

# Johnston Carmichael LLP Transparency Report

Year ended 31 May 2022



Where sharp minds meet

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## Regulatory context

Our Transparency Report 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 2022 and has been designed to explain our legal structure and ownership, governance structures within the firm and the quality control systems and assurance programmes and practices 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.

## 1. Introduction

Navigating from the pandemic to a global cost of living crisis, catalysed by the war in Ukraine, alongside the increasing urgency to deal with climate change, we are abruptly reminded so many external risks and influences remain beyond our control, but invariably these indirectly impact our people, our firm and our clients. The increasingly uncertain environment in which we operate has now become the norm, all whilst we strive to deliver to higher stakeholder expectations and fulfilling greater corporate governance requirements in relation to ethical and social responsibility.

As a firm, we recognise and embrace the increasing focus on ethical and social responsibility as the very values we have been founded upon have even greater resonance today than when they were first penned. As the world embraces new ways of working, accelerated by the pandemic, and as we greater exploit our enhanced analytical capabilities, we remain unwavering that the protection of corporate reputation and the long-term sustainability of our firm remains focused on quality at its core, delivered through transparent and ethical behaviours. As a Board, our responsibility is in establishing and promoting an appropriate culture for the firm that builds the foundation of high-quality services across each Business Line, recognising our role in serving the public interest and securing long-term sustainability. However, we have equally identified the challenges in gaining assurance of our progress on culture and the need to validate this with data.

Our people remain critical to our mission and how they engage with our purpose is entirely linked to our culture. We, like many firms, have acutely experienced the skills and labour shortages impacting the profession, particularly as the industry and technologies develop and the range of skills we require evolves. As digital automation dominates many of the manual tasks associated with accounting, we have moved at pace in differentiating our offering with a keen focus on upskilling our people in technological skills and nurturing the human led skills such as professional judgement and professional scepticism, which technology simply cannot match. With any change, there is an impact on culture and a need for evaluation of the impact of those changes to guide our practice in making future decisions.

Culture is an orthodoxy, revered by most businesses but the intangible nature of culture means we often placate ourselves with anecdotal or biased evidence. We are not satisfied by this, and in this period, we have reflected on how we address these challenges to maintain our momentum in monitoring, measurement and continuous improvement of our quality regime. We are trialling innovative solutions with technology partners to quantify the quality of skills and behaviour and target and iterate management interventions for the greatest impact. We have also sought counsel from quality professionals in industries beyond accountancy to harness their experience in meaningful root cause analysis and tailor their experiences to our present need.

Continued and meaningful engagement with our people remains an important facet of our transformational change programmes. Marked improvements have been made to our People and Culture Forum, providing a route to hear directly from our people on what matters to them. The mechanisms for effective and authentic stakeholder engagement remain under constant review. We have invested significantly in both our internal Learning and Development offering and our Audit Quality, Risk and Technical (AQRT) teams over the course of this year which coincides with a record graduate and apprentice intake, and a growing practice. With this growth there are undoubtedly challenges but we are also seeing the benefits of our focus on equity, diversity, inclusion and wellbeing bearing fruit; attracting diverse, productive, innovative and engaged people who join us with the excitement of the future in store for them.

As Chief Executive, I remain cautiously optimistic for the period ahead. We have spent the past three years consciously reflecting on how we deliver sustainably for the future without compromising the quality of our offering and we have demonstrated that we will make improvements where needed and resist the temptation to make short term gains.



**Andrew Walker, Chief Executive**  
**On behalf of the Board of Johnston Carmichael LLP**  
**30th September 2022**

## 2. Introduction from Head of Audit

Market forces have created changes in the audit profession not previously seen in my lifetime. Continued scrutiny on audit quality has resulted in significant investment, with a consequent impact on pricing. As a result, companies that require an audit are increasingly looking for alternative providers. This creates unique opportunities and challenges for us as a firm.

We believe there will be a divide between firms that invest in the people and technology required to deliver a quality audit and those who do not. This investment, which provides greater choice in the marketplace, is multifaceted. As a firm, we now have almost 200 dedicated specialists in our audit practice, which represents more than 80% growth in the team over a three-year period. We are mindful that this growth must be carefully managed, and the team trained appropriately.

First, we have conducted an initial risk review of our client portfolio. This has led to disengagement from clients where we perceive there to be a risk of failing to deliver a quality audit. A process of this nature is not a one-off exercise. We will continue to keep this under review as the business environment and our client base changes. We are also adopting more stringent client acceptance criteria to ensure that we are able to deliver the right team, doing the right work for the right price. To enable us to achieve this, we have invested in our sector teams in areas such as Financial Services and Energy, Infrastructure and Sustainability to allow us to provide specialist training on business and audit issues. We are also selective in our approach to auditing Public Interest Entities (PIEs); again, these are delivered by dedicated teams with appropriate knowledge and training in that sector. Our approach to investing in audit quality needs to be sustainable, which is why we continue to review and challenge our pricing models to ensure they are aligned with our strategy of achieving profitable growth through delivering consistently quality audits.

We continue to make progress with our Learning and Development. We are developing JC Academy, with the Audit Business Line creating tailored content for our team. We have also invested in our AQRT team, appointing a new Head in January 2022 and continuing to grow the team throughout the year. It is important to acknowledge that we have found the past year challenging, with a significant number of initiatives being progressed by an under-resourced AQRT team due to a general shortage of appropriately qualified candidates. However, we have been able to move forward with key initiatives such as monthly Talking Technical training. We are also delighted to return to an in-person Audit Conference during October 2022 where we will continue to communicate our expectations around audit quality and provide training on critical updates such as ISA 315 (Revised). Recent additions to the team will help us move forward with our International Standards of Quality Management (ISQM) 1 programme. Since joining the Moore Global Network, we have been focused on documenting our quality processes within the Moore Quality Management (MQM) platform. This will be complete in October, before moving onto a gap analysis to ensure we have sufficient controls over all areas required by ISQM 1. We regard this as the start of the journey, with the next phase involving assessing these controls and looking to strengthen where necessary.

Our AQRT team are assisting to deliver another critical project; our system migration to an enhanced audit software platform. This is necessary to ensure we can conduct audits that comply with ISA 315 (Revised) on a supported platform. We have also refreshed our Internal Quality Monitoring programme. We have committed to reviewing every Responsible Individual (RI), every year. This will allow us to continually assess audit quality and provide a feedback loop to the team. This is a significant time commitment, and it has been difficult to deliver due to the significant number of quality initiatives that we are undertaking. As a result, we have taken the decision to supplement our in-house reviews by outsourcing to an external provider, while retaining appropriate oversight by our AQRT team. This will not only allow us to perform a greater number of reviews during the

calendar year, it will also give us a different perspective on areas we may need to improve. As a firm, we acknowledge the importance of continuing to invest in our AQRT team, not only to deliver on the initiatives noted above but to create the necessary bandwidth to continually raise the bar on audit quality.

During the year, as part of the regular inspection cycle, our regulator, the Institute of Chartered Accountants of Scotland “ICAS” conducted reviews of a number of our files. While we are pleased that the vast majority of our files were deemed to be satisfactory requiring limited improvements and we are committed to continuing to improve by addressing common issues identified throughout the internal and external review processes. We have a number of initiatives planned for FY23, including formal root cause analysis training and piloting technology that will allow us to objectively measure culture with a view to taking the appropriate measures to improve.

We have also continued to make progress with our Audit Quality Indicators (AQIs). We recognise that we do not currently have all of the right data to measure our indicators and have continued to work to build a quality dashboard. While there continues to be gaps, we are pleased that the dashboard is now operational, including data on headcount, utilisation, RI portfolios and file archiving now being tracked and reported to our Audit Leadership Group. We are currently considering a business case to invest in a Resource Management platform that will provide us with better data to track certain AQIs, such as the relative split of preparer and reviewer time on engagements. We continue to improve our reporting by focusing on initiatives such as tracking milestones on audits. While we are pleased with the progress made during the year, we recognise that building the dashboard is the first step towards improving results and driving consistent quality across the Business Line.

Finally, Governance is an area that continues to evolve. During FY22, we increased the number of PIEs that we audit to 21. As a result, we are now in scope of the Audit Firm Governance Code. We are reviewing compliance against the Code and have included details within this document. We aim to comply with the code as far as practical and provide clear explanations for any areas we do not feel contribute to enhanced audit quality in the public interest. As a result of our Governance refresh, we have repurposed our Audit Leadership Group and clarified its primary purpose is to focus on audit quality, with operational matters now delegated to a Steering Committee. The Steering Committee are tasked with prioritising initiatives relating to ISQM 1. We will continue to evolve our Governance processes as appropriate.

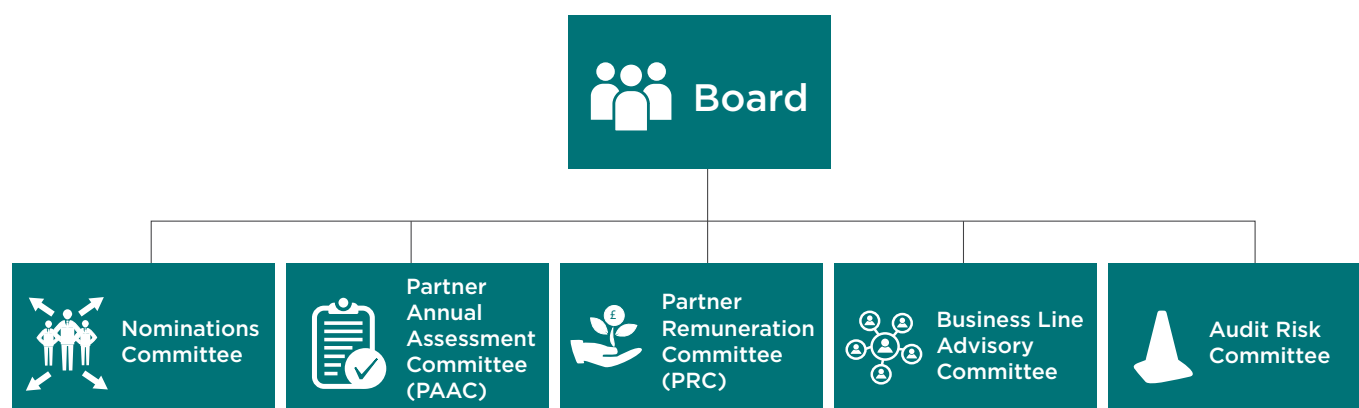
I confirm, on behalf of the Board, that:

- 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.






