Ernst & Young Services Limited

Annual Reports and Financial Statements

3 July 2020

Registered number 02812206

Registered No. 02812206

Directors

L G Cameron
L S Rattigan
L Abel (Appointed: 7 October 2019)

Auditor

BDO LLP
55 Baker Street
London W1U 7EU

Registered Office

1 More London Place
London SE1 2AF

Strategic report

The directors present their strategic report for the 53 week period from 29 June 2019 to 3 July 2020 (the comparative period being the 52 week period from 30 June 2018 to 28 June 2019).

Principal activity and review of business

The principal activity of the business is the supply of employee services to its ultimate parent entity, Ernst & Young LLP ("EY LLP"). The company charges a margin for providing employee services to EY LLP. The operating profit margin for the period is 6% (2019: 6%). The company employs the majority of employees of EY LLP and its subsidiaries ("the firm") although on promotion to partner, an individual generally ceases to be employed by the company and instead becomes a member of EY LLP. Given the nature of these arrangements, key performance indicators in relation to our people are monitored at a total firm level.

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.

The firm 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. The firm continues to manage the pandemic with strong governance and risk management drawing on a pool of subject matter experts in a Pandemic Team and decision-making at Board-level with the Country Response Committee, which is chaired by Hywel Ball (EY LLP Managing Partner). Offices started to re-open from September, although social distancing/COVID secure measures mean that there are limits on the number of people that can be accommodated and we continue to comply with government requirements, including advising people to work from home where possible where this is in-line with government guidance. This has meant that most people have continued to work remotely, unless there is a client or wellbeing imperative and the firm has put in place a number of measures to support remote working, collaboration and learning during this time.

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

The key financial and other performance indicators during the period were as follows:

	2020	*2019*
Revenue	£1,268m	£1,168m
Percentage of female partners	23%	22%
Percentage of BAME partners	12%	12%
Mean average employee pay gap by gender	15.3%	18.2%
Mean average employee pay gap by ethnicity	16.4%	14.0%
People survey engagement score*	70%	67%

* In 2020, we amended the questions that make up our engagement index score. The 2019 results in this report have been recalculated to reflect this new approach.

Revenue

Revenue, which is directly related to cost, grew by 9% (2019: 4%). Revenue is driven by the number of employees and is considered adequate in relation to the demands of the business.

Strategic report

Diversity and inclusiveness

The firm's approach to talent is a key part of driving our success as a business. We strive to achieve positive change with a diverse and inclusive culture where everyone feels they can belong, and industry-leading career development opportunities for all our people.

We aim for the firm to achieve a leadership representation that is 40% female and 20% Black, Asian and minority Ethnic ("BAME") partners by July 2025. We are increasing the firm's diversity pipeline, recognising that we need to accelerate progress towards our public target of almost doubling the proportion of female and ethnic minority talent in the UK partnership. In conjunction with our measures to track these through to senior positions, we hope this will lead to an acceleration in our progress towards our partnership targets.

Pay gap

We remain committed to increasing the representation of women and ethnic minorities at senior levels of the firm, and to creating a culture where everyone can thrive and succeed. We are continuing to make progress but recognise that if we are to meet our commitments we have made around race and gender, now is the time to accelerate the pace of change.

We are pleased to report that we have seen a reduction in our employee gender pay gaps reflecting progress against our diversity and inclusiveness strategy through a differential focus on gender. Increasing our efforts to achieve better representation remains front of mind in everything we do throughout the employee lifecycle. Two contributing factors to improving our pay gap are our relentless focus and success in both recruiting and promoting our women, particularly at senior levels (manager and above).

Our employee ethnicity pay gap, calculated as the difference between the average earnings received by ethnic minority (excluding white minorities) employees compared to white employees, has widened this year. Driving diversity in the firm, we have attracted more ethnic minority graduates to ensure that we are growing and developing a talent pool for the future. Whilst this has impacted the pay gap in the short term, it should reduce it in the long run. As of April 2020, our ethnic minority talent made up 30% of our overall workforce and is up 3% from the previous year.

Despite the challenges of 2020 and the global pandemic, the firm is actively ensuring that the differential focus on race and gender remains a key priority and is using the disruption to accelerate change in this space. We will continue to track progress at a firmwide and service line level through setting targets and assessing metrics against recruitment, retention and promotions to ensure fairness and equity.

