 29 June 2018	2	–	2
Amortisation	1	–	1
At 28 June 2019	3	–	3
Amortisation	1	–	1
Impairment	–	1	1
At 3 July 2020	4	1	5
Net book value:			
At 3 July 2020	4	31	35
At 28 June 2019	1	18	19
At 29 June 2018	2	18	20

Goodwill relates to the firm's acquisitions of EY Seren Limited (£17m) and EY AgilityWorks Limited (£14m), which represent the CGUs for which goodwill is assessed for impairment. The recoverable amounts are determined based upon the value in use, using cash flow projections for the next five years with a nil growth rate thereafter (2019: nil) and a discount rate of 5% (2019: 5%).

A reasonable change in the key assumptions used in assessing the goodwill for impairment would not result in a significant impairment of the goodwill.

Notes to the financial statements

at 3 July 2020

9. Plant and equipment

3 July 2020	<i>Short leasehold improvements</i> £m	<i>Computer equipment</i> £m	<i>Furniture and other equipment</i> £m	<i>Motor vehicles</i> £m	<i>Total</i> £m
Cost:					
At 28 June 2019	134	61	20	31	246
Additions	17	6	2	10	35
Disposals	–	–	(2)	(10)	(12)
At 3 July 2020	151	67	20	31	269
Depreciation:					
At 28 June 2019	56	45	9	12	122
Charge for the period	13	8	2	7	30
Disposals	–	–	–	(5)	(5)
At 3 July 2020	69	53	11	14	147
Net book value:					
At 3 July 2020	82	14	9	17	122

Contracted capital expenditure that has not been provided in the financial statements amounted to £3m (2019: £3m).

28 June 2019	<i>Short leasehold improvements</i> £m	<i>Computer equipment</i> £m	<i>Furniture and other equipment</i> £m	<i>Motor vehicles</i> £m	<i>Total</i> £m
Cost:					
At 29 June 2018	119	74	17	31	241
Additions	15	9	3	11	38
Disposals	–	(22)	–	(11)	(33)
At 28 June 2019	134	61	20	31	246
Depreciation:					
At 29 June 2018	44	58	7	11	120
Charge for the period	12	9	2	7	30
Disposals	–	(22)	–	(6)	(28)
At 28 June 2019	56	45	9	12	122
Net book value:					
At 28 June 2019	78	16	11	19	124
Net book value:					
At 29 June 2018	75	16	10	20	121

All plant and equipment is held by the LLP.

Notes to the financial statements

at 3 July 2020

10. Right-of-use assets

3 July 2020

	<i>Properties</i> <i>£m</i>
Cost:	
At 29 June 2019	367
Additions	6
Remeasurements	32
At 3 July 2020	405
Depreciation and impairment	
At 29 June 2019	–
Depreciation charge for the period	(37)
Impairment	(1)
At 3 July 2020	(38)
Net book value:	
At 3 July 2020	367

All right-of-use assets are held by the LLP apart from £1m held by subsidiaries.

Remeasurements principally relate to revised lease payments agreed during the period.

Notes to the financial statements

at 3 July 2020

11. Business combinations

On 29 November 2019, Ernst & Young Services Limited, a 100% subsidiary of the entity, acquired the entire share capital of AgilityWorks Limited and its subsidiaries for consideration of £23m. The entity provides IT consulting services.

On 18 February 2020, Ernst & Young Services Limited also acquired the entire share capital of EY Incentives Limited (previously Breakthrough Funding Limited), which provides tax consultancy services, for consideration of £2m.

The fair value of identifiable assets and liabilities of these acquisitions as at the date of acquisition were:

	<i>£m</i>
Intangible assets (note 8)	4
Trade and other receivables	9
Cash and cash equivalents	5
Trade and other payables	(6)
Deferred tax liabilities	(1)
Total identifiable net assets acquired at fair value	11
Goodwill on acquisition (note 8)	14
Purchase consideration	25
Cash	20
Contingent consideration	5
Purchase consideration	25
Contingent consideration relates to additional cash that will be paid if certain operational targets are met. Depending on whether those targets are met, the contingent consideration could vary from £nil to £5m.	
Analysis of cash flows on acquisition:	
Cash paid	20
Net cash acquired with subsidiary	(5)
Net cash outflow	15

Fee income and profits generated by the acquirees from the date of acquisition to 3 July 2020 amount to £11m and £nil respectively. The firm's fee income and profits would have been higher by £11m and £1m respectively, if the acquisitions occurred on 29 June 2019.

