

Johnston Carmichael LLP  
Transparency Report

**Year ended 31 May 2018**

**Building a Legacy Firm**



Where sharp minds meet

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# 1. Introduction

Since our formation in Moray in 1936, Johnston Carmichael has been committed to growing and investing in the capability and success of our firm and our people. We take a long term view of our business and know that our commitment to building a legacy business which future generations can enjoy, requires us to keep evolving and improving to meet the changing and dynamic landscape we operate in.

We firmly believe that to build a sustainable business of benefit to our clients, our people and wider society, then we must ensure that everything we do is consistent with sound core values and the highest standard of professional and ethical practice. One of our core values is “doing the right thing” and this goes right to the core of who we are and to ensure that we follow the highest standards in all that we do.

In assessing the performance of our leaders in the business, the Policy Board monitors adherence to our core values and takes compliance with ethical and professional behaviour very seriously. We know that our people and our clients want to work with and be associated with a firm that follows the highest professional and ethical standards. We are committed to achieving that not just for our firm but also to play our part in supporting the important work that ICAS does in regulating and supporting the development of our profession.

The year to 31 May 2018 saw positive and exciting progress as we have continued to invest in improving the efficiency of the core processes in our business, embracing new technologies, strengthening the breadth and depth of our service capability and in the learning and development of our people.

We believe that our brand continues to get stronger through continually demonstrating our professional capability, our approach to our work and also through our growing international reach through our membership of PKF International.

I confirm, on behalf of the Policy Board, that:

- our internal quality control systems are functioning effectively;
- our independence practices are appropriate and have been subject to an internal compliance review; and
- we have policies and procedures in place to ensure that the continuing education of statutory auditors is as required by relevant law, regulation and professional standards.

We believe strongly that as a leading firm of Chartered Accountants and Business Advisers, we have an important role to play in helping build a stronger economy and society. To do this means constantly improving and investing in our own business so that we have an ever stronger platform to grow our business and in doing that create not only excellent career opportunities for our people, but also grow our contribution to our economy and society.

We are pleased to present our Transparency Report that has been prepared in accordance with the requirements of Article 13 from Regulation (EU) No 537/2014 and the amended Directive 2014/56/EU of the European Parliament and of the Council. This report covers the year ended 31 May 2018 and has been designed to help explain who we are, the ownership and governance of the firm and the policies and procedures we have in place to maintain our independence and ensure that we comply with all applicable audit and ethical standards to deliver high quality services in all areas.

A handwritten signature in black ink that reads "Sandy Manson". The signature is written in a cursive, flowing style.

Sandy Manson on behalf of the Board

## 2. About Johnston Carmichael

Johnston Carmichael is Scotland's largest independent firm of Chartered Accountants and Business Advisers and we are one of the UK's top 20 accountancy firms. Since the firm was formed in 1936, we have grown to just under 700 staff and 54 partners over 11 offices. As part of our continued growth strategy, our partner numbers increased to 56 on 1 June 2018.

Our services include:



Our industry experience spans 14 sectors:



We also believe strongly in giving back to the communities we serve. Annually, staff in our 11 offices suggest and vote on which local charity to champion, enhancing communities throughout Scotland. The diverse range of charities covers support and advice services for people struggling with mental illness, palliative care and support and a holiday retreat for families with children suffering from cancer. Further details can be found at <https://johnstoncarmichael.com/about-us/corporate-social-responsibility>

# 3. Legal structure and ownership

## Legal structure

Johnston Carmichael is the trading name of Johnston Carmichael LLP, a Limited Liability Partnership registered in Scotland (SO303232). The registered office is at Bishop's Court, 29 Albyn Place, Aberdeen AB10 1YL.