People survey

As part of the firm's culture assessment, we use regular listening tools in the form of people pulse surveys, with the Board acting upon the cultural aspects of the findings. These surveys assess people's views on the firm. The most recent survey in November 2020 showed an engagement score of 70%, a 3% increase on 2019, derived by aggregating responses to questions across different areas including advocacy, satisfaction, commitment and pride.

A more comprehensive survey is also conducted every two years, with shorter 'pulse' surveys taking place in the intervening years. The Board takes actions, as and when appropriate, in response to the findings of the survey.

The Board also receives reports on the Firm's compliance with the EY Global Code of Conduct, and responds accordingly.

Future developments

The directors consider that the demand for the provision of quality staff will continue and are committed to developing its people for the continued support of the activities of EY LLP. The directors consider the position of the company at the period end to be satisfactory and that it is appropriate for the financial statements to be prepared on a going concern basis.

Strategic report

Principal risks and uncertainties

The principal risks facing the company relate to the recruitment, development and retention of staff, and the timely settlement of balances by EY LLP. The directors review and agree policies for managing these risks.

Corporate governance statement

The company is an indirect subsidiary of EY LLP whose principal activity is stated above. EY LLP commits to the Audit Firm Governance Code published by the Financial Reporting Council. To do this, EY LLP has therefore put in place certain processes, procedures and arrangements, which apply, as relevant, to the company.

Consequently, governance and related decision-making generally operates at the EY LLP level, consistent with EY LLP's Service Lines and functions (including the Talent function), and EY LLP maintains/fosters business relationships with suppliers, customers and others, which benefit both EY LLP and its direct and indirect subsidiaries, including the company. Therefore, EY LLP's governance process applies, as relevant, to the company, to ensure that decisions are made at the appropriate level in the organisation (given, for example, EY LLP is the principal contracting entity with third parties), and that transactions are carried out by the appropriate legal entity. Such governance processes also ensure that related decisions and engagement with certain groups of stakeholders (e.g. the company's employees) are conducted by EY LLP on the company's behalf, or in conjunction with the company, as appropriate. The company is generally cognisant of all of the above, as two of its directors also sit on the board of EY LLP, and all of the company's directors receive, in various capacities, regular reports and updates on EY LLP's activities and performance.

In light of this, the company did not apply a separate corporate governance code during the period.

Section 172 statement

Given the company's principal activity stated above, and the fact that the company has no commercial business, other than with EY LLP, the general stakeholder and other considerations relevant to operating or commercial trading companies do not generally apply to any such decisions of the company's directors. Furthermore, the company is an indirect subsidiary of EY LLP, so EY LLP's performance directly influences the future performance and direction of the company. Accordingly, the company's directors consider that the company's key stakeholders are: the company's employees and EY LLP as principal customer of the company's services.

During the period, the company's directors acted in a way that they considered, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and, in doing so, have had regard to the matters set out in section 172(1)(a)-(f) of the Companies Act 2006 when making decisions. In addition, the company's directors also had regard to other factors and matters that they considered relevant to decisions made. When required, the company's directors held board meetings to make key decisions relating to the company, where such matters and factors were considered, as relevant. This therefore took place when the company made the principal decisions to acquire EY Professional Services Limited (formerly EY AgilityWorks Limited) and its subsidiaries and, subsequently, EY Incentives Limited.

Employee engagement statement and fostering of business relations statement

As a result of the corporate governance arrangements described in the above Corporate Governance Statement, engagement with the company's employees takes place in conjunction with EY LLP, which engages with the company's employees in a variety of ways. This includes: EY Voice, which is a forum of elected employee representatives from across the company's employees, and engages with leadership to discuss and shape business development, people issues and other matters, an 'EY People Pulse' survey, various working groups (involving a range of people across ranks, Service Lines, markets and geographic locations), town halls and focus groups on certain key issues.

The company's engagement with EY LLP takes place primarily at board level. Two of the directors of the company also sit on the board of EY LLP and facilitate communication between EY LLP and the company, to the extent required. Any other engagement with third parties in order to foster the company's

Strategic report

business relationships with suppliers, customers and others, takes place, as relevant, by EY LLP on the company's behalf.