The goodwill of £14m comprises the expected synergies arising from the acquisitions together with the value of the assembled workforce which cannot be recognised as a separate asset under IFRS.

Notes to the financial statements

at 3 July 2020

12. Investments

	2020 £m	2019 £m
<i>Equity investments</i>		
Investment in EY Global Finance Inc	13	13
Investment in EMEIA Fusion LP	6	11
Corporate bond fund	13	12
Total equity investments	32	36

EY Global Finance Inc is a US (Delaware) corporation owned by Member Firms of the EY global network. The corporation takes deposits and lends money to the Member Firms of the EY global network.

EMEIA Fusion LP is a UK Limited Partnership ultimately owned by various Member Firms within the EMEIA region. Its purpose is to invest, either via its subsidiaries or directly, in assets and businesses with international reach on behalf of those Member Firms.

During the period, the firm recognised fair value losses through other comprehensive income relating to the investment in EMEIA Fusion LP of £4m (2019: gains of £10m).

13. Trade and other receivables

	2020 £m	2019 £m
Unbilled receivables	199	233
Client receivables	421	427
Amounts due from EY network entities	136	162
Other receivables	40	34
Corporate bonds	–	3
Income tax receivable	2	–
	798	859

Client receivables are shown net of an allowance for expected credit losses, movements on which are as follows:

	2020 £m	2019 £m
At beginning of period	12	13
New and additional provisions	10	11
Recoveries	(3)	(9)
Write-offs	(3)	(3)
At end of period	16	12

Notes to the financial statements

at 3 July 2020

14. Members' interests

Profits to be divided represent amounts expected to be allocated to members after the balance sheet date. The amount of members' other interests representing the deficit on the defined benefit pension scheme and retirement healthcare schemes, lease accounting differences and notional amortisation of goodwill, is included within other reserves.

The firm's objective when managing capital is to safeguard its ability to continue as a going concern so as to provide returns to members and benefits for other stakeholders. Long-term financing is provided by way of capital introduced by members, which broadly finances the firm's investment in plant and equipment and core working capital. The amount of capital each member is required to subscribe is linked to his or her profit allocation and the firm's financing requirements. Adjustments to the capital and financing structure may be made in the light of changes in circumstances and economic conditions. Payments of profits to members are made only when the Board is satisfied that the firm's financing requirements will permit such payments.

Capital, which is monitored on the basis of total members' interests excluding other reserves, increased to £588m from £577m.

15. Trade and other payables

	2020 £m	2019 £m
Trade and other payables	238	259
Social security and other taxes	181	107
Provisions (note 17)	—	3
Annuity obligations (note 18)	4	5
Income tax payable	—	6
	<u>423</u>	<u>380</u>

16. Leases

The firm has entered into non-cancellable commercial property leases with remaining terms of up to 20 years. They include clauses to allow upward revision of the rental charge periodically according to prevailing market rates. Several lease contracts include extension and termination options.

The carrying amounts of lease liabilities and the movements during the period were as follows:

	£m
At the beginning of the period	410
Additions	7
Remeasurements	32
Accretion of interest	9
Payments	(49)
At the end of the period	<u>409</u>
Current	44
Non current	365
	<u>409</u>

All lease liabilities are held by the LLP apart from £3m held by subsidiaries.

Notes to the financial statements

at 3 July 2020

16. Leases (continued)

The maturity analysis of lease liabilities is disclosed in note 20. The related right-of-use assets are disclosed in note 10.

The following amounts have been recognised in profit or loss:

	<i>£m</i>
Depreciation expense on right-of-use assets (note 10)	37
Impairment of right-of-use assets (note 10)	1
Interest expense on lease liabilities (note 6)	9
Low value lease expense	3
Income from subleasing right of use assets	(1)
Total amount recognised in profit and loss	49

In the previous year, £42m of operating lease payments were recognised as an expense.

The firm had total cash outflows for leases of £49m during the period.

