Johnston Carmichael LLP
Transparency Report

Year ended 31 May 2021

JOHNSTON CARMICHAEL

Where sharp minds meet

Contents

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 2021 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

Last year's transparency report emphasised a period of review and improvement as we continued to strengthen the foundations of quality across the firm and this year's report continues in that vein. Our desire to focus on quality at the core of everything we do as a firm has never been about satisfying regulatory requirements alone, it is about creating a culture where there is recognition, at all levels within the firm, that quality should be achieved for its own sake, to safeguard our professional reputation and always in the interest of our clients and our staff.

This ethos is not restricted to the audit environment and our key strategic objective is to firmly embed sound quality management into Johnston Carmichael's identity, ensuring that the quality message reaches every element of our firm, from professional advisors to support staff.

Having thoroughly considered best practice, the one consistent lesson (regardless of sector) is that the commitment to quality must be significant, long-term and bring about further cultural change; a quality management framework that extends far beyond the introduction of a new set of management tools or training events alone. We acknowledge this and accept that implementing a sustainable quality framework will never be a one-time project, but rather a systematic approach, based on iterative change, continuous monitoring, measurement, and learning.

This year we had our first inspection since the implementation of the EU Audit Regulation and Directive, carried out by the Audit Quality Review team ("AQR") of the Financial Reporting Council the ("FRC"). The FRC is responsible for monitoring the audit work of UK firms that audit public interest entities ("PIEs"), and certain other UK entities, and the policies and procedures supporting audit quality at those firms. Whilst the inspections were encouraging, the real advantage of external oversight is in the independent assessment of areas of improvement, which has enabled us to prioritise our actions for the year ahead.

As a firm, our internal leadership and governance review had already acknowledged the need to augment our Board to ensure the right balance of experience, skills and constructive challenge is in place to future proof Johnston Carmichael's strategic direction for the period ahead. In September this year, three new Board Members were appointed, including the Head of Audit, who is the Ultimate Designated Person at board level for Audit Quality.

As part of our analysis on the outcomes of our existing quality review processes in audit, we were also becoming increasingly alert to the limitations of a binary pass/fail system in engendering a learning culture from the quality review process. We have therefore revised this to a graded system to provide more holistic learning outcomes which highlight areas of good practice and draw attention to areas where improvement is required.

Reviews by the FRC and our own regulatory body, Institute of Chartered Accountants of Scotland (ICAS), are being used as opportunities to reflect upon current practices and robustly challenge ourselves as to how quality could be managed better. One example is that whilst the existing governance structures were designed to ensure that quality considerations did factor in remuneration decisions by our Partner Remuneration Committee, we now recognise the evidence trail in respect of such consideration needs greater detail to be of practical use in an appraisal environment and deliver evidence of the linkage between quality to remuneration more effectively. This will be amplified over the next appraisal cycle.

Whilst the ongoing, disruptive nature of the pandemic has presented a unique set of challenges for our clients, our people and our firm, it has also acted as a catalyst to realise our digitalisation ambition faster. This has accelerated a number of key initiatives across the firm, in terms of levelling quality consistency and processes across all offices with a digital by default principle, enabling work which can be undertaken by any office across the firm. It has also reinforced the need to adopt digital solutions to ensure the right management data informs effective decisions and enables efficient and accurate reporting, ending reliance on spreadsheets and manual interventions. This is a key step to maintaining robust data and ensuring regulatory requirements are met. Whilst these digital ambitions had been in the pipeline prior to the pandemic, their urgency was brought to the fore; digital solutions of this nature are no longer a 'nice to have' when improving efficiency but a baseline requirement of the firm of the future.

To enable our vision to be the firm of choice in all our markets with trusted advisors, recognised for the expertise of our people and the quality of our work, we need to acknowledge the role our people play in achieving that vision and thank them. Without them there is no firm, and it is their commitment and resilience which has enabled the firm to continue to deliver high quality outcomes despite the disruptive elements of Covid19. The perpetuation of our culture requires their involvement, continued engagement, and belief in its purpose. With our offices closed until recently and with the vast majority of our people now working in a hybrid environment, there are novel challenges to sustaining a Johnston Carmichael identity with quality at its core. However, the pandemic has also presented a remarkable, once in a lifetime opportunity to re-set culture; reiterate our values and, more importantly, role model the embodiment of what it means to be a Johnston Carmichael Partner or employee. By putting our people (at all levels across the firm) at the heart of identifying and addressing those challenges through initiatives such as our Office of the Future Working Groups, we are confident this not only ensures the tone is set from the top but also influences the mood in the middle and allows those closest to the process in practical terms to identify how to sustain the meaningful connection of our people to the organisation, our values and culture as a shared professional purpose.