On behalf of the Board

L S Rattigan

Director

Date: 22 June 2021

Directors' report

The directors 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 week period from 30 June 2018 to 28 June 2019).

Results and dividends

The profit for the period after taxation amounted to £56m (2019: £54m).

A dividend of £50m was declared and paid during the period (2019: £53m).

The company's business activities, together with its future expected business developments and risk exposures are described in the strategic report.

Disabled employees

The company gives full and fair consideration to application for employment from disabled persons where the requirements of the job can be adequately fulfilled by a disabled person.

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

Financial instruments

The directors are responsible for setting objectives and policies in relation to financial instruments, details of which can be found in note 15.

Directors

The directors who held office during the period ended 3 July 2020 and the period up until approval of the financial statements are listed on page 1.

Matters covered in the strategic report

The company has chosen in accordance with section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 to set out the company's strategic report information required by schedule 7 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008. This includes information about future developments, employee engagement and business relationships that would have been included in the business review.

Going concern

The directors have concluded that it is appropriate to adopt the going concern basis having considered the support that can be provided by Ernst & Young LLP, the company's ultimate parent entity and sole customer. The directors have considered multiple forecasts, prepared by Ernst & Young LLP, which reflect a wide range of possible severe but plausible scenarios including varying declines in revenue and cash collection rates. The impact on the Ernst & Young LLP group's cash flows, borrowing facilities and associated covenants has then been considered, including reverse stress testing. Ernst & Young LLP has committed borrowing facilities of £405m. In addition, there are mitigating steps that could be taken to ensure that the group operates within its committed facilities and bank covenants, should the need arise.

Looking ahead, the economic outlook continues to be uncertain. However, the directors are confident in the resilience of the business and believe that the group, including the company, is well placed to manage its business risks successfully, including those arising as a direct result of COVID-19.

The directors therefore have a reasonable expectation that the company 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.

Directors' report (continued)

Auditor

Having made enquiries of fellow directors and of the company's auditor, each person who is a director at the date of approving this annual report confirms that:

- To the best of each director's knowledge and belief, there is no information (that is, information needed by the company's auditor in connection with preparing their report) of which the company's auditor is unaware; and
- Each director has taken all steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information.

BDO LLP have been re-appointed auditor of the company for the period ending 2 July 2021.

On behalf of the Board

L S Rattigan

Director

Date: 22 June 2021

Statement of directors' responsibilities

The directors are responsible for preparing the annual reports and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the company financial statements in accordance with International Financial Reporting Standards in conformity with the Companies Act 2006 ("IFRS")'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period. In preparing these financial statements, the directors are required to:

- present fairly the financial position, financial performance and cash flows of the company;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting 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 company's financial position and financial performance;
- state whether the company financial statements have been prepared in accordance with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the shareholder of Ernst & Young Services Limited

Opinion

We have audited the financial statements of Ernst & Young Services Limited ("the Company") for the period ended 3 July 2020 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Statement of Cash Flows and 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 in conformity with the Companies Act 2006 ("IFRS")'.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 3 July 2020 and of its profit for the period then ended;

- have been properly prepared in accordance with IFRSs in conformity with the Companies Act 2006; and

- have been prepared in accordance with the requirements of the Companies Act 2006.

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 Company 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.

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 Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company'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.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual reports, 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.

Independent auditor's report

to the shareholder of Ernst & Young Services Limited

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and

- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of Directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement, the Directors 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 Directors determines 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 Directors are responsible for assessing the Company'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 Directors either intend to liquidate the Company 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.

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

Independent auditor's report

to the shareholder of Ernst & Young Services Limited

Use of our report

This report is made solely to the Company'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 Company'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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Diane Campbell
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Diane Campbell (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
55 Baker Street
London
W1U 7EU

Date: 22 June 2021

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

Statement of comprehensive income

for the period ended 3 July 2020

	Notes	*53 weeks to 3 July 2020 £m*	*52 weeks to 28 June 2019 £m*
Revenue		1,268	1,168
Staff costs	4	(1,193)	(1,099)
Gross profit		75	69
Administrative expenses		(5)	(3)
Operating profit	3	70	66
Finance income		–	1
Profit before taxation		70	67
Tax charge	6	(14)	(13)
Profit and total comprehensive income for the period		56	54