## Ownership

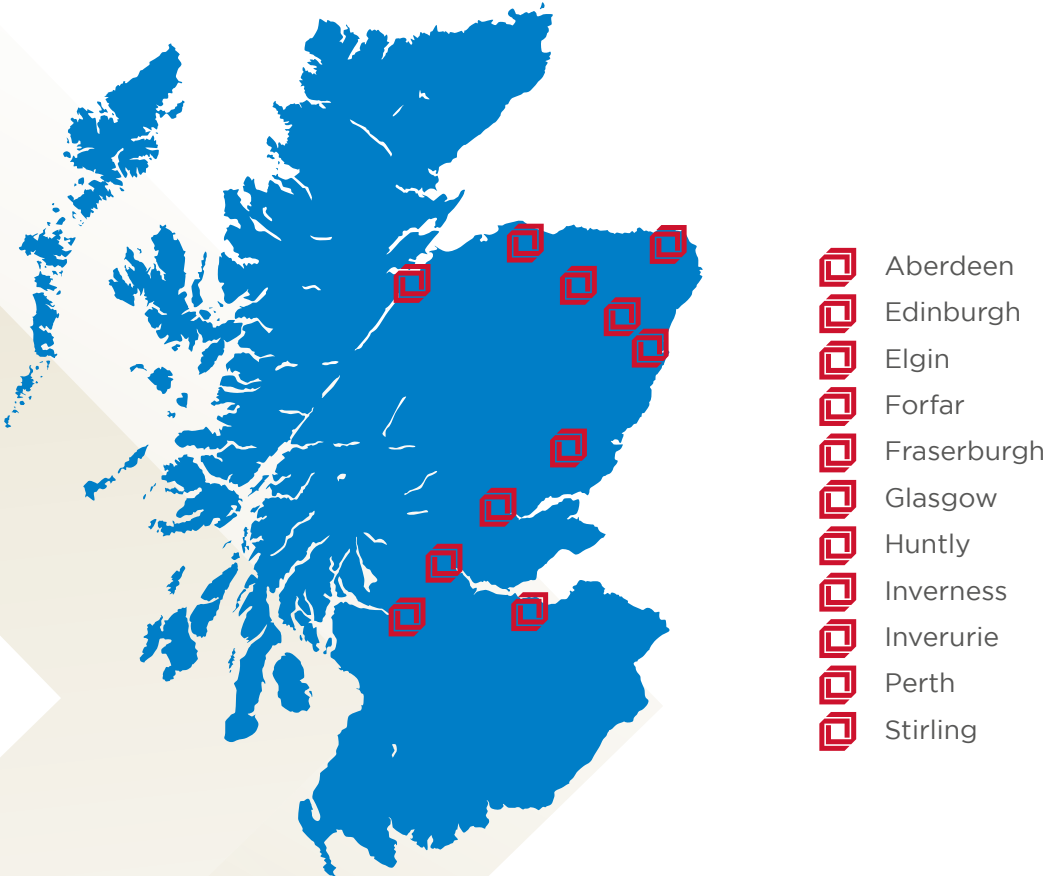
Johnston Carmichael LLP (the firm) is owned on 1 June 2018 by its 48 equity partners.

The term "Partner", used in relation to the LLP, refers to a member of Johnston Carmichael LLP. A list of the members of Johnston Carmichael LLP is available for inspection at our offices.

Johnston Carmichael LLP has two active subsidiary companies:

- Johnston Carmichael Wealth Limited which provides financial planning advice.
- Johnston Carmichael (Scotland) Limited which provides bookkeeping and payroll services as well as services to group companies.

## Locations



## Regulation

Johnston Carmichael is registered to carry on audit work in the UK and Republic of Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland (ICAS). Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk), under reference number O274 and [www.cro.ie/auditors](http://www.cro.ie/auditors) under reference number ASO274. Details of the professional rules can be found in the FRC's Ethical Standard, International Standards on Auditing (UK), Practice Notes, Bulletins and the Companies Act 2006.

Johnston Carmichael is also licensed by ICAS, a Designated Professional Body (DPB), to carry out a range of investment business activities. However there are other activities which the firm is not authorised to carry out.

Our insolvency practitioners are licensed to act in the UK by the Institute of Chartered Accountants of Scotland. Details of the Insolvency Practitioner Directory can be found at <https://www.insolvencydirect.bis.gov.uk/fip1/>. Details of and access to the professional rules can be found in the Insolvency Permit Regulations; Statements of Insolvency Practice (SIPS); and the ICAS code of ethics Part D: Insolvency Practitioners.

Johnston Carmichael Wealth Limited is authorised and regulated by the Financial Conduct Authority (FCA) under reference number 114322

## 4. PKF International Network

### Introduction

We are proud to be the Scottish member firm of the PKF International (PKFI) family of legally independent firms. PKFI consists of member firms in locations around the world, providing assurance, accounting and business advisory services. The network is a member of the Forum of Firms – an organisation dedicated to consistent and high-quality standards of financial reporting and auditing practices worldwide.