17. Provisions and contingencies

	<i>3 July 2020 £m</i>	<i>New/ increase £m</i>	<i>Release £m</i>	<i>Paid £m</i>	<i>Adoption of IFRS 16 £m</i>	<i>28 June 2019 £m</i>
Properties	11	–	(1)	–	(1)	13
Claims	27	16	(2)	(4)	–	17
	38	16	(3)	(4)	(1)	30

Provisions are analysed as follows:

	<i>2020 £m</i>	<i>2019 £m</i>
Current (note 15)	–	3
Non-current	38	27
	38	30

Property provisions represent the estimated cost of dilapidations. The provision for losses on surplus leasehold property has been reclassified in the current period to right-of-use assets on adoption of IFRS 16. These provisions are generally expected to be utilised within ten years, although an element is for costs which extend beyond this period.

In the normal course of business, the firm may receive claims for alleged negligence or be subject to regulatory proceedings. The firm carries professional indemnity insurance which is principally written through captive insurance companies involving other EY firms and a significant proportion of the total cover is reinsured through the commercial market. Cases are usually resolved within five years, although claims that involve court action can take longer. Contingent liabilities arise where payments resulting from a claim are not probable or it is not possible to reliably estimate the financial effect of a claim.

Notes to the financial statements

at 3 July 2020

18. Annuity obligations

	2020 £m	2019 £m
At beginning of period	40	44
Experience variation	–	1
Discounting	1	1
Paid	(5)	(6)
At end of period	<u>36</u>	<u>40</u>

The provision for annuity obligations is expected to be utilised as follows:

	2020 £m	2020 £m	2019 £m	2019 £m
Within one year – current (note 15)		4		5
Between one and five years	14		16	
In more than five years	18		19	
Non-current	<u></u>	32	<u></u>	35
		<u>36</u>		<u>40</u>

The annuity obligation provision represents the present value of the estimated annuity payments to certain members and former members. The estimate is based on an actuarial valuation as at 3 July 2020. The main assumptions used were:

	2020 %	2019 %
Inflation rates	2.90	3.15
Discount rates	0.35	1.10
Post-retirement mortality:	Years	Years
Current pensioners aged 85	7	7

Notes to the financial statements

at 3 July 2020

19. Retirement benefit liabilities

Summary of pension arrangements

The firm operates the Ernst & Young Retirement Benefits Plan (EYRBP). The EYRBP has a defined benefit section funded by the payment of contributions to a separately administered trust fund, and four defined contribution sections.

The defined benefit section or final salary section of the EYRBP ("FSS") was closed to new members in 1997 and to future accrual in 2003. The benefits are based on members' salary and length of service on retirement or, if earlier, on ceasing to accrue benefits in the plan.

The defined contribution sections or money purchase sections of the EYRBP ("MPS") have a defined benefit minimum guarantee, the Reference Scheme Test underpin, providing certain members with a minimum level of benefits. These sections closed to future accrual on 31 March 2016. Where a member's benefits are provided in accordance with the underpin, their MPS funds are transferred to the FSS which provides the member with their benefits. The estimated value of the firm's obligation over and above the value of the members' own funds is included within the defined benefit obligations. At the end of the period, the members' own funds were £368m (2019: £391m).

E & Y Trustees Limited is the corporate trustee for the EYRBP. The Board of the Trustee company consists of eight members, of which four are nominated by the firm and four by the plan members. It has overall responsibility for administration of the pension arrangements, investment of the plan's assets and communication of the plan's benefits. Actions of the Trustee Board are governed by current legislation on the operation of occupational pension arrangements, and by the Trust Deed and Rules.

During the prior period, the firm recognised a £5m past service cost (note 5) in relation to guaranteed minimum pension equalisation for members who contracted out of the State Earnings Related Pension scheme during the period from 6 April 1978 to 5 April 1997.

In addition, the firm operates a separate defined contribution pension scheme to which all current and new employees are offered membership.

The deficit in the EYRBP pension scheme and the present value of the liability for a closed post-retirement healthcare scheme included in the financial statements are as follows.

	2020	2019
	£m	£m
Equities	270	308
Fixed interest stock	559	400
Liability driven investments*	375	405
Property	–	38
Hedge funds	131	128
Cash	81	1
Total fair value of assets	1,416	1,280
Present value of scheme liabilities (FSS)	(1,599)	(1,379)
Present value of scheme liabilities (MPS)	(209)	(103)
Post-retirement healthcare liability	(9)	(9)
Retirement benefit liabilities	(401)	(211)

* The plan's liability driven investment (LDI) holdings aim to reduce the plan's exposure to movements in interest rates and inflation expectations. The primary instruments which are used within these portfolios to achieve the required matching characteristics include fixed interest gilts, index-linked gilts, and repurchase agreements, and potentially interest rate swaps, inflation swaps and total return swaps.