Statement of changes in equity

for the period ended 3 July 2020

	Notes	*Share capital £m*	*Retained earnings £m*	*Total £m*
At 30 June 2018		–	56	56
Profit and total comprehensive income for the period		–	54	54
Dividend	13	–	(53)	(53)
At 28 June 2019		–	57	57
Profit and total comprehensive income for the period		–	56	56
Dividend	13	–	(50)	(50)
At 3 July 2020		–	63	63

The notes on pages 15 to 25 form part of these financial statements

Balance sheet

at 3 July 2020

Registered number 02812206

	Notes	*3 July 2020* *£m*	*28 June 2019* *£m*
Assets			
Non-current assets			
Investments in subsidiaries	7	25	–
Amounts receivable from employees	10	1	–
Deferred tax asset	6	2	2
		28	2
Current assets			
Trade and other receivables	8	70	54
Amounts receivable from employees	10	1	–
Interest-bearing loan	9	26	50
		97	104
Total assets		125	106
Equity and liabilities			
Non-current liabilities			
Lease liabilities	10	1	–
Trade and other payables	11	2	–
		3	–
Current liabilities			
Lease liabilities	10	1	–
Trade and other payables	11	58	43
Corporation tax		–	6
		59	49
Total liabilities		62	49
Equity			
Share capital	12	–	–
Retained earnings		63	57
Total equity		63	57
Total equity and liabilities		125	106

The financial statements of Ernst & Young Services Limited for the period ended 3 July 2020 were authorised for issue by the board of directors and signed on their behalf by:

L S Rattigan

Director

Date 22 June 2021

The notes on pages 15 to 25 form part of these financial statements.

Statement of cash flows

for the period ended 3 July 2020

	Notes	2020 £m	2019 £m
Profit before tax		70	67
Adjustments for:			
Finance income		–	(1)
Increase in trade and other receivables	14	(82)	(69)
Increase in trade and other payables		12	3
Net cash inflows from operating activities		–	–
Repayment of amounts receivable from employees		1	–
Net cash inflows from investing activities		1	–
Payment of lease liabilities	10	(1)	–
Net cash outflows from financing activities		(1)	–
Cash and cash equivalents at beginning of period		–	–
Cash and cash equivalents at end of period		–	–

The notes on pages 15 to 25 form part of these financial statements.

Notes to the financial statements

at 3 July 2020

1. Corporate information

Ernst & Young Services Limited (the "company") is a private company limited by shares, incorporated, domiciled, and registered in England and Wales (Registered number 02812206). The company's registered office address is 1 More London Place, London SE1 2AF.

2. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards in conformity with the Companies Act 2006 ("IFRS"). The principal accounting policies are summarised below and have been applied consistently throughout the period and the preceding period unless otherwise stated.

The financial statements have been prepared on the accrual basis of accounting using a number of measurement bases, as set out in the accounting policies below. The financial statements have been prepared on a going concern basis. The directors have concluded that it is appropriate to adopt the going concern basis having considered the support that can be provided by Ernst & Young LLP, the company's ultimate parent entity and sole customer. The directors have considered multiple forecasts, prepared by Ernst & Young LLP, 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 Ernst & Young LLP group's cash flows, borrowing facilities and associated covenants has then been considered, including reverse stress testing. Ernst & Young LLP has committed borrowing facilities of £405m. In addition, there are mitigating steps that could be taken to ensure that the group operates within its committed facilities and bank covenants, should the need arise. The directors of the company 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 company on a going concern basis. Further details of this assessment can be found within the Directors' report.

The functional currency of the company 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 week period from 30 June 2018 to 28 June 2019).

The company is exempt from the obligation to prepare group accounts under section 400 of the Companies Act 2006 as it is a wholly owned subsidiary undertaking and its ultimate parent undertaking prepares group accounts (see note 20). Consequently, these financial statements contain information about Ernst & Young Services Limited as an individual entity.

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 to the financial statements, the most significant being:

- revenue recognition (note 2); and
- recoverability of trade and other receivables (note 15).

Revenue

Revenue is earned from the supply of employee services which fall within the ordinary activities of the company. These services represent performance obligations which are satisfied over time.

Revenue is recognised over time as services are provided, as the customer receives the benefit of these services as they are performed. The input method is used to measure progress toward complete satisfaction of the service as it provides a faithful depiction of the transfer of services, as the company charges its customer on a cost plus margin basis.