The firm does not accept any responsibility or liability for actions or inactions on the part of any other individual firm or firms within PKFI.

### Legal basis

The network formed by PKF International Limited (the Licensor or the Company) and the member firms (the Licensees) is regulated by adherence to an Operating Licence Agreement (OLA) between the Licensor and individual Licensees. The OLA authorises the Licensee to use the PKF name as defined under specific circumstances, under specific conditions, for specific purposes and in a specific territory, in consideration for which the Licensee pays a licence fee to the Licensor. PKF International Limited administers this network of legally independent firms and does not provide professional services in its own right.

The Licensor is a private company registered in England and limited by guarantee. The Company's Articles of Association require a Board of Directors who conduct the business of the Company. The Board has a strategic and co-ordinating role but has no executive authority of the operations of individual member firms.

Each Licensee is a legally independent entity owned and managed in each location. Contractual relations are only formed between a client and the member firm engaged by the client and no other member firm may be held liable. The Company has no financial or management interest in any member firm. None of the directors of the Company has a financial or management interest in any member firm other than his or her own.

### Key elements of the licensee agreements

The basic membership requirements applicable to members of the PKFI network are contained within the Operating Licence Agreement (OLA) which each member firm enters into with PKF International Limited, and the International Professional Standards Manual (IPSM) with which all member firms are required to be compliant.

Many provisions of the OLA and IPSM are covered throughout this section of the Transparency Report.

Members firms are required to implement a system of internal monitoring and quality control assessment for all practice areas across the whole firm. For assurance and related services, the quality control system needs to comply with International Standards on Quality 1 (ISQC 1). The overall objective of these requirements is to ensure that each member firm's system of quality control provides reasonable assurance that both they and their personnel comply with professional standards and applicable regulatory and legal requirements, and that reports issued by the member firm are appropriate.



Member firms are required to submit an annual Member Firm Compliance Report to PKFI, as well as an annual Firm Profile Report, consisting of revenue and other statistics.

At the heart of PKFI's approach to managing independence is the Transnational Entities Database (TREND), part of the network's proprietary platform for global co-ordination and communication. A secure central repository of member firms' transnational client details accessible by all PKF firms worldwide, the database highlights potential cross-border conflicts involving PKFI firms. The transnational entity listing (including transnational audits) must be continuously updated and its accuracy confirmed annually.

### **Structure, committees and relationships between them**

Member firms are organised into five geographical regions. Each region has a regional board and elects or nominates representative(s) to the company's board of directors. The board of directors are nominated by the various regions in the world. Each region has a Regional Board. The chairman of the Regional Board is normally a member of the International Board. The International Board meets four times a year; Regional Boards meet either in person or by conference call as required.

There are two international committees responsible for professional and practice standards – the International Professional Standards Committee (including Assurance) (IPSC) and International Tax Committee (ITC). The IPSC meets twice a year in person with periodic conference calls; the ITC meets in person at least annually with periodic conference calls. Each region is represented on these committees who report into the International Board on a regular basis. A number of additional practice area committees operate both regionally and internationally.

The global CEO is appointed by the International Board and reports to the international chairman and the International Board. Regional Directors in charge of each region are appointed by the global CEO in consultation with the Regional Boards. Committee members are selected according to their technical expertise and possible contribution and to ensure that each region is represented.

PKFI presents an annual Global Gathering for all member firms and an annual International Assurance Meeting and International Tax Meeting. Each region has its own meeting to address matters of regional interest.

### **The boards or committees' functions**

The International Professional Standards Committee's (IPSC) principal objectives encompass three focus areas:

1. Quality assurance (see also Quality Assurance below)
  - a. Establish and communicate general practice standards and standards for the performance of certain types of professional work by member firms; and
  - b. Monitor the general practice standards and quality of work of member firms.
2. Member firm support – Assurance and Accounting
  - a. Maintain practice aids, including software, manuals and templates; and
  - b. Make available training material and arrange relevant meeting and training sessions.

### 3. Global regulation of PKFI network

- a. Monitor regulatory and legal developments as well as litigation and enforcement actions relevant to international networks and its implications for the network and member firms; and
- b. Contribute to international developments and debates relevant to the profession and accounting networks.

The International Tax Committee co-ordinates publication of the PKF Worldwide Tax Guide and a number of technical newsletters, arranges the annual International Tax Meeting, and facilitates resource sharing among member firms.