Scheme assets are held as units in collective investment schemes and are stated at fair value which is determined by reference to observable unit prices.

Notes to the financial statements

at 3 July 2020

19. Retirement benefit liabilities (continued)

Asset allocation strategy

The assets of the EYRBP are managed by the Trustees, E&Y Trustees Limited, however, they have delegated some control to a fiduciary manager.

Scheme assets in the FSS are invested in different classes of investments, including alternative investments, in order to benefit from the effect of diversification, whilst at the same time providing appropriate risk-return features.

Taking advice from the fiduciary manager, the Trustees have agreed an investment strategy for the FSS, whereby assets are moved from growth type investments to matching type investments as the funding level of the plan improves. The fiduciary manager is responsible for selecting the underlying investment managers in various sub asset classes, monitoring performance of the managers and replacing the managers if deemed appropriate.

Principal actuarial assumptions at the balance sheet date

The main assumptions made in arriving at retirement benefit liabilities were:

	2020 %	2019 %
Pension scheme: inflation rate – Retail Prices Index (RPI)	2.80	3.10
Pension scheme: inflation rate – Consumer Prices Index (CPI)	2.05	2.10
Discount rate	1.60	2.40
Post-retirement mortality:	Years	Years
Current pensioners at 65 – male	23	22
Current pensioners at 65 – female	24	23
Future pensioners at 65 – male	23	23
Future pensioners at 65 – female	25	24

The discount rate has been derived using the yields on AA rated sterling corporate bonds at the balance sheet date, which reflect the currency and maturity profile of the expected benefit payments in the FSS which at year end had an average duration of 17-18 years (2019: 21 years). The inflation assumption is based on the difference between the yields on fixed interest and index linked government bonds.

The post-retirement mortality assumptions are based on the Club Vita mortality tables published by the UK actuarial profession and with projected improvements in line with the CMI 2019 tables (2019: CMI 2018), subject to a long term trend improvement rate of 1% (2019: 1%) per annum for males and 1.25% (2019: 1.25%) per annum for females.

The 'current' amounts above are the assumed longevity of pensioners who are aged 65 at the period end and the 'future' amounts are the assumed longevity of employees at age 65 who are aged 45 at the period end.

Notes to the financial statements

at 3 July 2020

19. Retirement benefit liabilities (continued)

Changes in the present value of the defined benefit obligations:

	2020 £m	2019 £m
At beginning of period	1,491	1,362
Benefits paid	(56)	(58)
Remeasurement loss – effect of changes in financial assumptions	295	178
Remeasurement loss/(gain) – effect of changes in demographic assumptions	30	(32)
Remeasurement loss – experience adjustments	24	–
Interest cost	33	36
Past service cost	–	5
At end of period	1,817	1,491

Changes in the fair value of plan assets:

	2020 £m	2019 £m
At beginning of period	1,280	1,195
Interest income on plan assets	31	34
Contributions by employer	37	37
Benefits paid	(56)	(58)
Remeasurement gain – actual asset return in excess of interest income	125	74
Plan administrative expenses	(1)	(2)
At end of period	1,416	1,280

The scheme exposes the firm to actuarial risks such as longevity risk and investment risk which includes an element of currency and interest rate risk.

Sensitivity analysis

The following table shows the amount by which the present value of the FSS and MPS defined benefit obligations would increase as a result of the following changes to the individual principal actuarial assumptions:

	2020			2019		
£m	FSS	MPS	Total	FSS	MPS	Total
0.25% decrease to discount rate	69	34	103	71	23	94
0.25% increase to inflation	23	28	51	33	18	51
One year increase to life expectancy	77	16	93	58	10	68

Contributions to the scheme

In accordance with current legislation on the operation of occupational pension arrangements, the firm and the Trustees of the pension fund agreed a schedule of contributions in the prior year to clear the pension scheme deficit, including that expected from the FSS funding the MPS underpin, following the most recent full triennial actuarial valuation as at 1 October 2016. This sets out that contributions of £37m are paid into the FSS, including administrative expenses of £1-2m, are made each July until 2025. The contributions will be subject to review in the light of the next full triennial valuation as at 1 October 2019 which is in progress but has not yet been finalised.