**Graham Marjoribanks**  
**Head of Audit**  
**30th September 2022**




### 3. Leadership and Governance



The underlying principles of the governance structure remain fixed. However, the Board composition has been significantly augmented in the period, due to planned succession changes and to ensure that Board members have the appropriate experience, knowledge, influence and authority to secure the long-term sustainability of the firm.

Board	Details	Attendance at Board Meetings
 Chair Mark Houston	Appointed as Chair 1st June 2022  Board member since 1st August 2013	100%
 Chief Executive Andrew Walker	Appointed as Chief Executive 1st August 2019  Board member since 1st August 2008	100%
 Vice- Chair Lynne Walker	Appointed as Vice Chair 1st August 2022.  Appointed Head of Business Advisory 1st August 2018.	78% (owing to appointment date)



Board	Details	Attendance at Board Meetings
 Board member Craig MacPherson	Board member since 1st August 2014	100%
 Board member Graham Marjoribanks	Board member since 1st September 2021	78% (owing to appointment date)
 Board member Shaun Millican	Board member since 1st September 2021	78% (owing to appointment date)

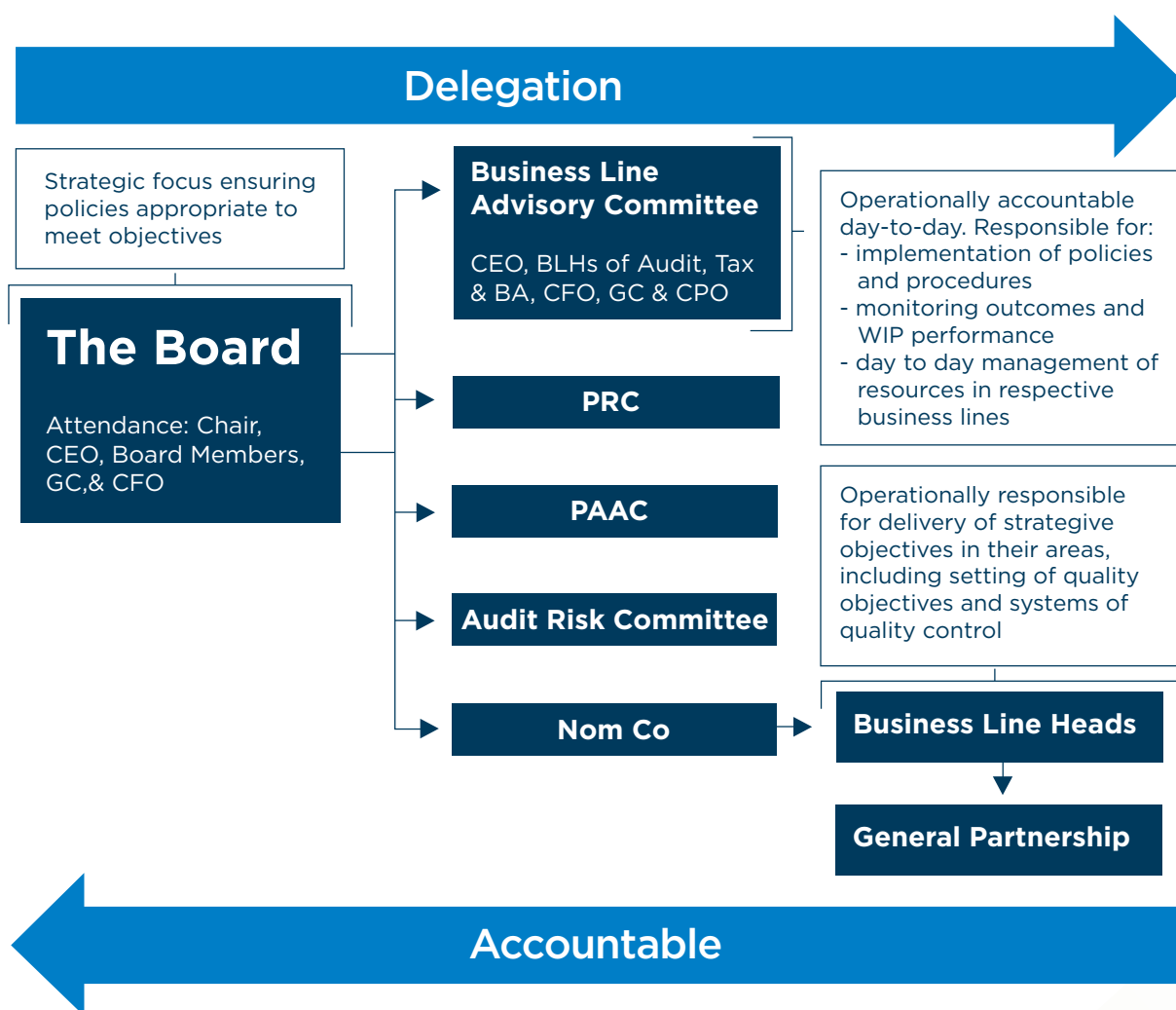
A new Chair, Mark Houston, was appointed to replace outgoing Chair Sandy Manson on 1st June 2022 following a managed transition period. The Chair remains separate to the management structure and in a position to provide effective challenge of management. The Board's terms of reference remain that the role of the Board is to oversee the governance accountability and leadership of the firm, ensuring it is aligned to the vision and core values of the firm. Overseeing the governance of the firm includes accountability for the effectiveness of the risk management arrangements and ensuring the firm acts in the public interest.

Three new Board members were appointed on 1st September 2021:

- Graham Marjoribanks, Head of Audit
- Shaun Millican, Partner, Business Advisory
- Lynne Walker, Head of Business Advisory

All three new Members were subject to an intensive selection process in which they were identified as suitable candidates for the Board based on peer input, their professional standing, skills and experience, quality and suitability for a Board role. Graham Marjoribanks is Head of the Audit practice and therefore is the appointed Board member responsible for Audit Quality. While in theory he performs an Executive function by nature of his leadership of the Audit Business Line, governance of the Audit Leadership Group has been structured to create effective controls and accountabilities of the senior Audit Partners and managers in the business line. Lynne Walker has been appointed as Vice Chair and has an overall responsibility for People & Culture and Shaun Millican has taken on the role of Money Laundering Compliance Principal in the firm.





The Board remains ultimately accountable to the General Partnership by the mechanisms in force under the LLP Agreement which allow for a special majority to expel a member in breach of their duties. The Chief Financial Officer (“CFO”) and General Counsel (“GC”) both remain in attendance at the Board in order to provide independent counsel and challenge from the equity Partners and Designated Members against the risk of firm failure. The CFO and GC independently make recommendations on cash resilience, key risks and professional indemnity matters. A Scheme of Delegation is in operation in conjunction with the system of budgetary control to implement financial controls and financial management authorities and complements the provisions as set out in the LLP Agreement.

Each month a Governance Risk and Compliance (“GRC”) dashboard is produced for the Board to ensure visibility of red rated risks, the number of professional indemnity cases flagged to insurers and those considered “red” owing to quantum or potential level of omission or error, quality assurance undertaken of Anti-Money Laundering risk assessments, Data Protection breaches and Gifts and Hospitality reports.



Key risks considered at firm level include an increased threat of cyber attack and complacency in our trusted advisor status. The mitigations we have enacted as a result include substantial investment in our managed end point detection services and continued focus on quality as a culture across the firm to protect our corporate reputation.





## Audit Firm Governance Code

Throughout the course of the reporting period, we continued to draw upon the Wates Principles in our approach to corporate governance and voluntarily apply aspects of this in our transparency reporting. As we have grown our portfolio of listed and public interest entity audits over recent years, we have been preparing for the point in time when we would come into scope for the Audit Firm Governance Code, and we have looked to this as best practice in developing our governance structure. In the latter part of the year ended 31 May 2022 we have come formally into the scope of the Audit Governance Code 2016 for the first time. We remain cognisant of the strengthening of the provisions under the 2022 Code (which will be applicable from January 2023) and this is informing our thinking towards potential operational separation. We have therefore set out in Appendix I our Statement of Compliance with the Code. However, our progress towards compliance with the Code is ongoing, and in line with the 'comply or explain' approach to reporting on the Code we set out below further explanations in relation to those principles and provisions with which we did not comply in the financial year to 31 May 2022.

## Independent Non-Executives ("INEs")

This year we have closely monitored the increasing number of listed PIE audits and initiated preparatory work in scoping out the remit and selection criteria of potential Independent Non-Executives at successive Board strategy sessions. The role of INEs in external Board and subcommittee evaluation is recognised as of value and would augment the existing internal methods of evaluation. Similarly, the Board have considered the potential value and external perspective that INEs might bring by validating the activity of the PRC and objectively challenging remuneration decisions based on the objective KPI data available.

Committee	Function
<b>Board</b> 	Changes to the Board composition and the transition to a new Chair have allowed for accountabilities to be assigned to Board members for stewardship of those areas. The most recent Board evaluation has highlighted there remains a need to consciously maintain a strategic focus and resist the temptation to delve into operational matters.
<b>Nominations Committee (Nom Co)</b> 	The Nominations Committee consider candidates proposed from across the firm for promotion to Director and Partner level. The Committee acts as the guardian of professional standards and ensuring that the leaders of the firm represent those capable of strengthening trust in the profession, ensuring the future sustainability of the firm and with a keen focus on values led leadership and contribution to the firm. A key area of focus for the Nominations Committee this year has been the adequacy of support for senior candidates which is appropriately tailored to the needs of the individual rather than one size fits all.