### Quality assurance

PKFI operates a global monitoring program covering member firms. The principal objectives are to ensure that the standards expected for the performance of certain types of professional work by member firms are established and communicated to firms, that those standards meet appropriate recognised professional practice requirements at least for transnational and referred work, and that a program of monitoring of compliance with expected standards is operating effectively.

### Member firms, countries and turnover (including number of offices and employees)

PKFI distinguishes between member firms and exclusive / non-exclusive correspondent firms.

Correspondent firms do not form part of the network as defined by the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), have none of the rights and privileges or responsibilities of member firms and are not covered by the global monitoring program. An up to date list of member and correspondent firms, including the firm names and countries in which they are registered and operate from, can be found on the website [www.pkf.com](http://www.pkf.com).

The aggregate fee income which relates to the statutory audit of annual and consolidated financial statements for EU EEA member firms that belong to the PKFI network, as reported in the Firm Compliance Reporting 30 June 2017, is US \$143.83 million.

The PKF International (PKFI) network consists of member firms and correspondents in over 400 locations operating in 150 countries across five regions, providing assurance, accounting, tax and business advisory solutions. PKFI member firms have £0.914 billion (US \$1.187 billion, €1.041 billion) in aggregate fee income and approximately 16,700 employees (year end June 2017).

### Membership of the Forum of Firms

PKF International is a member of the Forum of Firms (the Forum) which was formally established in 2002 as an association of international networks of accounting firms that perform transnational audits. The objective of the Forum is to promote consistent and high-quality standards of financial reporting and auditing practices worldwide. The Forum brings together firms that perform transnational audits and involves them more closely with the activities of the International Federation of Accountants (IFAC) in audit and other assurance-related areas. Currently the Forum has 27 members. For more information see <http://www.ifac.org/about-ifac/forum-firms-and-transnational-auditors-committee>.

## 5. Governance

The Policy Board are responsible for the overall strategic direction of Johnston Carmichael. Members of the Board are appointed by approval of the partner group.

The Board meets regularly to discuss and review progress with the firm's strategy and address operational issues in the firm.

As at 31 May 2018, the Board comprised of:

- Andrew Shepherd (Chairman)
- Alexander Manson (Chief Executive)
- Mark Houston
- Craig MacPherson
- Alexander Rennie
- Andrew Walker

The composition of the Board is reviewed periodically and succession planning for both the Board and all key leadership positions in the firm is regularly reviewed.

In addition to the Board, the firm's leadership and governance structure includes the appointment of Business Line Heads, Office Managing Partners and Executive Team Heads.

The firm encourages a culture of collaboration to ensure that we operate as one firm and capture and utilise the best capability available across the firm to address client and the firm's needs.

The firm's subsidiaries are corporate entities and certain partners are directors of these companies to represent the members of the partnership.

## 6. Quality control

The firm complies with the International Standard on Quality Control 1 (ISQC 1) and the six key elements contained within in it.

### **i. Leadership and responsibilities for quality within the firm**

Responsibility for ensuring that the Firm complies with all regulatory requirements, that appropriate policies are in place for all services to ensure that work undertaken to a satisfactory standard within the firm lies with the Chief Executive, Alexander Manson.

A number of partners have roles to assist with this responsibility including:

- Audit Compliance Partner
- Ethics Partner
- Money Laundering Reporting Officer

All of our policies are published on our intranet, The Hub. All of our policies are available to all of our staff members, irrespective of the business line they work in.

### **ii. Relevant ethical requirements**

The firm's Ethics Policy requires all members of staff to comply with the ICAS Code of Ethics. Partners and staff are expected to consider the question of their independence at all times and in particular prior to commencement of any work on an audit client. A financial interest in an audit client is prohibited.

In cases of doubt or where our independence, integrity and objectivity do, or might be perceived to arise, the Firm's Ethics Partner (for audit assignments) or Chief Executive (for non-audit assignments) must be alerted as soon as possible and the appropriate action taken.

Everyone in the firm is required to confirm annually that there are no independence issues that ought to be addressed. This is achieved by completion of the independence declaration questionnaire that the Ethics Partner circulates.

All staff are required to notify the Ethics Partner of any directorships or similar offices they hold.