Andrew Walker, Chief Executive
On behalf of the Board of Johnston Carmichael LLP
30th September 2021

1.1 Introduction from Head of Audit & Board member

This summer, the department for Business, Energy and Industrial Strategy (BEIS) published its long-awaited consultation paper on audit and governance reform: Restoring trust in audit and corporate governance. It proposes fundamental reforms to the audit process, product and market. The most significant instrument of reform is an empowered audit regulator, replacing the Financial Reporting Council with the new Audit Reporting and Governance Authority (ARGA).

We agree that changes are needed. We would also note that a balance must be applied to ensure that the proposed reforms are proportionate and do not place an undue regulatory burden on smaller firms and their clients. In particular, the definition of public interest entities (PIEs) should recognise the differing nature of those business that are currently captured and those being suggested as becoming within scope. Looking at our own client portfolio, we have thirteen PIEs, with six of those being captured by virtue of having listed debt. We believe there is a significant difference between these types of entities and those entities who have the largest impact on the UK economy. With the Government's aim to enhance confidence in the operation of the UK markets, it is our view that greater focus should be placed on entities that have the largest degree of public interest.

Regardless, we believe the 'expectation gap' between what auditors and the general public consider as the purpose of an audit can be narrowed. This will require a more holistic view of audit, encompassing areas such as operational resilience. We have focused our attention on supplementing our team with the right specialist skills that can prepare us for the audit of the future. We are also reinforcing this message internally to ensure that our culture recognises that while changes to regulation will increase the levels of professional scepticism and constructive challenge, this is also the right thing to do in order to protect the stakeholders of the companies that we audit.

Whilst we noted with interest the proposals for a new, distinct professional body for corporate auditors as a means of driving better audits, it is important that the need for auditors to have sufficient understanding of accounting is not lost and the proposals do not have the perverse effect of exacerbating the existing shortage of skilled auditors in the professions, particularly if transition arrangements are not appropriately considered.

On 6 July 2020, the FRC announced the principles for operational split of the audit practices of the 'Big Four' firms. The FRC has published 22 principles for operational split. As a firm, we have assessed these principles; we have implemented four of the principles already, including progressing towards the development of specialist audit teams that spend the majority of their time working on statutory audits. As noted above, we have also worked to further strengthen the link between audit quality and remuneration. We continue to work on implementation of the remaining principles, including collecting the necessary data to allow overheads to be absorbed into a full profit and loss for the audit division to ensure that there continues to be no material cross-subsidy between our audit and consulting divisions. We believe it will become a corporate governance best practice to assess audit firms based on compliance with these guidelines, whether they are mandatory or not. There are no barriers to us implementing these recommendations and we will continue to consult with our key stakeholders as we make a decision on the scale and extent of our adoption.

We continue to make progress on our quality initiatives, including embedding leading, lagging and in-flight Audit Quality Indicators (AQIs) into our business. We hired our first dedicated Resource Manager and rolled out a new budgeting tool which gives us the capability to assess AQIs, such as potential capacity issues with a view to dealing with them proactively, before they could negatively impact audit quality. One particular area of focus over the upcoming year is in the development and tracking of key milestones within the audit. We continue to evaluate technology solutions that will help us track milestones more efficiently. However, our focus is on the culture and mindset that will drive the right behaviours.