Committee	Function
<p><b>Partner Assessment Committee (PAC)</b></p> 	<p>The Partner Assessment Committee continue to gather rounded feedback on individual Partners including but not limited to; quality scores, complaints and PI matters, adherence to ethical and compliance procedures (including AML), risk management, stakeholder feedback, values and behaviours and leadership activity. The PAC acts as a calibration function on assessment to ensure performance evaluations are consistent across the firm. Outputs from PAC can include action on demotion or reallocation of responsibility.</p>
<p><b>Partner Remuneration Committee (PRC)</b></p> 	<p>Partners are remunerated from the distributable profits of the firm. Any over-distribution is recoverable from Partners. The PRC ultimately determine the final remuneration awarded to each Partner, considering the recommendations of the PAC and assessing those findings against each element of the firm's balanced scorecard. Audit Partners are expressly excluded from having any objectives or reward from selling non-audit services and their performance assessment has a greater weighting attributed to audit quality alone. Following FRC feedback, this year, improvements were made to Committee minute-taking to provide greater evidence of the assessment of quality in remuneration decision making and to expressly address where remuneration had been reduced on account of identified quality concerns.</p>
<p><b>(Business Line) Advisory Committee</b></p> 	<p>Given recent changes to Board membership it is likely this committee will be reviewed over the coming year for effectiveness and purpose. The Advisory Committee remains an important mechanism in the operational implementation of quality frameworks across the firm and its cross functional membership is designed to improve harmonised prioritisation and smarter operational decision making by considering thematic operational risks across the firm.</p>
<p><b>Audit Risk Committee</b></p> 	<p>This Committee focuses on the Audit specific risks within the firm including matters of audit opinion, audit client acceptance and continuance and disengagement.</p>

## 4. People, Values and Behaviour



Our core values remain wedded to our identity and despite the period of change we have undertaken as a firm, our engagement with our people and stakeholders suggests these values remain an authentic iteration of established behaviours and skills befitting to a firm of professional accountants and business advisers. The office of the future working groups, which were launched during the pandemic as a focused employee engagement model reviewed the values with mixed groups of our people who confirmed that the existing values framework naturally invoked actionable behaviours and remained meaningful and memorable at every level in the firm, whilst simultaneously consistent with the fundamental principles of professional ethics.

Alignment to our values was an important evaluation metric in our decision to join the Moore Global network in January 2022. Alongside the tangible benefit of pooled resources to nurture our talent from within, the shared sense of common purpose made our accession to the network a compelling proposition. We have committed to the network-wide Social Ambition strategy to deliver positive social impact, with this commitment made publicly by the Chief Executive. The Social Ambition strategy has naturally aligned to the existing programme of responsible corporate citizenship within the firm, emanating from the UN sustainability goals. Our Employee Forum now has an annual action plan against which progress on our governance, social and environmental priorities are tracked and monitored.

“Voicing the values” has been a key theme in our approach to training around dealing with ethical challenges and values conflicts, with employees encouraged to speak up in order to “do the right thing”. These sessions have now been adapted for induction and mandatory compliance training, designed to supplement the existing Whistleblowing policies and embed ownership of risk management at an individual level, by empowering people regardless of grade, to raise concerns and identify routes to do so.

Re-iterating and developing the skills of personal integrity, professional judgment and professional scepticism in our people remains integral to the personal characteristics required of our people. However, in this new and fast developing environment, we realise that our people also require to develop an even deeper knowledge of the business environment, embolden their technological curiosity and cultivate an agile mindset. This has ultimately driven the vision behind our in-house Learning and Development offering via the JC Academy and been enhanced by the direct access to technical expertise across all areas of the firm and through the wider Moore Network.

Our firm has successfully transitioned to a hybrid working environment with overwhelming support of this model from employee engagement surveys. We remain alert to the potential challenges; ensuring that all our people remain visible and connected, with equality of opportunity for future progression in the firm. We aren't afraid to reflect upon our experiences to date to inform future evolution on this model and one area where we have identified the benefits of returning to greater in-person activity is notably Early Careers, where there was tangible downside to a virtual-only experience, particularly in technical training and client skills development.

The importance of wellbeing remains high on the agenda even as we emerge from the pandemic. The reality of professional life can be long hours, competing deadlines and pressures to deliver on time. Alongside externally facilitated sessions on resilience building, practical prioritisation methods and managing time, we have also created a wellbeing risk assessment tool to promote active discussion between our people and line managers centred around the risk factors of demands, control, support, relationships, role and change.

We continue to make significant investment into our People function. A benchmarking exercise of salary and benefits was commissioned externally to better inform retention and remuneration strategies below Partner level. Following feedback from our graduate intakes in the preceding two years where on-boarding was virtual, we have invested in further development of our HR systems to ensure pre-employment vetting checks are undertaken electronically earlier in the recruitment process and the induction training has been phased over the probation period to maximise absorption, particularly of important ethics and mandatory compliance training. Mandatory annual training on AML, Data Protection & Information Security and Health and Safety continues to be tailored annually in mixed media format to target areas of identified improvement and avoid repetition.

Prior year activity around strengthening our equity, diversity and inclusion in the workplace and standardising performance appraisal, to baseline an ethos of meritocracy is beginning to reap reward. Monitoring data exhibits we are attracting greater diversity from a wider pool of talent, including beyond our immediate office footprint alone. We will continue to focus on ensuring our equality monitoring activity is improved to be able to objectively measure and evidence our progress in the wider public interest. In the interim, we are pleased to note that our gender pay gap results for 2022 show a noticeable improvement over the past two years and the gender balance for the first time now illustrates 59% of our workforce is female, laying the foundations for a talent pipeline to leadership positions.

## 5. Quality and Risk Management

		LIKELIHOOD				
		1 Highly Unlikely	2 Unlikely	3 Possible	4 Likely	5 Highly Likely
IMPACT	5 Major	Minimalist	Cautious		Hungry	
	4 Significant			Open		
	3 Moderate					
	2 Minor	Averse				
	1 Negligible			Minimalist		

Five levels of risk appetite:

- Averse** - avoidance of risk and uncertainty is a key objective.
- Minimalist** - preference for ultra-safe business delivery options that have a low degree of inherent risk and only have a potential for limited reward.
- Cautious** - preference for safe delivery options that have a low degree of residual risk and may only have limited potential for reward.
- Open** - Willing to consider all potential delivery options and choose the one that will result in successful delivery providing a suitable level of reward.
- Hungry** - Eager to be innovative and to choose options offering potentially higher business rewards, despite greater inherent risk.

Since establishment of a GRC function in 2019, there has been continued focus on effective risk management across the firm as a means of ensuring operational resilience. Risks are identified against a scale of impact and likelihood of occurrence in order to determine whether they are within, or out-with appetite and appropriate management measures put in place to bring risks within tolerance. The Board, working alongside Business Lines, has spent significant time identifying the firm's risk appetite under each risk category in order to ensure that the risk framework is well communicated and understood in the wider firm. Each Business Line is responsible for maintaining a risk register with quarterly progress meetings undertaken with the Head of Risk to provide independent challenge on identifying risks and progress against mitigating actions. Reporting is provided on key risks and thematic issues arising across Business Lines to the Board at every meeting. Strategic risk assessment at a firm level is undertaken as an exercise with the Board and Head of Risk at the twice-yearly Board strategy sessions.



Since last year, we have used our risk management framework to identify quality risk objectives for each business line and augmented quality metric data collection across the firm. The purpose is to ensure the quality risks are known, mitigated and adequately managed. This is designed to apply the principles of ISQM1 to business lines beyond Audit alone and ensure the focus on quality permeates the whole firm rather than be specific to Audit. Currently an app is under development for Quality Assurance processes to be rolled out digitally and follow up actions tracked, to allow for ease of collection of individual's quality scores as a baseline metric in the appraisal process and ensure overall visibility of quality management across the firm.

### **ISQM 1 implementation in Audit**

In the Audit Business Line, the transition towards quality and risk management has been acute given the requirement to make the transition from International Standard on Quality Control (ISQC 1) towards the new risk-based approach under International Standard on Quality Management (ISQM 1).

With ISQM 1's effective date (15 December 2022) imminent, it is no surprise that our System of Quality Management (SoQM) has been a key area of focus over the last year. The new Quality Management Standards have given us a framework to assess progress on quality and a roadmap towards full compliance.

ISQM 1 has been a catalyst for change, prompting us to undertake a grass-roots review of the audit business and quality-related risks, as we explained last year. In the current year, it has provided impetus to the strategic audit quality initiatives that we have identified in response to the quality risks that we have on our radar.

In developing and refining our SoQM we have been able to leverage the investment that the Moore Global Quality team have made in developing a bespoke platform, the Moore Quality Management Tool, in which network member firms can document their own objectives, risks and responses to a consistent ISQM 1-compliant standard. We chose to be 'early-implementors' of the MQM system which was made available to us towards the end of the reporting period.


Since then, our efforts have been focused on capturing all the outputs from our preparatory work and documenting these within the platform. Once this exercise is complete, we will be in a position to perform a gap analysis to identify remediation responses that will either need to be put into effect before the 15 December or will form part of our ongoing quality improvement programme.





While our minds are currently focused on the deadline to have our SoQM in place and documented by the end of the year, we are fully aware that this will not be the end point, but rather a key milestone on the road to continuous improvement. As our audit business and the environment in which we operate evolve, so too must the infrastructure that provides the foundation to our audit quality. Within this year's report we have therefore set out both the key steps already taken and the further actions we plan to take.

## 6. Audit Team Governance



The Audit Leadership Group (“ALG”) is responsible for providing independent oversight of the audit practice, with a focus on improving audit quality by ensuring that audit practitioners are focused on delivery of high-quality audits. The Audit Steering Group is responsible for delivery of operational initiatives and is accountable to the ALG. Each member of the ALG acts as a sponsor for operational initiatives that promote audit quality.

Risk	Mitigating actions
<b>ISQM 1 implementation</b> 	<p>With the impending deadline for December implementation of ISQM 1 near, key milestones have been identified to manage the final stages of the implementation process. An Operational Lead has been appointed to relaunch the quality monitoring programmes which incorporate the AQIs and update our audit processes. Beyond the immediate implementation phase, there will be an enduring and systematic approach of ongoing iterative improvement that will be overseen by the ALG.</p>

Risk	Mitigating actions
<p><b>Evolving skills need for Audit resource</b></p> 	<p>We recognise the evolving nature of the audit profession and the need to future proof skills and capability training, particularly into Early Careers level. A skills matrix has been developed for each person to include details of specialism. This is being used as a tool in identification of the resource for assignments and monitoring progress in capability development. Generic skills such as project management now form part of the core training programmes for auditors in addition to technical skills training. A greater emphasis is being placed on continuous ethics and judgement training and validation to ensure these practices remain at the core of every audit professional and using precedent examples to assist in future decision-making logic.</p>
<p><b>Scarcity of high-quality audit resource</b></p> 	<p>As our practice grows, our need for high quality resource becomes greater. There is undoubtedly a skills shortage in the market and in the short term we have augmented our internal teams with resource from the Moore Global Network while investing in a longer-term strategy of growing talent by bringing in a greater number of students to match the Audit strategy and growth plans, factoring greater time for coaching and mentorship in our strategic planning. Retention strategies remain an important mitigation against regretted attrition and the ongoing work on culture, engagement and continuous development of our people acts as a two-pronged exercise to augment quality and retain our people while also ensuring audit remains an attractive career prospect.</p>
<p><b>Relevance of software platforms</b></p> 	<p>Ensuring existing audit software platforms remain fit for purpose requires timeous version upgrades and ongoing controls review. We are equally keen to minimise the incidence of manual workarounds which create greater opportunity for error. Evaluation of alternative software remains an ongoing task to ensure that the technological tools we use support audit quality and remove inefficiencies.</p>
<p><b>Regulatory reform</b></p> 	<p>Ongoing uncertainty remains unhelpful in terms of strategic planning, but we have undertaken significant analysis at both ALG and Board level of the potential impacts and outcomes of audit reform in order to create readiness. We plan to engage promptly with ARGA as a regulator and stakeholder</p>