The company has concluded that it is the principal in its revenue arrangements because it controls the services before transferring them to the customer.

Notes to the financial statements

at 3 July 2020

2. Significant accounting policies (continued)

Revenue (continued)

Payment terms 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 contract assets or, when the company has a present right to payment, as unbilled receivables.

Investments

Investments in subsidiaries are carried at cost less provision for impairment. Contingent consideration is recognised at fair value at the acquisition date, with subsequent changes in fair value recognised in the income statement.

Pensions

Ernst & Young LLP operates a pension scheme for staff which has separate defined benefit and defined contribution sections. The defined benefit section was closed to further service accrual on 30 September 2003 since when the company ceased to participate in the plan and funding obligations have been borne by Ernst & Young LLP.

Contributions to the 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.

The assets of the scheme are held separately from those of the company in funds administered by Trustees.

Staff costs

Amounts relating to staff costs are recognised as an expense in the income statement as incurred. Unpaid staff costs are included in trade and other payables.

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).

Lease liabilities are measured initially at the present value of lease payments to be made over the lease term. The lease payments include fixed payment. The present value is determined using the company'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.

On recognition of a lease liability, an equivalent amount receivable from employees is also recognised. Such amounts receivable from employees are measured at amortised cost, less a provision for expected credit losses. Amounts receivable from employees are repaid in line with the payment of the lease liability.

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 page 18.

Financial instruments

Financial instruments are recognised when the company 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. Significant accounting policies (continued)

Financial instruments (continued)

Trade and other receivables

Trade receivables represents the company's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

Trade and other receivables are carried at amortised cost which is equal to the original transaction amount, less a provision for expected credit losses (ECLs). ECLs are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that the company expects to receive.

Trade and other payables

Trade and other payables are carried at amortised cost, which is equal to their original invoiced amount.

Loans

Loans receivable are carried at amortised cost using the effective interest method if the time value of money is significant. Other receivables are generally carried at original transaction amount, less an allowance for expected credit losses.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis.

Cash and cash equivalents

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

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

Income taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Interest levied on unpaid tax is classified as a finance cost.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or unused tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the temporary differences reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Dividends

A liability is recognised to pay dividends to the shareholder when the dividend is appropriately authorised and no longer at the discretion of the company.

Dividends proposed or declared after the balance sheet date but before the financial statements are authorised, are not recognised but disclosed in the notes to the financial statements.

Notes to the financial statements

at 3 July 2020

2. Significant accounting policies (continued)

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

The company 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 company recognised an amount receivable from employees and lease liabilities for those leases previously classified as operating leases. 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.

The standard provides specific practical expedients of which the company has elected to use a single discount rate for a portfolio of leases with reasonably similar characteristics.

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

	£m
Assets	
Amounts receivable from employees	2
Liabilities	
Lease liabilities	2

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:

	£m
Future minimum lease payments payable:	
Within one year	1
In the second to fifth years inclusive	1
	2

There was no difference arising between the operating lease commitments as of 28 June 2019 and the lease liabilities at 29 June 2019 discounted using the weighted average incremental borrowing rate as at the date of initial application of 1%.

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 company.

Notes to the financial statements

at 3 July 2020

3. Operating profit

Operating profit is stated after charging:

	2020	*2019*
	£m	*£m*
Operating lease payments (included in staff costs)	–	1
Charitable donations	5	3

Lease payments relate to EY's car scheme for staff where staff can lease a car as part of a salary sacrifice arrangement.

Fees payable to the company's auditor for the audit of the company financial statements were £15,115 (2019: £6,000). No other services were provided by the auditor.

4. Staff costs

	2020	*2019*
	£m	*£m*
Wages and salaries	1,013	933
Social security costs	113	105
Pension costs – defined contribution schemes	56	49
Other benefit costs	11	12
	1,193	1,099

The average number of employees, excluding directors during the period was as follows:

	2020	*2019*
	No.	*No.*
Client service staff	11,979	11,320
Support staff	3,120	2,973
	15,099	14,293

5. Directors' remuneration

The directors of Ernst & Young Services Limited received no remuneration for their services as directors or their services in connection with the management of the company.