### **iii. Acceptance and continuance of client relationships and specific engagements**

The firm has a detailed Client Take On process that must be followed before accepting a new client. The procedures have been designed to ensure that all staff follow the correct processes for client identification, independence / conflict assessments, that staff allocated to the assignment have the relevant skills / specialist knowledge to perform their roles and that the risk of accepting the engagement is deemed acceptable.

For new audit clients, the Audit Risk Committee, acting on behalf of the Head of Audit approve the client appointment. A client risk assessment memo requires the team to consider the individual risks the assignment pose, such as significant judgemental accounting as well as the risk to our Firm, including any potential reputational risks. The Audit Risk Committee review the memo, obtaining additional information before approving our appointment.

Conflict and independence checks are undertaken before the client can be accepted. For audit clients with an international presence in addition to Public Interest Entities (PIEs) and listed companies, our conflict checks will extend across the PKF Network.

Once the firm has accepted the new client, or a new engagement from an existing client, an Engagement letter is issued which contains our standard terms and conditions, a description of our understanding of the engagement and what is required of us. Work does not commence until the client has returned a signed engagement letter to us or has confirmed their acceptance of the specified terms and conditions.

**iv. Human resources**

The firm has established policies and procedures that enable all of the partners and staff to develop the appropriate competencies, capabilities and technical skills to carry out their role within the firm. All policies and procedures are developed with the relevant professional standards and legal and regulatory requirements in mind and are designed to ensure that the firm continues to deliver high quality work in all areas.

**v. Engagement performance**

The Technical Department is responsible for monitoring the firm's audit engagement performance and ensuring that the proprietary audit programmes are followed.

A clear review hierarchy is in place for all audit assignments. Policies have been established which clearly define when an audit assignment is required to be reviewed by another RI. All of our 2nd RI reviewers are approved by the Head of Audit. New 2nd RI reviewers are supported in this role by the Head of Audit. Technical reviews, focusing on key elements of the financial statements, are also included in our policies and procedures.

All necessary policies and procedures are available to all staff and regular training and feedback is provided.

**vi. See 'Monitoring' section on the following page.**

## 7. Monitoring

Quality control is monitored by the Technical Department, supported by partners with specialist industry knowledge and experience on a risk-based approach. A cyclical approach to our internal quality control reviews is used to ensure that all the firm's specialists sectors and Responsible Individuals (RIs) are subject to review at least once every two years. The cycle is accelerated when there are significant changes to accounting, auditing and other regulatory requirements. Reviews are also accelerated when an RI's audit file is identified as not meeting the required standard.

Our internal reviews are marked out of 10, with 3 marks allocated to planning, 4 to fieldwork and 3 to completion. Marks are deducted for defects identified in the file. Our benchmark audit file would have a few minor defects in planning, fieldwork and completion and obtain a mark of 2, 3 and 2 in each section respectively. An audit file fails to meet our required quality standard if its score in any of the sections is 1.5 or below in planning, 2.5 or below in fieldwork or 1.5 or below in completion.

The reviews are designed to ensure that all relevant standards are being met, that all staff members are maintaining their knowledge, professional skills and values at a sufficiently high level and that any potential issues are identified early on and then adequately addressed. The internal reviews also include a review of the independence practices on each file and the independence procedures for the Firm are also considered as part of the whole firm review.

A report is provided to each RI, detailing the key findings of their review. A summary of the key findings of all our internal reviews are shared with the audit teams on an annual basis and firm-wide internal training courses provide clarification and reinforce the Firm's commitment to audit quality.

In addition to the compliance reviews of audit files, the Audit Compliance Partner, is responsible for ensuring that the annual Whole Firm Compliance Review has been completed and all recommendations have been actioned.

The firm is also regulated by two external regulators, the Financial Reporting Council's Audit Quality Review (AQR) team and ICAS for all other audit assignments. There is currently an ICAS review underway (the last was in 2012) and we anticipate our first AQR review to occur in the next five to six years.

As a requirement of our international network membership of PKFI we must comply with ISQC 1. PKFI operates a global monitoring programme to ensure that the required standard is being met. We are also required to submit an annual Member Firm Compliance Report to PKFI.

## 8. Public Interest Entities

During the year to 31 May 2018, the firm expressed an opinion on the financial statements of Discovery Education plc, an entity that currently meets the definition of a Public Interest Entity (PIE). We have also been appointed as auditors to Summit Healthcare (Wishaw) plc and will express our audit opinion in the year to 31 May 2019.