## 7. Audit Quality



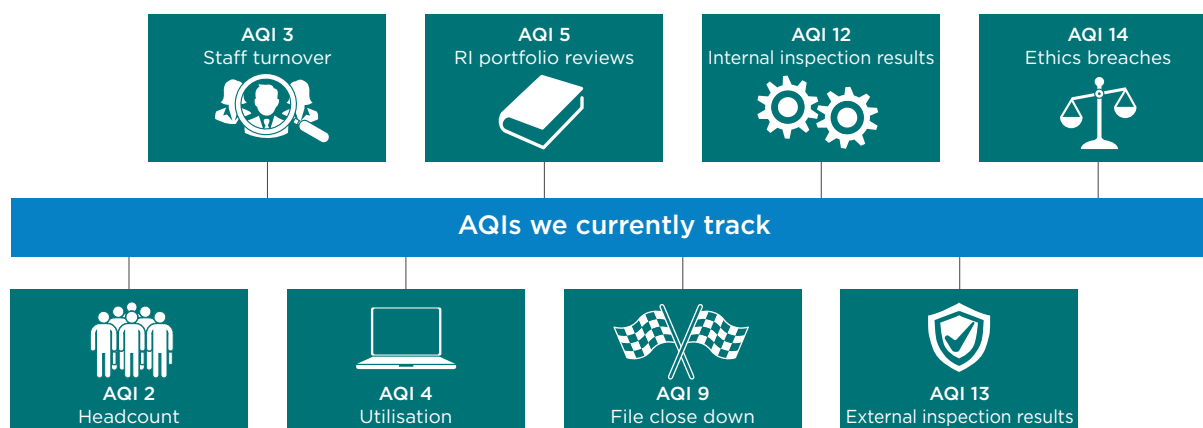
Source: <https://www.ifac.org/system/files/publications/files/IAASB-ISQM-1-Fact-Sheet.pdf>

ISQM1 consists of eight components as identified above that operate in an iterative and integrated manner. The over-arching quality objective for the Audit team is to ensure we deliver effective, quality audits that follow the highest ethical and professional standards, proactively managing risks. To do this, we follow these strategic objectives:-




- Attract, retain and recruit the right people, provide the right training and support, in a collaborative and supportive learning environment underpinned by an embedded AQRT team
- Create and maintain a culture that engages and retains people with growth orientated feedback
- Ensure longevity of our business through delivering sustainable strong margins
- Strengthen and grow in our current industry sectors
- Achieve and maintain outstanding client service
- Embed technology in our audit processes










## Audit Quality Indicators (AQIs)

During the year, our Audit Leadership Group defined AQIs based on guidance issued by the FRC. These are noted below and are under development while we build out the data in order to report on these consistently and accurately. Each AQI is noted as being leading, lagging or in-flight. There is a defined process owner and monitoring period along with actions required to build out any data gaps to ensure we can obtain accurate reporting as quickly as practically possible. It is intended that this reporting forms a basis for remedial action to improve our results; indeed, we are delighted to report that we have noted meaningful improvements throughout the pilot stage.



At the moment, we can track headcount (AQI 2), turnover (AQI 3), utilisation (AQI 4), RI portfolios (AQI 5), file closedown (AQI 9), internal and external inspection results (AQI 12 and 13) and ethics breaches (AQI 14). We are working to improve the underlying data, which will be done through various data and technology issues. We have recently appointed a CIO who is helping with our data architecture to streamline and automate these processes as far as possible. We are also reviewing business cases for external technology providers that are able to assist with certain AQIs around budgeting and forecasting. While we can track certain data and will continue to build out a dashboard, we do not intend formally reporting AQIs to the Audit Business Line until we have tested the accuracy of the reporting.

Ref	Title	Description
1	<b>Time spent – manager and RI</b> 	Manager hours on non-listed entities should be no less than 15% of overall hours budgeted and RI hours should be no less than 5% of overall hours budgeted. For listed entities, Manager hours should be not less than 20% of overall hours budgeted and RI hours should be no less than 10% of overall hours budgeted.
2	<b>Staff headcount</b> 	Staff headcount for each financial year is in line with budgeted head count.
3	<b>Staff turnover</b> 	Staff turnover does not exceed targets agreed by Audit Leadership Group on an annual basis

Ref	Title	Description
4	<b>Utilisation</b> 	Audit Business Line staff are working no more than 2,100 hours p.a
5	<b>RI Portfolio Reviews</b> 	RI portfolios do not exceed £1,500,000 of audit fee income
6	<b>Training</b> 	All qualified staff will receive a minimum of 40 hours of training p.a.
7	<b>Training</b> 	90% of students pass case study work carried out as part of training courses. Where students have failed, support in areas needed is put in place within 1 month.
8	<b>Milestones</b> 	Audit planning is signed off before fieldwork starts. Manager review takes place within 2 weeks of fieldwork completion. RI Review takes place within 4 weeks of fieldwork completion. Audit cycle completed within 12 weeks.
9	<b>File close down</b> 	Audit files are closed down within 30 days of sign off.
10	<b>Prior Year Adjustments</b> 	Prior Year Adjustment required that does not relate to change of accounting policy or financial reporting standard.
11	<b>Monitoring of higher risk clients</b> 	RI portfolio is made up of less than 30% of higher risk clients.
12	<b>Internal Inspection Results</b> 	No Audit files within the improvements required and significant improvements required categories.



Ref	Title	Description
13	<b>External Inspection Results</b> 	External inspection concludes that there are no systemic or serious issues within the firm.
14	<b>Ethics Breaches</b> 	No ethical breaches recorded on audit files .
15	<b>Internal 2nd RI Reviews</b> 	2nd RI sign off completed before signing of financial statements.
16	<b>RI Quality Ratings</b> 	Minimum of a grade '3' given for quality at Audit RI level.

### Relevant ethical requirements and Independence

The firm's Ethics Policy requires all members of staff to comply with the ICAS Code of Ethics. The firm also has a separate Ethics policy applicable to all services to audit clients. All new partners and staff are required to familiarise themselves with our ethics policies. In addition, ethics training is a mandatory element of our audit graduate induction training programme. Partners and staff are expected to always consider their independence and in particular prior to commencement of any work on an audit client. A financial interest in an audit client is prohibited. Audit partners and staff are also required to comply with the FRC's Ethical Standard which includes additional Ethical considerations for teams involved with the audit of Public Interest Entities.

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) must be alerted for a risk consultation. During the past year, the firm has also established an Ethics Panel to allow for consultation on complex or judgemental ethical matters. The Ethics Panel will typically be comprised of the Ethics Partner (or his deputy), the Head of Audit and the Head of GRC.

In addition to pre-employment vetting, all partners and staff must complete a mandatory fit and proper questionnaire on joining the firm. The questionnaire contains a series of questions designed to identify potential conflicts of independence, assess risks to financial integrity, reliability, fitness and propriety of the employee in question. If any changes occur during the year partners and staff are expected to report such matters to the Ethics Partner as and when they arise. This is supplemented by an annual fit and proper digital questionnaire process to ensure that all partners and staff annually reconfirm any actual or potential ethical conflicts or risks are positively confirmed.

The AQRT oversees that the rotation of key audit staff on all of our Public Interest Entity Audits (PIEs) and listed audit assignments occurs at the appropriate time.

## 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.

The firm's policies require that, for an audit client, the Audit Responsible Individual must approve any proposed non-audit services before engagement and acceptance. In the event of any question over whether the non-audit service should be accepted the firm's Ethics Partner should be consulted.

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

As a Moore Global member firm, we also update the network's Copernicus Database with details of all our PIE or other listed clients or any clients with a PIE or other listed entity in the group. Prior to accepting a service on a PIE, other listed client or a client with a PIE or other listed entity in the group we must check this database. This is accessible to all Moore Global 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 are required to rotate. With our aim to promote audit quality we 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. Their training needs are considered and resolved before their involvement with the assignment commences. For our other clients, long association independence threat is mitigated by a maximum period of appointment for RIs of 10 years subject to a two-year transitional period (on implementation of this Policy in 2021) where an ethics review by another RI is undertaken. An exemption is available whereby tenure may continue beyond 10 years, other than through the transitional period, but only with the approval of the Ethics Partner and not beyond a maximum 15-year period. This exemption is only expected to be used in exceptional circumstances such as on a specialist audit where an especially high level of technical knowledge is required to lead such an audit, provided that the Ethics Partner is satisfied that the long association risk is effectively mitigated.

## Acceptance and continuance of client relationships and specific engagements

The firm has a detailed Client Take On ("CTO") process that must be followed before accepting a new client. At the heart of this, is a risk-based approach to knowing the client and consciously addressing and mitigating issues of concern within the firm's established risk appetite. The procedures have been designed to ensure that all staff follow the correct processes for client identification, independence/conflict assessments and to ensure 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. This also acts to ensure compliance with the FRC Revised Ethical Standard 2019 and providing clients with non-audit services too. Quality assurance sampling of completed risk assessments is undertaken monthly by the GRC team.

Assuming a client passes through the initial triage of CTO, the next stage of this acceptance criteria is ensuring work is appropriately priced, based on appropriately qualified personnel and adequate wider resource allocated, according to the risk level of the client. Whilst this presents its own challenges in a competitive marketplace, as a firm we will not compromise on quality, regardless of price. Risk assessments are reviewed by the client relationship manager on at least an annual basis in order to assess continuance.

In addition to the firmwide processes, where it is an audit engagement, an additional client risk assessment memorandum requires the team to evidence consideration of the specific audit risks the assignment poses, such as significant judgemental accounting and adequacy of resource to maintain the quality of audit. The Head of Audit, or delegate, reviews the memorandum, and confirms ultimate approval. For PIE and listed audit assignments, CTO approval is required from both the Head of Audit and the Audit Compliance Partner. In cases where the risk profile is considered particularly high, approval is required from the firm's Audit Risk Committee. In the past year there have been occasions where work has been declined as the risk level was deemed out with the firm's risk appetite.