Notes to the financial statements

at 3 July 2020

20. Financial instruments

In addition to lease liabilities, the firm has the following financial instruments:

<i>3 July 2020</i>	<i>Amortised cost</i>	<i>Fair value through other comprehensive income</i>	<i>Fair value through profit and loss</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Financial assets			
Investments	–	19	13
Trade and other receivables	796	–	–
Amounts due from members	58	–	–
Cash and cash equivalents	185	–	–
Financial liabilities			
Trade and other payables	242	–	–
Payments on account	87	–	–
Provisions	11	–	–
Members' capital	174	–	–
 <i>28 June 2019</i>	 <i>Amortised cost</i>	 <i>Fair value through other comprehensive income</i>	 <i>Fair value through profit and loss</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Financial assets			
Investments	–	24	12
Trade and other receivables	856	–	–
Amounts due from members	62	–	–
Cash and cash equivalents	53	–	–
Financial liabilities			
Trade and other payables	264	–	–
Payments on account	73	–	–
Provisions	13	–	–
Members' capital	166	–	–

The firm's treasury operations are managed within formally defined policies which are regularly reviewed. Financial instruments are not used for speculative activity and complex financial instruments are avoided.

Financial instruments give rise to liquidity, credit, interest rate and foreign currency risks. Information about how these risks arise and are managed is set out below. In addition the financial assets designated at fair value through other comprehensive income give rise to a small amount of equity price risk.

Liquidity risk

Liquidity risk arises from the firm's ongoing financial obligations, including settlement of financial liabilities such as trade and other payables and lease liabilities as well as members' capital.

The firm's financing requirements vary during the period, primarily as a result of the incidence of major payments such as contributions to the defined benefit pension schemes, professional indemnity insurance premiums and payments to and on behalf of members.

Notes to the financial statements

at 3 July 2020

20. Financial instruments (continued)

Liquidity risk (continued)

It is the firm's policy to have in place short-term borrowing facilities that exceed forecast borrowing requirements for the following twelve months. Bank facilities available at 3 July 2020 were a one year overdraft of £77m (2019: £76m) and revolving credit facilities totalling £200m (2019: £200m), which expire in 2024. The facilities had not been drawn upon at the current or preceding period end. Subsequent to the period end, the firm entered into an additional £50m one year term loan and renegotiated the revolving credit facilities to provide £60m expiring within in one year, £40m expiring in 2024 and £160m expiring in 2025. The overdraft facility was also extended by £40m so that immediately prior to the signing of the financial statements, the firm had £310m of committed borrowing facilities and £117m of uncommitted facilities. These arrangements are considered adequate to finance variations in forecast working capital.

Members' capital is repayable when membership ceases, for which members are required to give twelve months' notice, and is classed as falling due between one and two years, being the earliest possible date on which it would have to be repaid if all members had given notice at the period end date of their intention to terminate their membership. In practice, however, most of this balance is viewed as being longer-term in nature and in most situations capital introduced by new members is expected to replace that of retiring members. The contractual payments arising from trade and other payables are equal to their carrying amount and are due within one year.

Lease liabilities are repayable £45m within one year, £86m between one and three years, £79m between three and five years and £270m over five years.

Cleared funds held at banks are monitored daily and surplus funds are placed on short-term deposit or invested on the money market. It is the firm's policy to invest surplus funds for periods of up to nine months.

A charge in favour of EY Securities Limited, in its capacity as trustee for current and future recipients of member retirement annuities payable by the firm, has been created over the corporate bond fund and cash held at banks of £10m (2019: £11m). Receipts from these assets are designed to match, so far as possible, payments of certain annuity obligations (note 18).

Credit risk

Credit risk arises primarily from client debtors and unbilled receivables, other financial assets including cash and cash equivalents, amounts due from members and other receivables and, indirectly, from the corporate bond fund.

The firm has established procedures to minimise the risk of default by trade debtors, including detailed checks on credit standing within client acceptance and continuance procedures. Unbilled receivables are typically billed to clients within a month of arising and invoices are generally payable on presentation. The majority of the client debtors balance represents invoices issued less than three months before the period end, with £31m (2019: £60m) aged between three and six months and £3m (2019: £13m) aged in excess of six months.