Notes to the financial statements

at 3 July 2020

6. Tax

(a) Tax on profit

	2020	2019
	£m	£m
Current income tax		
UK corporation tax	14	13

(b) Reconciliation of total tax charge

The tax assessed on the profit for the period is in line with the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020	2019
	£m	£m
Profit before tax	70	67
Profit multiplied by standard rate of corporation tax in the UK of 19% (2019: 19 %)	14	13
Total tax charge reported in the income statement	14	13

The main rate of corporation tax is 19%. The deferred tax asset has been calculated at a rate of 19% which is the rate prevailing in the period when the deferred tax asset is expected to be utilised.

(c) Deferred tax

The deferred tax asset included in the balance sheet is as follows:

	2020	2019
	£m	£m
Deferred pension contributions	2	2

7. Investment in subsidiaries

	2020	2019
	£m	£m
Cost	25	–

The increase in the investment in subsidiaries of £25m relates to the acquisition of EY Professional Services Limited (previously, EY AgilityWorks Limited) for £23m and the acquisition of EY Incentives Limited for £2m during the period.

Notes to the financial statements

at 3 July 2020

7. Investment in subsidiaries (continued)

The Company now has the following subsidiaries:

Subsidiary undertakings	*Country of incorporation*	*Nature of business*
EY Professional Services Limited	UK	Consultancy service provider
AgilityWorks India Private Limited *	India	Consultancy service provider
EY Incentives Limited	UK	Consultancy service provider

* Interest held indirectly.

All subsidiaries are wholly owned.

The registered address of the UK subsidiaries is 1 More London Place, London, SE1 2AF. The registered address of the Indian subsidiary is 779, Sector-15A, Faridabad, Haryana 121007, India

8. Trade and other receivables

	2020	*2019*
	£m	*£m*
Amount owed by ultimate parent undertaking	35	49
Unbilled receivables	35	5
	70	54

All amounts fall due within one year. There was no impairment in respect of trade and other receivables (2019: £Nil).

9. Interest-bearing loan

	2020	*2019*
	£m	*£m*
Loan to ultimate parent undertaking	26	50

The company has loaned its surplus funds to Ernst & Young LLP. The loan carries interest at 1% (2019: 1%) above Bank of England base rate and is repayable on demand.

Notes to the financial statements

at 3 July 2020

10. Leases

The company provides its employees the option to lease a car through its salary sacrifice scheme. Accordingly, the company has entered into car leases with average remaining terms of 2 years. Lease payments will be recovered from the relevant employee through the salary sacrifice arrangements in line with the payment of the lease liability.

The carrying amounts of lease liabilities and amounts due from employees, and the movements during the period, were as follows:

	£m
At the beginning of the period	2
Additions	1
Payments	(1)
At the end of the period	2
Current	1
Non current	1
	2

The maturity analysis of lease liabilities is disclosed in note 15.

In the previous year, £1m of operating lease payments were recognised as an expense.

The company had total cash outflows for leases of £1m during the period.

11. Trade and other payables

	2020	*2019*
	£m	*£m*
Non-current		
Contingent consideration	2	–
	2	–

	2020	*2019*
	£m	*£m*
Current		
Social security and other taxes	31	32
Contingent consideration	3	–
Accrued compensation	11	–
Other creditors	13	11
	58	43

Contingent consideration relates to additional cash that will be paid if certain operational targets are met relating to the acquisition of EY Professional Services Limited. Depending on whether those targets are met, the contingent consideration could vary from £nil to £5m.

Notes to the financial statements

at 3 July 2020

12. Share capital

	2020	2019
Authorised	£	£
Ordinary shares of £1 each	100	100

	2020	2020	2019	2019
Issued and fully paid	*No.*	*£*	*No.*	*£*
Ordinary shares of £1 each	2	2	2	2

Each share carries one vote and has the right to receive dividends.

The company's objective when managing capital is to safeguard its ability to continue as a going concern. Capital is monitored by the directors to ensure this objective is met. No long term financing is required by the company.