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 and listed companies, our conflict checks now also extend across the Moore Network.

Once the firm has accepted the new client, or a new instruction arises from an existing client, an Engagement letter is issued which contains our standard terms and conditions, a description of the scope of engagement and details of the services we will perform. 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.

During the year, we initiated a risk review of our client portfolio with subsequent actions including repricing or disengagement. This process will continue throughout FY23 and beyond by development of a formal risk rating for our clients. We have also initiated a more qualitative approach to risk management through consultation with our RIs to identify and mitigate risks within our client portfolio.

## Engagement performance

A number of our AQIs are aimed at monitoring performance at engagement level, such as:



milestones – targets for timely completion of audit planning and completion procedures.



file close down – targets to ensure that files are archived well within the timescales specified by the standards.

as well as results of internal and external monitoring reviews.

Areas of focus in supporting the consistent delivery of quality audit engagements have centred on:

- Direction, supervision, review and consultation procedures.
- Development of resources (guidance, tools, templates and training) to help audit teams exercise professional judgement and scepticism.

We are currently reviewing the Engagement Quality Reviewer ("EQR") role to reflect the requirements of ISQM 2. This will entail refining the role profile, updating our policy and developing practical application guidance. We will also be developing an audit risk categorisation framework to identify those audit engagements where an EQR is considered an appropriate control measure to address audit quality risks, and those where other responses may be more appropriate.

In common with many other firms of a similar scale, we source our audit methodology from a third party, as delivered through an audit platform licensed through a software provider. We are cognisant that as we move towards working with increasingly complex and/or higher risk audit clients, there is a need to continually assess whether this solution meets our needs, and we are developing a suite of workpaper templates and guidance to supplement the predominantly check-list based approach in the audit software in order to help our auditors to evidence their critical thinking, judgements and challenge.

## Resources

The requirement to keep pace with changes in professional and financial reporting standards, legislation and regulation means that all of our audit professionals must be specialists, rather than generalists. A large majority of our audit practice comprises specialists and we have a transition plan to ensure we become fully specialist in the medium term.

Professional judgement sits at the heart of auditing today. The ability to think critically, challenge constructively and maintain objectivity and scepticism are core skills that we look to foster in all our audit professionals, together with the expertise to navigate complexity, cut through the detail and get to the crux of an issue.

### Audit quality, risk and technical (AQRT) team

We have continued to expand our reach within the public interest audit space, as well as working with increasingly complex, privately-held clients, and this has placed increased demands on our central technical capabilities.

Recognising the need for our AQRT team to be appropriately resourced and respond to the changing needs of the business line, a new Head of Audit Quality, Risk and Technical was appointed in January 2022 with a remit to build a team with the requisite skills, expertise and experience to help deliver the audit quality agenda.

There is no doubt that recruitment in the current audit market is highly competitive, and permanent recruitment into technical roles is even more challenging within narrower pools of talent. Continuing to offer flexible practices such as remote working has secured us access to the wider UK market, and we have also leveraged our membership of the Moore global network to help us reach further afield to secure a new permanent technical manager who will be joining us later in the Autumn.

Given the current market conditions, increasing technical headcount alone has been identified as insufficient. AQRT recently welcomed a secondee from the audit practice into the team and it is envisaged that this will become a rolling secondment programme, which will provide shorter term resourcing capacity but also develops the technical skills of those involved in the programme, who will return to operational roles with greater breadth and depth of expertise.

A new compliance administrator has been appointed to supplement support to the wider team and this has freed up technical personnel time. We have also developed a model for delivering audit and analytics software support into the local audit practice through a network of practitioner 'Champions'.

### Resource management

In the last year we have introduced a centralised Resource Management Team and continue to expand this function in line with the growth and development of the Audit Business Line. This team has full oversight of Audit resourcing and engagement budgeting, therefore ensuring that we have the right number of people, assigned to the right audit engagements at the right time.

The centralised approach has allowed us to move to a cross-Business Line approach allowing movement of staffing between key engagements, unrestricted by home office location, and ensuring we leverage capacity in line with client needs. The movement to a Business Line approach and centralised Resource Management department has improved the focus on audit quality and created greater agility to respond to peak periods and higher risk audit engagements.

A twice-yearly budgeting process is now in place which allows the Business Line to plan resourcing requirements and review engagement economics up to 12 months in advance. This has supported a move to a forward-thinking approach to planning, while having the ability to adapt quickly and efficiently to short-medium term changes.

The team has also introduced a number of new processes and procedures to ensure the smooth running of audit engagements and assist in leveraging capacity and enhancing team development. This includes utilisation reporting, outsourcing of iXBrl activities, leveraging capabilities within the Moore network and management of all non-chargeable time. These initiatives have facilitated the training and development of our students as well as the creation of sector specific engagement teams in three sectors; Energy, Infrastructure and Sustainability, Financial Services and Charities.

## Technology

The pace of change and technological advances are such that any new investment in audit software needs to be evaluated not just against our needs today but looking towards future horizons. We maintain an active dialogue with software providers to understand the direction of their own development projects as the profession moves further towards digital audits.

Our more immediate priority, however, is to upgrade our existing software to a version that the provider will continue to support and update for changes in auditing standards for the foreseeable future. This project is time critical due to the need to ensure that our December 2022 year-end audits are ISA 315 Revised compliant.

## Monitoring and remediation

### Audit Quality Monitoring Programme

Last year we identified the need to refresh our Internal Quality Monitoring cold file review process. Leadership changes in our quality team resulted in a delay to the relaunch of the programme, which was exacerbated by additional delays as we sought to align fully to the Moore Quality Monitoring programme to meet our Network obligations.

We have now chosen to extend the scope of the review programme to include all active RIs in the current calendar year – one file will be reviewed for each RI. Where the RI undertakes higher risk audits (eg PIEs and other listed entities) the file selected for review will be for one of these audits. The purpose is to establish a baseline across the whole RI population which will then inform the focus of the programme going forwards. Irrespective of the initial baselining exercise, it is intended that all RIs undertaking PIE and listed audits will continue to be reviewed on an annual basis.

The grading system mirrors that used by both the FRC and ICAS in their reviews. Files graded a 1 (good) or 2a (limited improvements required) are considered a 'pass'. Files graded a 2b (improvements required) or 3 (significant improvements required) are considered a 'fail'. The review documentation feeds into a summary report for the RI where narrative descriptions are included to highlight both quality findings and examples of good practice.

A programme of this scale is resource intensive and, given the number of priorities on which our AQRT team is focused, we took the decision to outsource a number of file reviews to an external service provider. This additional resource will ensure we are able to deliver the full review programme by the end of the calendar year as planned.



Having completed the cycle of file reviews, we will perform root cause analysis (“RCA”) on the key findings to build out our action plan to address these. We are working with an external provider to develop our internal expertise in RCA given prominence as a requirement under ISQM 1. Together with findings from external monitoring reviews, and feedback from EQRs, RIs and the wider audit practice, this will continue to inform our programme to develop the targeted learning, guidance, tools and templates to help our auditors raise the quality of their audit engagements.

## External monitoring

### ICAS

The outcome of our 2021 ICAS monitoring review was positive overall and we were pleased with the progress made in terms of the proportion of files receiving a ‘2a’ grading (generally acceptable but limited improvements required). 11 of the 15 files reviewed received this grading. However, we are not satisfied with the results, which fall short of our internal AQLs. We have taken action, which includes disengagement from clients, follow up reviews of both RIs and files that fell short of expectations and, in one instance, removal of RI status. We believe these actions show our commitment to continually improving audit quality.

There remain areas where we need to deliver improvements, and we have an ongoing plan of action to address these. We continue to maintain a dialogue with ICAS as to the progress that we are making with these actions overseen by the Head of Audit.

### FRC

As a Tier 3 Firm we are currently subject to a quality monitoring review from the FRC on a six-yearly basis and their last report was issued in March 2021. This report too was broadly positive but areas for further focus were identified. During the last year, we have had regular communication with the FRC who have made various information requests to satisfy themselves that we are making progress with the actions we have committed to.

As the FRC moves towards becoming ARGAs, following on from the BEIS consultation, we are seeing greater proactive engagement from the FRC in between our monitoring reviews. We view this as a positive development, enabling us to have a constructive dialogue with the Regulator at an earlier stage on the actions we are taking to further improve our audit quality.

## PIE Auditor registration

We have engaged with the FRC’s outreach and consultation programme, attending the series of roundtable meetings aimed at informing Tier 2 and Tier 3 Firms as to what the process and documentation requirements would be. Now that the regulations have been published, we will be completing our application for registration of both the Firm and the RIs who will be signing PIE auditor reports under the transitional process.



## 8. Learning and Development

Over the past three years, the firm has overhauled our approach to Learning and Development with the creation of the JC Academy, providing comprehensive training towards ongoing professional qualification and development through a suite of technical, professional and leadership training and skills growth, designed to create a supportive learning environment for skills needed of the modern professional. Our accession to the Moore Global Network has expanded further access to wider training initiatives and added depth to the sectoral expertise.

The expertise and competence of our audit professionals underpins audit quality and as such learning and development is a cornerstone of our System of Quality Management. To maintain quality standards, our people must remain current and relevant, and this is embedded in the firm's core values.

In an ever-changing landscape we are more conscious than ever of the need to ensure that our auditors keep themselves up to date on technical developments, whether relating to audit, financial reporting, ethics, legislation and/or regulation.

As a professional services firm, all our people are expected to keep their Continuing Professional Development ("CPD") up to date as part of their professional practice obligations and this is monitored via the firm's objective setting and performance management processes, in line with ICAS requirements. A discrete training log is now available digitally to allow for ease of capture. This year we have also enhanced our policy to require completion of a formalised CPD plan by all individuals working within Audit who hold a professional qualification. A template form is available for this purpose and requires sign-off by the individual's line manager before being lodged centrally for monitoring purposes.

In Audit, as a baseline, all staff are trained against International Education Standard 7 and our internal training ensures that all RIs meet the requirements of International Education Standard 8.

The Covid-19 pandemic forced our learning and development activities almost exclusively online, and we have learned from this that there is a place for online learning, with the flexibility that this can bring and the opportunity to deliver 'on demand' training to individuals at the point in time when they need it.