Cash deposits are placed only with the firm's relationship banks or EY Global Finance Inc. No more than £50m (2019: £50m) may be deposited with any one bank. The credit ratings of corporate bonds are monitored on an ongoing basis. At 3 July 2020, the security had a Standard and Poor's equivalent rating of BBB (2019: average of A) and the corporate bond fund's investments are almost entirely investment grade. Amounts due from members are expected to be recovered from the current period's profit allocations.

Interest rate risk

Interest rate risk arises primarily from members' capital, cash and cash equivalents, lease liabilities and, indirectly, from the corporate bond fund. Interest on members' capital is paid at floating market rates. Interest on cash and deposits is effectively earned at a floating rate because of their short-term placement. Interest expense on lease liabilities is effectively incurred at fixed rates.

Notes to the financial statements

at 3 July 2020

20. Financial instruments (continued)

Foreign currency risk

Although most of the firm's income and expenses are denominated in sterling, foreign currency risk arises from transactions denominated in other currencies, particularly the US dollar and Euro. Derivatives, such as forward contracts to purchase US dollars, are sometimes used to hedge major commitments such as professional indemnity premiums. Balances in foreign currency bank accounts are held to facilitate cash management and, from time to time, to provide a hedge of future foreign currency expenditure.

21. Related parties

EY Europe LLP has power over the firm, although its exposure to variable returns is not considered sufficient to meet the definition of control and therefore the firm has no controlling party.

During the period, EY Europe LLP charged the firm a management fee of £10k (2019: £10k) which remained payable at the period end.

Details of key management compensation and transactions with the pension scheme are disclosed in notes 7 and 19 respectively.

Two of the LLP's subsidiaries, Foviance Group Limited (registered number 04331949) and Rolls House Holdings Limited (registered number 01985589) are exempt from the requirements of the Companies Act 2006 relating to the audit of individual financial statements by virtue of s479A.

LLP income statement

for the period ended 3 July 2020

Registered number OC300001

		2020 (53 weeks) £m	2019 (52 weeks) £m
	Notes		
Fee income	22	2,522	2,425
Expenses billed to clients		(375)	(386)
Net revenue		2,147	2,039
Other operating income		325	280
Operating expenses	23	(2,010)	(1,869)
Operating profit		462	450
Dividend income from subsidiaries		50	60
Finance revenue		1	1
Finance costs	24	(19)	(11)
Profit for the financial period		494	500

LLP statement of comprehensive income

for the period ended 3 July 2020

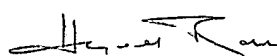
		2020 (53 weeks) £m	2019 (52 weeks) £m
	Note		
Profit for the financial period		494	500
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurement gains on retirement benefit liabilities	19	(224)	(72)
Fair value (losses)/gains on equity investments		(4)	10
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Other fair value gains/losses		–	(3)
Total comprehensive income for the financial period		266	435

LLP balance sheet

at 3 July 2020

Registered number OC300001

		3 July 2020	28 June 2019
	Notes	£m	£m
Assets			
Non-current assets			
Plant and equipment	9	122	123
Right-of-use assets	28	366	–
Investments	12	32	36
Investments in subsidiaries	25	25	27
		<u>545</u>	<u>186</u>
Current assets			
Trade and other receivables	26	766	853
Amounts due from members		58	62
Prepayments		32	26
Cash and cash equivalents		170	47
		<u>1,026</u>	<u>988</u>
Total assets		<u>1,571</u>	<u>1,174</u>
Equity and liabilities			
Current liabilities			
Trade and other payables	27	443	438
Payments on account		86	73
Lease liabilities	28	43	–
		<u>572</u>	<u>511</u>
Non-current liabilities			
Lease liabilities	28	362	–
Provisions	17	38	27
Annuity obligations	18	32	35
Retirement benefit liabilities	19	401	211
Lease incentive		–	32
		<u>833</u>	<u>305</u>
Members' capital		174	166
Total liabilities		<u>1,007</u>	<u>982</u>
Equity: Members' other interests		<u>(8)</u>	<u>192</u>
Total equity and liabilities		<u>1,571</u>	<u>1,174</u>