13. Dividends paid and proposed

	2020	2019
	£m	*£m*
Dividends declared and paid during the period		
Dividends on ordinary shares		
Dividend: £25,230,223 share (2019: £26,742,629 per share)	50	53

14. Non-cash transactions

The company has settled several transactions through its intercompany accounts with its parent undertakings, which represent non-cash transactions as follows:

- Ernst & Young LLP has paid tax of £19m (2019: £13m) on the company's behalf which was reduced from the intercompany trading account.
- The interest receivable of £nil (2019: £1m) on the loan to Ernst & Young LLP was added to the intercompany trading account with Ernst & Young LLP.
- £46m (2019: £50m) of the intercompany trading account with Ernst & Young LLP was converted into loan receivable from Ernst & Young LLP.
- £20m (2019: £nil) of loan receivable was repaid in order to fund the investment in subsidiaries of £20m (investment of £25m less contingent consideration of £5m which will be settled in future periods). The amount was paid directly by Ernst & Young LLP to the sellers of the subsidiaries.
- The company entered into an arrangement with Ernst & Young LLP and Rolls House Holdings Limited to settle the dividend payable to Rolls House Holdings Limited of £50m (2019: £53m) against the intercompany loan account with Ernst & Young LLP.

Notes to the financial statements

at 3 July 2020

15. Financial instruments

Financial instruments give rise to liquidity, interest and credit risks. The directors review and agree policies for managing these risks. Financial instruments are not used for speculative activity and complex financial instruments are avoided. Information about how these risks are managed is set out below:

Liquidity risk

Liquidity risk arises from the company's ongoing financial obligations, including settlement of financial liabilities such as trade and other payables, all of which are payable within one year (2019: within one year) and lease liabilities which are repayable £1m within one year and £1m between one and three years.

The company's objective is to maintain a balance between continuity of funding and flexibility through balances with the company's parent undertaking, Ernst & Young LLP. These balances are considered more than adequate to finance variations in forecast working capital. Any unutilised funds of the company are offered to Ernst & Young LLP as an interest-bearing loan.

Interest rate risk

The company's exposure to the risk of changes in market interest rates relates to the interest bearing loan provided to Ernst & Young LLP. The risk exposure is expected to be immaterial since the loan balance is expected to be repaid within a year from the end of the financial year, and the interest rates are generally not expected to fluctuate materially during such short periods.

Credit risk

The company trades only with Ernst & Young LLP and does not hold collateral. Receivable balances are monitored and collected on an ongoing basis and as a result exposure to bad debts is not significant. Of the company's trade and other receivables, the following are past due but not impaired: £32m (2019: £46m) is three months or less past due. The remainder is not yet past due.

Amounts receivable from employees are recovered through the company's salary sacrifice scheme and are therefore not a significant credit risk.

16. Related parties

The company earned revenue of £1,268m (2019: £1,168m) and interest income of £nil (2019: £1m) from its ultimate parent undertaking, Ernst & Young LLP. Amounts owed by Ernst & Young LLP at 3 July 2020 were trade receivables of £70m (2019: £54m) and an interest-bearing loan receivable of £26m (2019: £50m). All balances with group undertakings are non-interest bearing except for the loan to Ernst & Young LLP which carries interest at 1% (2019: 1%) above the Bank of England base rate.

The key management personnel comprise the directors of the company and the key management personnel of its parent entities. There were no transactions with key management personnel. Except as disclosed above and elsewhere in the financial statements, there are no other related party transactions.

17. Ultimate controlling party

The company's immediate parent undertaking is Rolls House Holdings Limited, a company registered in England and Wales. The company's ultimate parent undertaking and controlling party is Ernst & Young LLP. Ernst & Young LLP is the parent undertaking of the smallest and largest group that consolidates these financial statements, copies of which are available from its registered office, 1 More London Place, London, SE1 2AF.

Notes to the financial statements

at 3 July 2020

18. Post balance sheet events

On 30 April 2021, Ernst & Young Services Limited acquired 100% of Frank Hirth (UK) Limited for consideration of up to £18m. Frank Hirth (UK) Limited provides tax consulting services. The acquisition is expected to complete on 30 April 2021.

On 7 May 2021, EY Professional Services Limited issued additional share capital to its sole shareholder, Ernst & Young Services Limited for a subscription price of £29.5m. In turn, on 7 May 2021, EY Professional Services Limited acquired 100% of Pythagoras Communications Limited for consideration of £29.7m. Pythagoras Communications Limited provides IT consulting services.

An announcement was made on 22 March 2021 that there would be a consultation period relating to the transfer of around 900 employees of the company to one of three entities within the EYGS LLP group. The consultation was completed at the time of signing, and the transfer took effect on 1 May 2021.