**In the year to 31 May 2022, we delivered all the following mandatory (for audit professionals) training live online (with recordings available for those unable to attend):**

- 1) June 2021 ISA 540 workshop (auditing estimates)
- 2) June 2021 Financial Services Audit and Assurance technical session
- 3) Sept 2021 PIEs and Listed Companies specialists training (included sector specific sessions)
- 4) October 2021 Audit Conference (focus on Audit Culture) modular event over the course of a week
- 5) Nov/Dec 2021 Audit forum (audit and financial reporting technical updates)
- 6) February 2022 Audit regulatory update
- 7) February 2022 EIS refresher training for PFI specialists
- 8) March 2022 Auditing pensions – understanding actuarial assumptions (for corporate auditors)
- 9) March 2022 – pensions team audit training
- 10) Apr 2022 Audit forum (auditing cash flow statements, pension assets, opening balances; ESG and climate-related disclosures)

In May 2022, we held our inaugural Talking Technical session. The success of this has now evolved to a monthly one-hour TEAMS call which gives us the opportunity to deliver 'bite-sized' technical learning on a more iterative basis. These sessions have been the vehicle for our 'Unpicking ISA 315 revised' series which introduces the new concepts and requirements that audit teams will need to apply for the December 2022 planning cycle.

Notably, the desire to return to in-person events as an antidote to 'zoom fatigue' is evident across the audit practice and a hybrid approach to learning is our favoured approach going forwards.

Feedback on the early careers training became an opportunity to completely refresh our early careers learning pathways. This involved a wholesale review of our existing learning content, combined with an assessment of the knowledge, skills and expertise that our students require as they progress through their training contracts. The programme launched with a face-to-face induction event which welcomed 80 new joiners to the Firm in August. In future, our students will access timely ongoing learning through both classroom-based events and on-demand webinars.

Planning is also well underway for our Audit Conference in October and Autumn Forum Roadshow in November, both of which will be live in-person events which will bring the whole audit practice together.

## 9. Corporate and Social Responsibility



Our vision as a firm is to be the firm of choice in all markets with trusted advisors, famous for their expertise and the quality of our work. To succeed in this vision, we require to be an inclusive and diverse employer, reflecting the needs of our varied client base and benefitting from the diversity of perspective that an inclusive workforce brings. As a firm founded on “doing the right thing” as a core value, we are seeking to embed an integrated programme of responsible corporate citizenship, aligned to the UN sustainability goals and in keeping with the Moore network’s ambition to deliver positive social impact.

Our role within local communities remains an important feature of our identity. As we transitioned to a hybrid working environment, one concern was whether this would lead to a detrimental impact on our connection and support of those communities. To counter this, the Office Head for each office remains an important conduit and we continue to be committed to leveraging local educational establishments to support our JC Futures programme and alternative routes to the profession, where Johnston Carmichael supports the training of these individuals towards professional qualification. This year alone a third of our training contracts were provided to JC Futures students. The availability of blended learning opportunities in our JC Academy training programmes remains a commitment of the firm to maximise accessibility to all our people. Continued social mobility data monitoring allows us to reflect on retention rates of JC Futures employees and target tailored support measures to support progression towards leadership positions in the firm.

This year we have committed £5k to the Moore Kingston Smith Community foundation for Ukraine and £6k to the Disasters Emergency Committee. As a firm, we have also undertaken to sponsor Netball Scotland in sum of £25k, promoting women in sport as part our wellbeing initiatives. We have maintained our gold status sponsorship of the Kiltwalk.



### SUSTAINABLE DEVELOPMENT GOALS 17 GOALS TO TRANSFORM OUR WORLD



A copy of the firm's most recent Gender Pay Gap report can be found on our website. <https://johnstoncarmichael.com/gender-pay-gap-reporting>

The firm's ongoing commitment to ethical operating practices including the prevention of modern slavery in our business and our supply chains continues via our due diligence of new suppliers and annual modern slavery attestation from existing suppliers. We have revised our internal training programmes to ensure that the links between modern slavery and our Anti-Money Laundering obligations are well understood as part of our professional role in the eradication of financial crime. The firm most recent Modern Slavery Statement can be found on our website. <https://johnstoncarmichael.com/%20modern-slavery-statement>

We remain cognisant of minimising the environmental impact of our corporate activities and this has served as an important guiding principle of our future office footprint, how we minimise unnecessary business travel, achieve energy efficiency and reduce wastage as a firm. This has also informed some of our charitable activities over the course of this year. A copy of our [Environmental and Sustainability Statement](#) is available on our website.

## 10. 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 around 823 staff and 56 partners over 13 offices.

### Business line and industry specialisms



## Locations and people



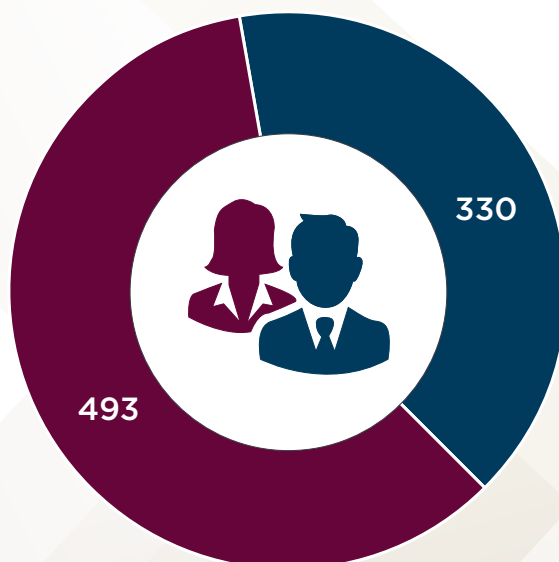
**56** Partners and **823** staff

Over **16,000** clients

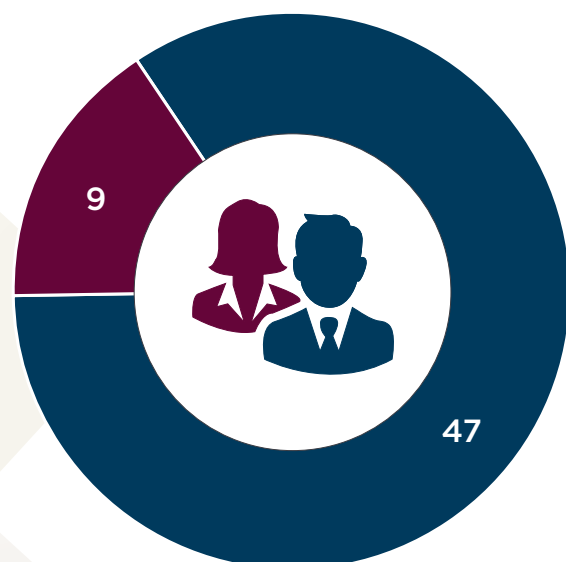
Strong expertise in **14** sectors

across **8** specialist services

Staff



Partners





## 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 September 2022 by its 53 (2021: 52) equity partners. There are an additional 3 non-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 is the service company of the group and the entity through which staff are employed.

### Regulation

Johnston Carmichael is registered to carry on audit work in the UK 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 0274. As at 31 May 2022 14 (2021: 14) partners and 8 (2021: 10) employees had Responsible Individual (RI) status granted by ICAS. 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 limited range of investment business activities under the terms of this license.

Johnston Carmichael is licensed to act as an insolvency practitioner 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. Johnston Carmichael also has FCA registration in respect of its debt advisory work as a Continuing Money Advisor (FRN 809465).

## 11. Public Interest Entities

During the year to 31 May 2022, the firm expressed an opinion on the financial statements of the following entities that currently meet the definition of a Public Interest Entity (PIE):

Artemis Alpha Trust plc  
 Blue Planet Investment Trust plc  
 By Chelmer plc  
 Catalyst Healthcare (Manchester) Financing Plc  
 Consort Healthcare (Mid Yorkshire) Funding plc  
 Consort Healthcare (Salford) Plc  
 Discovery Education plc  
 Dudley Summit PLC  
 Dunedin Enterprise Investment Trust plc  
 EP Global Opportunities Trust plc  
 Highway Management (City) Finance plc  
 HpC Kings College Hospital (issuer) plc  
 Healthcare Support (North Staffs) Finance Plc  
 InspirED Education (South Lanarkshire) Plc  
 Mid Wynd International Investment Trust Plc  
 Peterborough (Progress Health) plc  
 ScotGems plc  
 Summit Finance (Wishaw) plc  
 SVM UK Emerging Fund plc  
 The Scottish Oriental Smaller Companies Trust plc  
 Worcestershire Hospital SPC Plc

We have also been appointed as auditor to the following entities and will express our audit opinion on these in the year to 31 May 2023:

Aberdeen New Dawn Investment Trust plc  
 Aberforth Smaller Companies Trust plc  
 Annes Gate Property PLC  
 Consort Healthcare (Blackburn) Funding plc  
 Consort Healthcare (Tameside) Plc  
 Exchequer Partnership plc  
 Exchequer Partnership (No 2) Plc  
 JP Morgan Japan Small Cap Growth & Income plc  
 RMPA Services PLC

### Financial Information (Group)

	Year ended 31 May 2022	Year ended 31 May 2021 £000	Year ended 31 May 2020 £000	Year ended 31 May 2019 £000
Revenue from audit work for PIEs and subsidiaries of PIEs	1,547	890	457	311
Revenue from audit work for other clients	13,157	10,287	8,933	8,237
Revenue from non-audit services for audit clients	5,506	5,738	6,724	5,717
Revenue from non-audit services for non-audit clients	41,682	37,668	35,277	35,022
<b>Total</b>	<b>61,892</b>	<b>54,583</b>	<b>51,391</b>	<b>49,287</b>

## 12. International network



**Andy Armanino,**  
**Chair of Moore Global Network Limited**



Johnston Carmichael is member firm of Moore Global Network Limited<sup>1</sup>, a global audit, accounting, and consulting network with 30,218 professionals spread across 114 countries.

Moore Global member and correspondent firms have a combined global revenue of \$3.654 billion. Membership is regulated by contractual agreement.

Moore's purpose is to help our people, our clients, and our communities thrive, and this includes of our member firms. Our firms are independent businesses, but our network allows them to access further specialist resources, support, expertise, and technology. Our shared resources enable firms to offer client solutions on a global scale, collaborate across sectors and service lines, and develop the next generation of leaders.

A strategic plan, led by the Moore Global Board, sets the goals for the network over the next two years.