Hywel Ball
Designated Member
Date: 29 October 2020



Lynn Rattigan
Designated Member
Date: 29 October 2020

LLP statement of cash flows

for the period ended 3 July 2020

Registered number OC300001

	<i>Notes</i>	<i>2020 £m</i>	<i>2019 £m</i>
Profit before taxation		494	500
Adjustment for:			
Net finance costs		(32)	(50)
Depreciation and impairment		68	30
Loss/(profit) on disposal of plant and equipment		1	(1)
Retirement benefit contributions net of plan administration expenses	19	(36)	(35)
Past service cost on retirement benefit obligations	19	–	5
Gains on corporate bonds and corporate bonds funds		–	(4)
Decrease/(increase) in trade and other receivables		78	(39)
Increase in trade and other payables		80	91
Increase in provisions and annuity obligations		9	6
Cash generated from operations		662	503
Annuity payments	18	(5)	(6)
Net cash inflows from operating activities		657	497
Purchase of plant and equipment		(35)	(38)
Proceeds from sale of plant and equipment		6	6
Proceeds from sale of corporate bonds		3	–
Net disposal/(acquisition) of investments		1	(2)
Interest received		–	1
Net cash outflows from investing activities		(25)	(33)
Payments to and on behalf of members		(465)	(454)
Interest paid on subsidiary loans		(1)	(1)
Members' capital introduced		20	19
Repayment of capital to retiring members		(12)	(17)
Payment of lease liabilities	28	(48)	–
Other interest paid		(3)	(3)
Net cash outflows from financing activities		(509)	(456)
Net increase in cash and cash equivalents		123	8
Cash and cash equivalents at beginning of period		47	39
Cash and cash equivalents at end of period		170	47

LLP statement of changes in members' interests

at 3 July 2020

	<i>Members' other interests</i>				<i>Amounts due</i>		
	<i>Profits to be divided</i>	<i>Other reserve</i>	<i>Fair value reserves</i>	<i>Total equity</i>	<i>Members' capital</i>	<i>to/(from) members*</i>	<i>Total members' interests</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
At 29 June 2018	392	(179)	3	216	164	(71)	309
Total comprehensive income	500	(72)	7	435	–	4	439
Transfers between reserves	(32)	32	–	–	–	–	–
Profit allocations	(459)	–	–	(459)	–	459	–
Payments to and on behalf of members	–	–	–	–	–	(454)	(454)
Capital introduced	–	–	–	–	19	–	19
Capital repaid	–	–	–	–	(17)	–	(17)
At 28 June 2019	401	(219)	10	192	166	(62)	296
Total comprehensive income	494	(224)	(4)	266	–	3	269
Transfers between reserves	(36)	36	–	–	–	–	–
Profit allocations	(466)	–	–	(466)	–	466	–
Payments to and on behalf of members	–	–	–	–	–	(465)	(465)
Capital introduced	–	–	–	–	20	–	20
Capital repaid	–	–	–	–	(12)	–	(12)
At 3 July 2020	393	(407)	6	(8)	174	(58)	108

Notes to LLP financial statements

at 3 July 2020

22. Fee income

	2020	2019
	£m	£m
Assurance services	691	642
Consulting services	570	620
Taxation services	783	726
Strategy and transactions services	478	437
	<u>2,522</u>	<u>2,425</u>

23. Operating expenses

	2020	2019
	£m	£m
People costs	1,418	1,288
Other operating charges (including depreciation)	592	581
	<u>2,010</u>	<u>1,869</u>

No staff were directly employed by Ernst & Young LLP during the current or preceding period but the entity manages and controls a number of UK based secondees. The costs of these individuals are recharged to the LLP and included within people costs above.

24. Finance costs

	2020	2019
	£m	£m
Net interest on retirement benefit liabilities (note 19)	2	2
Interest on annuity obligations (note 18)	1	1
Interest on loan from subsidiary	1	1
Interest on members' capital	3	4
Interest payable on bank loans and overdraft	3	3
Interest on lease liabilities (note 16)	9	–
	<u>19</u>	<u>11</u>

Notes to LLP financial statements

at 3 July 2020

25. Investment in subsidiaries

	2020	2019
	£m	£m
Cost	25	27

The reduction in the cost of investment in subsidiaries of £2m relates to EY Greenwich Limited (liquidated) and Integrc UK Limited (in liquidation).