## 9. Independence procedures

The firm's partners and staff (including consultants and sub-contractors) are required to be aware of, and comply with, the ICAS Code of Ethics guidance on independence and the FRC's Ethical Standard. The firm considers independence under two headings: the Individual and the Assignment.

Everyone in the firm is required to confirm annually that they have no independence issues that need to be addressed. Where there are independence issues, the Audit Ethics Partner is informed and appropriate action agreed and undertaken.

The firm's audit methodology also requires the assignment teams' and the firm's independence, integrity and objectivity is assessed at the planning and completion stages. This also includes the consideration of any non-audit services that the firm may be providing to an audit client.

As a PKF member firm, we also update the Transnational Entities Database (TREND) with the details of all our transnational clients. This is accessible to all PKF firms and is used to help ensure we do not encounter independence issues.

Our rotation policy, compliant with current regulations, ensures that the audit assignment teams on our PIE and listed audits will remain independent. Key team members, including the assignment manager, are required to rotate. Our aim to promote audit quality would not intentionally rotate both the RI, Engagement Quality Control Reviewer or manager in the same reporting period. A central log of periods of involvement is maintained for all of our PIE and listed audits, highlighting when rotations will occur. Approximately two years before a rotation is required to occur, potential replacements for key team members are identified. Any training needs are identified and resolved before their involvement with the assignment commences. For our other clients, long association independence threat is mitigated by an ethics review being undertaken by another RI, appointed by our Core Audit team.

## 10. Learning and development

All members of the Audit Business Line are required to comply with all the firm's policies and procedures, including continuing professional development (CPD). Our Learning and Development team are responsible for ensuring that relevant staff are on track to meet the firm's minimum CPD requirements for any specialist sectors as well as generally, reporting expected shortfalls to the Audit Compliance Partner. Staff are required to explain how any projected shortfall will be resolved. The Human Resources team oversee the firm's recruitment, appraisal and training processes to ensure that all staff are operating at the required level and are developing and maintaining the right skills for our clients. Our internal training ensures that all RIs meet the requirements of International Education Standard 8.

The transition to signing audit reports is not easy. Recognising that new RIs require additional support, the firm has implemented a policy that all of their files are subject to an internal review prior to the audit report being signed. These reviews continue until the Audit Compliance Partner determines the files are meeting the required standard.

Our training programme includes both internal and external courses covering developments in accounting and auditing standards, company law, pensions act and other legislation/regulations relevant to our clients, taxation, ethics, anti-money laundering, bribery and corruption, General Data Protection Regulations and career specific soft skills. Staff who are undertaking work in specialist sectors such as charities and financial services also receive technical based training in those areas.

The Technical Department produce monthly email updates covering any recent developments in accounting, auditing, company law etc. Staff also have access to an online technical library containing all current financial standards, guidance and other relevant publications.



## 11. Financial information (Group)

	Year ended 31 May 2017	Year ended 31 May 2016
	£000	£000
Revenue from audit work for PIEs and subsidiaries of PIEs	78	41
Revenue from audit work for other clients	7,302	6,668
Revenue from non-audit work for audit clients	5,419	4,737
Revenue from non-audit work for non-audit clients	30,862	29,374
<b>Total</b>	<b>43,661</b>	<b>40,820</b>

## 12. Partner remuneration and equity ownership

Partners are remunerated wholly out of the profits of the Firm through a combination of interest, salary allocation and, for equity partners, a share of the remaining balance of profit.

The assessment of remuneration levels takes into account partners' performance assessed against criteria covering quality of work, client service, risk management, technical skills, working capital management and leadership and management responsibilities. Audit partners are not remunerated on the basis of selling non-audit services to audit clients.

## Where sharp minds meet

**Aberdeen**  
01224 212222

**Edinburgh**  
0131 220 2203

**Elgin**  
01343 547492

**Forfar**  
01307 465565

**Fraserburgh**  
01346 518165

**Glasgow**  
0141 222 5800

**Huntly**  
01466 794148

**Inverness**  
01463 796200

**Inverurie**  
01467 621475

**Perth**  
01738 634001

**Stirling**  
01786 459900

[jcca.co.uk](http://jcca.co.uk)

**JOHNSTON  
CARMICHAEL** 



Johnston Carmichael is a member firm of the PKF International Limited family of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member or correspondent firm or firms.

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