The key areas of focus are:

- alignment of member firms with the same core values and quality obligations, including network review and learning and development programmes, and a focus on developing our young leaders;
- a global growth strategy supported by a business plan bringing clear, defined and focused objectives;
- a focus on innovation to support member firms embrace technology;
- offering increased value to our firms through collaboration, communication, and transparency; and
- Social Ambition - our network-wide strategy to deliver positive social impact in all that we do

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<sup>1</sup> Moore Stephens International Limited changed name to the Moore Global Network Limited on 9 September 2019

## Appendix 1

Firms located in EU/EEA member states that performed statutory audits and were members of Moore Global during the period 01/01/2021-31/12/2021

Country	Town	Firm Name
Albania	Tirana	Moore INTER B.B.K – Auditing sh.p.k*
Austria	Amstetten	Inter Wirtschaftsprüfungs GmbH
Austria	Graz	MOORE BG&P Wirtschaftsprüfung GmbH
Austria	Salzburg	Moore Salzburg GmbH
Austria	Salzburg	Moore Interaudit Wirtschaftsprüfung GmbH
Austria	Vienna	Kroiss & Partner
Austria	Linz	Moore SKZ Wirtschaftsprüfung GmbH
Austria	Innsbruck	Moore SSK
Belgium	Brussels	Moore Belgium
Bulgaria	Sofia	Moore Bulgaria Audit OOD
Croatia	Zagreb	Moore Audit Zagreb
Croatia	Varaždin	Moore Revidens d.o.o
Cyprus	Limassol	Moore Limassol Limited
Cyprus	Nicosia	Moore Stylianou & Co
Czech Republic	Prague	Moore Czech Republic
Denmark	Copenhagen	Moore Denmark
Finland	Tampere	Moore Rewinet Oy
France	Paris	Coffra
Germany	Andernach	Hilger, Neumann & Partner
Germany	Stuttgart	BW Partner
Germany	Hannover	Mader & Peters Wirtschaftsprüfer Steuerberater Rechtsanwälte PartGmbH
Germany	Frankfurt am Main	Moore Frankfurt AG
Germany	Munich	Moore INTARIA GmbH
Germany	Kassel	Moore Ludewig AG
Germany	Duisburg	Moore Rhein-Ruhr GmbH
Germany	Mannheim	Moore Treuhand Kurpfalz GmbH
Germany	Dortmund	Moore Westfalen AG
Germany	Augsburg	SONNTAG
Germany	Hamburg	Moore BRL GmbH
Gibraltar	Gibraltar	Moore Stephens Limited
Greece	Piraeus	Moore
Hungary	Budapest	Moore Hungary
Hungary	Budapest	Moore Hunaudit 2000 Kft*

Country	Town	Firm Name
Hungary	Budapest	Moore KES Audit & Advisory*
Hungary	Budapest	Moore KFT*
Hungary	Budapest	Moore Stephens Hezicomp KFT*
Hungary	Komárom	Moore Wagner Audit and Consulting Kft*
Ireland	Dublin	Moore
Ireland	Limerick	Moore Financial
Italy	Reggio Emilia	Axis S.r.l
Italy	Bolzano	Bureau Plattner
Italy	Padova	DF Audit S.p.A.
Italy	Messina	TAT Audit Srl
Italy	Milan	Reviprof S.p.A.
Latvia	Riga	Moore Riga Limited*
Lithuania	Vilnius	Moore Mackonis UAB
Luxembourg	Livange	Moore Audit SA
Malta	Birkirkara	Moore
Netherlands	Amsterdam	Moore mth
Netherlands	Rotterdam	Moore DRV
Netherlands	Eindhoven	Moore Stephens Witlox Van den Boomen B.V.*
Norway	Oslo	Moore DA
Poland	Gdańsk	Moore Polska
Portugal	Lisbon	Moore Stephens & Associados SROC
Romania	Bucharest	Moore Audit One SRL
Romania	Bucharest	Moore Assurance & Advisory
Slovakia	Bratislava	BDR spol s.r.o
Spain	Bilbao	Moore AMS S.L
Spain	Oviedo	Moore Fidelitas Auditores SL
Spain	Sevilla	Moore Auditest, S.L
Spain	Valencia	Moore Ibergrup SAP
Spain	Zaragoza	Moore LP SL
Spain	Barcelona	Moore Addveris Auditores y Consultores, S.L.P
Spain	Madrid	Moore Iberica de Auditoria SL
Sweden	Göteborg	Moore KLN AB
Sweden	Malmö	Moore Malmö AB
Sweden	Göteborg	Moore Ranby AB
Sweden	Stockholm	Moore Allegretto AB

\*Member firms left the network during 2021

Total statutory audit fee turnover as at 31/12/21 in Euros €123.0 million

## Appendix 2

We set out below how we have complied with the Audit Firm Governance Code 2016

Code	Provision	How we have complied
<b>A</b>	<b>Leadership</b>	
A.1	<b>Owner accountability principle</b> The management of a firm should be accountable to the firm's owners and no individual should have unfettered powers of decision.	
A.1.1	The firm should establish a board or equivalent governance structure, with matters specifically reserved for its decision, to oversee the activities of the management team	<b>Leadership and Governance</b> Matters reserved for the Board as per Scheme of Delegation include Property, contracts for good services or works >£75k, losses and special payments >£50k
A.1.2	The firm should state in its transparency report how its governance structures and management operate, their duties and the types of decisions they take. In doing so the firm should explain how its governance structure provides oversight of both the audit practice and the firm as a whole with a focus on ensuring the Code's purpose, is achieved. If the management and/or governance of the firm rests at an international level it should specifically set out how management and oversight of audit, is undertaken and the Code's purpose achieved in the UK.	<b>Leadership and Governance</b> <b>Audit Team Governance</b> The Board ToR state that the Board ultimately oversees the governance, accountability and leadership of the firm. The Board has specific responsibility for reviewing the effectiveness of risk management and internal control. One Board Member is now the designated member responsible for Audit Quality. He oversees the ALG, whose purpose is focused on improving Audit Quality.
A.1.3	The firm should state in its transparency report the names and job titles of all members of the firm's governance structures and its management, how they are elected or appointed and their terms, length of service, meeting attendance in the year, and relevant biographical details	<b>Leadership and Governance</b>
A.1.4	The members of a firm's governance structures, and management should be subject to formal, rigorous and ongoing performance evaluation and, at regular intervals, members should be subject to re-election or re-selection	There are mechanisms allowing for the Partnership to provide annual feedback on Board performance each year. Each designated member is also subject to the balanced scorecard appraisal in determination of their remuneration.



Code	Provision	How we have complied
A.2	<b>Management principle</b> The management of a firm should be accountable to the firm's owners and no individual should have unfettered powers of decision.	
A.2.1	Management should have terms of reference that include clear authority over the whole firm including its non-audit businesses and these should be disclosed on the firm's website	The Board is ultimately accountable to the Partnership. Each committee and subcommittee in the governance structure have Terms of Reference in place and visible to the wider Partnership. This is not yet disclosed on the external website.
<b>B</b>	<b>Values</b>	
B.1	<b>Professionalism principle</b> A firm should perform quality work by exercising judgement and upholding values of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour in a way that properly takes the public interest into consideration and meets auditing and ethical standards.	
B.1.1	The firm's governance structures and management should establish and promote throughout the firm an appropriate culture, supportive of the firm's public interest role and long term sustainability. This should be achieved in particular through the right tone from the top, through the firm's policies and practices and by management publicly committing themselves and the whole firm to quality work, the public interest and professional judgement and values.	<b>Values</b>
B.1.2	Firms should introduce KPIs on the performance of their governance system, and report on performance against these in their transparency reports.	The firm is honing reporting and oversight of governance prior to agreeing to a narrow set of KPIs. Currently monthly governance risk and compliance reporting is provided to the Board and Business Line Advisory Committee. The general Partnership receive quarterly reporting against the balanced scorecard matrix providing oversight of whole firm performance.
B.1.3	The firm should have a code of conduct which it discloses on its website and requires everyone in the firm to apply. The Board and independent non-executives should oversee compliance with it.	The firm's Conduct Policy is available on the internal JC Connect site. Conduct within the firm is entirely values led and the values are clearly stated on external collateral.

Code	Provision	How we have complied
B.2	<b>Governance principle</b> A firm should publicly commit itself to this Audit Firm Governance Code.	
B.2.1	The firm should incorporate the principles of this Audit Firm Governance Code into an internal code of conduct	The principles of this Code, in promoting audit quality, ensuring accountability, transparency, probity and focus on the sustainable success of the firm permeate the existing Ethics and wider practice management policies of the firm.
<b>C</b>	<b>Independent Non-Executives</b>	
C.1	<b>Involvement of independent non-executives principle</b> A firm should appoint independent non-executives to the governance structure who through their involvement collectively enhance the firm's performance in meeting the purpose of the Code.	
C.1.1	Independent non-executives should number at least three and be in the majority on a body that oversees public interest matters; and/or be members of other relevant governance structures within the firm. They should also meet as a separate group to discuss matters relating to their remit. They should have full visibility of the entirety of the business but should pay particular attention to and report on risks to audit quality and how they are addressed. If a firm considers that having three INEs is inappropriate given its size or number of public company clients, it should explain this in its transparency report and ensure a minimum of two at all times. Where the firm adopts an international approach to its management it should have at least three INEs with specific responsibility and relevant experience to focus on the UK business and to take part in governance arrangements for this market; or explain why it regards a smaller number to be more appropriate, in which event there should be a minimum of two.	The firm has not yet appointed INEs but the GC and CFO act as independent attendees at the Board, accountable to the wider Partnership as a whole. With operational accountability sitting with the Business Line Heads for performance of the function, the Board is able to act with a degree of separation for the interests of the wider firm as a whole as it remains always accountable to the Partnership.
C.1.2	The firm should disclose on its website and in its transparency report information about the appointment, retirement and resignation of independent non-executives; their remuneration; their duties and the arrangements by which they discharge those duties; and the obligations of the firm to support them. The firm should report on why it has chosen to position its independent non-executives in the way it has (for example, as members of the main Board or on a public interest committee). The firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes independent non-executives.	Transparency reports for each year are available on the firm website. While there are no INEs currently, there are alternative mechanisms for independent challenge via the general Partnership, the Chief People Officer, General Counsel and Chief Financial Officer.