The Limited Liability Partnership has the following subsidiaries:

<i>Subsidiary undertakings</i>	<i>Country of incorporation</i>	<i>Nature of business</i>
Ernst & Young Limited	UK	Taxation and resource service provider
Ernst & Young Resources (CI) Limited	Jersey	Staff and resource service provider
Ernst & Young Services Limited *	UK	Staff and resource service provider
Ernst & Young Services (UK) Limited	UK	Staff and resource service provider
Rolls House Holdings Limited	UK	Holding entity of Ernst & Young Services Limited
Integrc UK Limited	UK	In liquidation
Foviance Group Limited	UK	Holding entity of EY Seren Limited
EY Seren Limited *	UK	Consultancy service provider
EY AgilityWorks Limited *	UK	Consultancy service provider
AgilityWorks India Private Limited *	India	Consultancy service provider
EY Incentives Limited *	UK	Consultancy tax services provider
Parthenon London Tenant Limited	UK	In liquidation
EY Foundation	UK	Charity
Ernst & Whinney Limited	UK	Dormant
E & Y Trustees Limited	UK	Dormant
Ernst & Young International Limited	UK	Dormant
Garrard House Executor Trustees Co Limited	UK	Dormant
EYGS UK Participation Limited	UK	Dormant
EY Securities Limited	UK	Dormant
New Street Nominees Limited	Guernsey	Dormant
Ernst & Young Property (Jersey) Limited	Jersey	Dormant
EY Corporate Secretaries Limited	UK	Dormant

* Interest held indirectly.

All subsidiaries are wholly owned, except where noted.

The registered addresses of the subsidiaries are:

Foviance Group Limited, EY Seren Limited: 55 – 57 Rivington Street, London, EC2A 3QA

Integrc UK Limited: Bedford House, 16 Bedford Street, Belfast, BT2 7DT

All other UK entities: 1 More London Place, London, SE1 2AF

Jersey entities: Liberation House, Castle Street, St Helier, Jersey, JE1 1EY

Guernsey entities: Royal Chambers, St Julian's Avenue, St Peter Port, Guernsey

Indian entity: 779, Sector-15A, Faridabad, Haryana 121007, India

Notes to LLP financial statements

at 3 July 2020

26. Trade and other receivables

	2020	2019
	£m	£m
Unbilled receivables	197	230
Client receivables	409	425
Amounts owed by subsidiaries	3	12
Amounts due from EY network entities	129	150
Other receivables	28	33
Corporate bonds	–	3
	<u>766</u>	<u>853</u>

Client receivables are shown net of an allowance for expected credit losses, movements on which are analysed in note 13.

Client receivables are non-interest bearing and are generally payable on presentation.

27. Trade and other payables

	2020	2019
	£m	£m
Trade and other payables	199	259
Social security and other taxes	145	65
Amounts owed to subsidiaries	95	106
Provisions (note 17)	–	3
Annuity obligations (note 18)	4	5
	<u>443</u>	<u>438</u>

28. Leases

The carrying amounts of right-of-use assets and lease liabilities and the related movements during the period are substantially the same as those disclosed for the LLP and its subsidiaries. Details of the LLP's leasing arrangements, including the maturity analysis of lease liabilities, are also substantially the same. Details can be found in notes 10 and 16.

29. Cash flows from operations

Non-cash movements include the offset of £50m (2019: £60m) of dividends receivable from subsidiaries against amounts owed to subsidiaries.

Notes to LLP financial statements

at 3 July 2020

30. Related parties

Income earned and purchases made from subsidiaries was £2m (2019: £12m) and £1,285m (2019: £1,180m) respectively. Other information about transactions with subsidiaries is shown in notes 24, 26 and 27.

Details of key management compensation, transactions with the pension scheme and with EY Europe LLP are disclosed in notes 7, 19 and 21 respectively.

Included within the amounts owed to subsidiary undertakings is a loan of £27m (2019: £50m) which carried interest at the rate of 1% (2019: 2%) above the Bank of England base rate. All other balances due to or from subsidiaries are non-interest bearing.

31. Financial instruments

Details of the LLP's financial instruments are substantially the same as those disclosed for the LLP and its subsidiaries in notes 14 and 20.