Code	Provision	How we have complied
C.1.3	<p>The independent non-executives should report in the firm's transparency report on how they have worked to meet the purpose of the Code defined as:</p> <ul style="list-style-type: none"> <li>• Promoting audit quality.</li> <li>• Helping the firm secure its reputation more broadly, including in its non-audit businesses.</li> <li>• Reducing the risk of firm failure</li> </ul>	While there are no INEs, all Client Relationship Managers have a clear direction to ensure that Audit clients and audit committees are encouraged to read the Transparency reports as part of the selection of the firm and the provision of our services.
C.1.4	Independent non-executives should have regular contact with the Ethics Partner, who should under the ethical standards have a reporting line to them.	In the absence of INEs, the General Counsel sits as an independent member of the Audit Risk Panel and Ethics committee to bring external perspective and challenge.
C.2	<p><b>Characteristics of independent non-executives principle</b></p> <p>The independent non-executives' duty of care is to the firm. They should command the respect of the firm's owners and collectively enhance shareholder confidence by virtue of their independence, number, stature, experience and expertise. They should have a balance of relevant skills and experience including of audit and a regulated sector. At least one independent non-executive should have competence in accounting and/or auditing, gained for example from a role on an audit committee, in a company's finance function, as an investor or at an audit firm.</p>	
C.2.1	The firm should state in its transparency report its criteria for assessing the impact of independent non-executives on the firm's independence as auditors and their independence from the firm and its owners.	As part of the preparatory scoping activity, the Board has been considering the measurement of the impact of INEs. This is likely to be determined from stakeholder engagement and improvement to AQIs.
C.3	<p><b>Rights and responsibilities of independent non-executives principle</b></p> <p>Independent non-executives of a firm should have rights consistent with their role including a right of access to relevant information and people to the extent permitted by law or regulation, and a right to report a fundamental disagreement regarding the firm to its owners and, where ultimately this cannot be resolved and the independent non-executive resigns, to report this resignation publicly.</p>	
C.3.1	Each independent non-executive should have a contract for services setting out their rights and duties.	Draft contracts for service appropriate for INEs have been considered with clarity over duties.
C.3.2	Independent non-executives should be appointed for specific terms and any term beyond nine years should be subject to particularly rigorous review and explanation.	Not yet applicable.

Code	Provision	How we have complied
C.3.3	<p>The responsibilities of an independent non-executive should include, but not be limited to, oversight of the firm's policies and processes for:</p> <ul style="list-style-type: none"> <li>• Promoting audit quality.</li> <li>• Helping the firm secure its reputation more broadly, including in its non-audit businesses.</li> <li>• Reducing the risk of firm failure</li> </ul>	Preparatory scoping has been based on these areas of responsibility.
C.3.4	The firm should ensure that appropriate indemnity insurance is in place in respect of legal action against any independent non-executive in respect of their work in that role.	D&O cover is in place for Partners, and this would be extended to any INEs.
C.3.5	The firm should provide each independent non-executive with sufficient resources to undertake their duties including having access to independent professional advice at the firm's expense where an independent non-executive judges such advice necessary to discharge their duties.	The draft contract for services includes provision for access to independent professional advice.
C.3.6	The firm should establish, and disclose on its website, procedures for dealing with any fundamental disagreement that cannot otherwise be resolved between the independent non-executives and members of the firm's management team and/or governance structures.	To be reviewed as to how this should be appropriately managed.
<b>D</b>	<b>Operations</b>	
D.1	<p><b>Compliance Principle</b></p> <p>A firm should comply with professional standards and applicable legal and regulatory requirements. Operations should be conducted in a way that promotes audit quality and the reputation of the firm. The independent non-executives should be involved in the oversight of operations.</p>	
D.1.1	The firm should establish policies and procedures for complying with applicable legal and regulatory requirements and international and national standards on auditing, quality control and ethics, including auditor independence.	<p><b>Risks and Mitigations</b></p> <p><b>ISQM implementation</b></p> <p><b>Ethics and Independence</b></p>
D.1.2	The firm should establish policies and procedures for individuals signing group audit reports to comply with applicable standards on auditing dealing with group audits including reliance on other auditors whether from the same network or otherwise	<p><b>Risks and responses</b></p> <p><b>ISQM1</b></p> <p><b>Ethics and Independence</b></p>
D.1.3	The firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest.	<b>Ethics and Independence</b>
D.1.4	The firm should take action to address areas of concern identified by audit regulators in relation to the firm's audit work.	<b>External monitoring</b>

Code	Provision	How we have complied
D.2	<b>Risk management principle</b> A firm should maintain a sound system of internal control and risk management over the operations of the firm as a whole to safeguard the firm and reassure stakeholders.	
D.2.1	The firm should, at least annually, conduct a review of the effectiveness of the firm's system of internal control. Independent non-executives should be involved in the review which should cover all material controls, including financial, operational and compliance controls and risk management systems as well as the promotion of an appropriate culture underpinned by sound values and behaviour within the firm.	Twice yearly review of effectiveness of internal control arrangements in place.  Monthly reporting provides accountability, transparency and focus.
D.2.2	The firm should state in its transparency report that it has performed a review of the effectiveness of the system of internal control, summarise the process it has applied and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary.	Whole Firm review procedures will form part of ISQM 1.  Head of Audit provides attestation on Audit controls and compliance.
D.2.3	The firm should carry out a robust assessment of the principal risks facing it, including those that would threaten its business model, future performance, solvency or liquidity. This should reference specifically the sustainability of the audit practice within the UK.	Firm wide risk registers and 13 week cashflow in place and reported to the Board at each meeting via the General Counsel and Chief Financial Officer.
D.3	<b>People management principle</b> A firm should apply policies and procedures for managing people across the whole firm that support its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code.	
D.3.1	The firm should disclose on its website how it supports its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code through recruitment, development activities, objective setting, performance evaluation, remuneration, progression, other forms of recognition, representation and involvement	Risk management and conscious decision making is introduced at induction to all employees. Values led behaviour underpins the balanced scorecard and how each individual is appraised each year linking to ultimate remuneration. This is not yet disclosed on the external website to the letter of the code but can be appropriately signposted via the Values.
D.3.2	Independent non-executives should be involved in reviewing people management policies and procedures, including remuneration and incentive structures, to ensure that the public interest is protected.	Existing checks and balances on people management include the GC and CFO, engagement with the People and Culture forum and employee survey material.

Code	Provision	How we have complied
D.4	<b>Whistleblowing principle</b> A firm should establish and apply confidential whistleblowing policies and procedures across the firm which enable people to report, without fear, concerns about the firm's commitment to quality work and professional judgement and values in a way that properly takes the public interest into consideration. The independent non-executives should be satisfied that there is an effective whistleblowing process in place.	
D.4.1	The firm should report to independent non-executives on issues raised under its whistleblowing policies and procedures and disclose those policies and procedures on its website.	In the absence of INEs, the General Counsel currently acts as independent Whistleblowing officer. Policies and procedures are in place as part of the Voice the values approach to risk and issue management.
<b>E</b>	<b>Reporting</b>	
E.1	<b>Internal reporting principle</b> The management of a firm should ensure that members of its governance structures, including owners and independent non-executives, are supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.	
E.2	<b>Governance reporting principle</b> A firm should publicly report how it has applied in practice each of the principles of the Audit Firm Governance Code and make a statement on its compliance with the Code's provisions or give a considered explanation for any non-compliance.	
E.2.1	The firm should publish on its website an annual transparency report containing the disclosures required by Code Provisions A.1.2, A.1.3, B1.2, C.2.1, D.1.3, D.2.2, E.2.2 and E.3.1.	Annual transparency reports published.
E.2.2	In its transparency report the firm should give details of any additional provisions from the UK Corporate Governance Code which it has adopted within its own governance structure.	N/A
E.3	<b>Transparency principle</b> A firm should publish on an annual basis in its transparency report a commentary on the firm's performance, position and prospects.	
E.3.1	The firm should confirm that it has carried out a robust assessment of the principal risks facing the audit firm, including those that would threaten its business model, future performance, solvency or liquidity. The firm should describe those risks and explain how they are being managed or mitigated.	Principal risks highlighted in Transparency report.
E.3.2	The transparency report should be fair, balanced and understandable in its entirety	These principles are applied by those involved in the drafting and review of the report.



Code	Provision	How we have complied
E.4	<b>Reporting quality principle</b> A firm should establish formal and transparent arrangements for monitoring the quality of external reporting and for maintaining an appropriate relationship with the firm's auditors.	
E.4.1	The firm should establish an audit committee and disclose on its website information on the committee's membership and terms of reference which should deal clearly with its authority and duties, including its duties in relation to the appointment and independence of the firm's auditors. On an annual basis, the audit committee should publish a description of its work and how it has discharged its duties.	Given the existing governance structures, a discreet Audit Committee is not yet in existence but the relationship with external auditors is primarily managed via the Chief Financial Officer and CEO, with support from the Head of Audit. Auditors are given access to General Counsel and other key areas of management independently prior to reporting to the Board.
E.5	<b>Financial statements principle</b> A firm should publish audited financial statements prepared in accordance with a recognised financial reporting framework such as International Financial Reporting Standards or UK GAAP, and should be clear and concise.	
E.5.1	The firm should explain who is responsible for preparing the financial statements and the firm's auditors should make a statement about their reporting responsibilities, preferably in accordance with the extended audit report standards.	Disclosed in the audited financial statements available from Companies House.
E.5.2	The firm should state whether it considers it appropriate to adopt the going concern basis of accounting and identify any material uncertainties to its ability to continue to do so, with supporting assumptions or qualifications as necessary.	Disclosed in the audited financial statements available from Companies House.
<b>F</b>	<b>Dialogue</b>	
F.1	<b>Firm dialogue principle</b> A firm should have dialogue with listed company shareholders, as well as listed companies and their audit committees, about matters covered by this Audit Firm Governance Code to enhance mutual communication and understanding and ensure that it keeps in touch with shareholder opinion, issues and concerns.	
F.1.1	The firm should disclose on its website its policies and procedures, including contact details, for dialogue about matters covered by this Audit Firm Governance Code with listed company shareholders and listed companies. It should also report on the dialogue it has had during the year. These disclosures should cover the nature and extent of the involvement of independent non-executives in such dialogue.	As part of the remit of Client Relationship Managers, they are encouraged to discuss and share the content of this report freely with clients.

Code	Provision	How we have complied
F.2	<b>Shareholder dialogue principle</b> Shareholders should have dialogue with audit firms to enhance mutual communication and understanding.	
F.3	<b>Informed voting principle</b> Shareholders should have dialogue with listed companies on the process of recommending the appointment and re-appointment of auditors and should make considered use of votes in relation to such recommendations.	





## Where sharp minds meet

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**Huntly**

01466 794148

**Inverness**

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