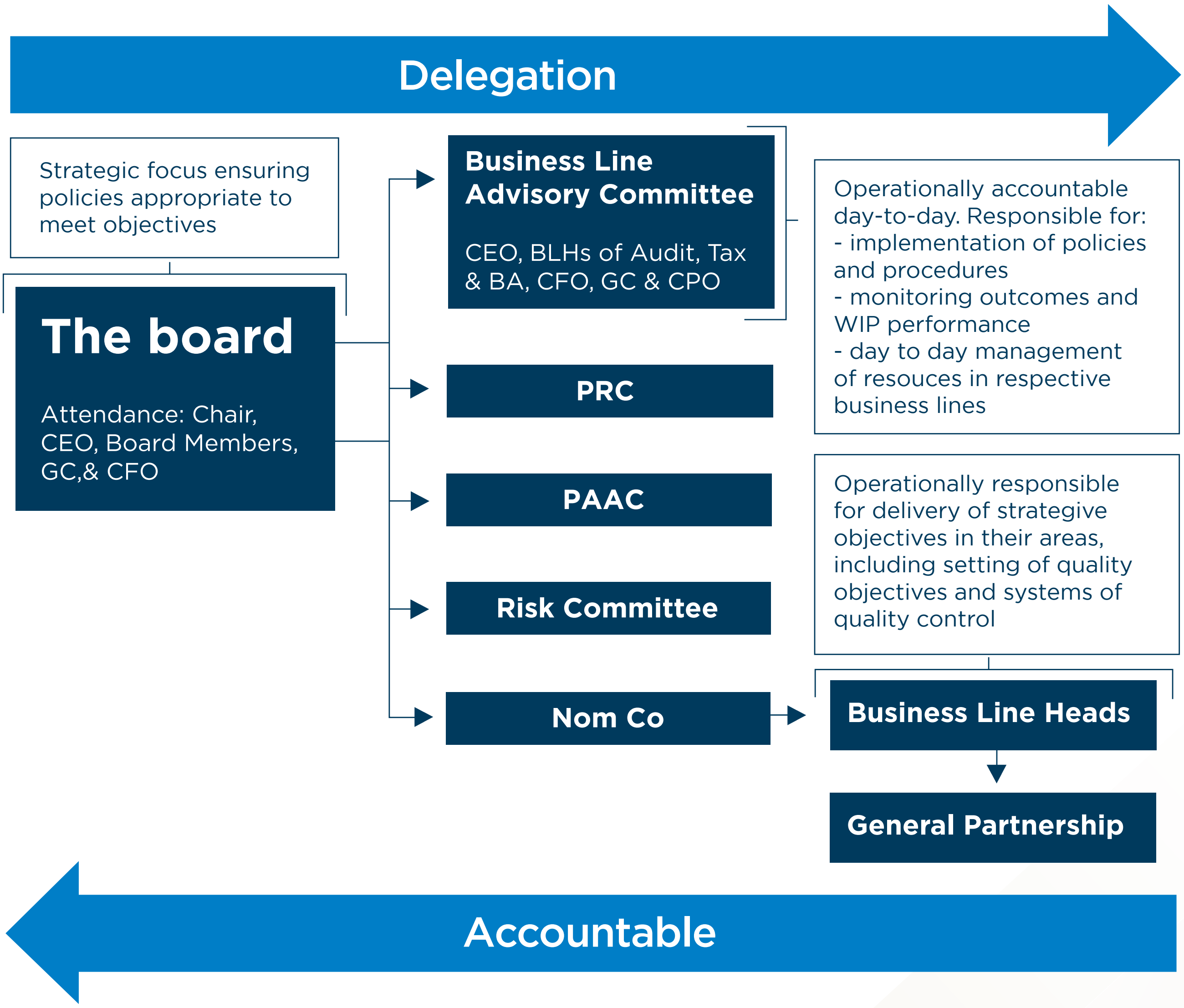
Further, we continue to make progress with implementation of International Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (ISQM 1), International Standard on Quality Management 2, Engagement Quality Reviews (ISQM 2) and International Standard on Auditing 220 (Revised), Quality Management for an Audit of Financial Statements (ISA 220 Revised). We have defined our quality risks and objectives and are currently mapping our existing processes to identify any potential gaps. While firms are required to have their system of quality management designed and implemented by December 15, 2022, we intend implementing from 1 June 2022 to allow sufficient time to assess and refine as necessary ahead of the effective date noted in the standards.

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 & Board Member
30th September 2021

2. Leadership and Governance



The principles of the firm's governance structure and corporate timetabling remain as defined in 2020 but lessons learned over the past few years have strengthened the clarity of the terms of reference and remit of the sub-committees. This has meant increased visibility of the specific accountabilities of the subcommittees and greater transparency on reporting both to and from those subcommittees.

Board composition

As at 31 May 2021, the Board comprised of:

- Alexander Manson (Chair)
- Andrew Walker (Chief Executive)
- Craig MacPherson
- Mark Houston

On 1 September 2021, the following Partners were appointed to the Board :

Graham Marjoribanks

Graham joined Johnston Carmichael in 2019 as Audit Partner and Head of Audit & Assurance. He has over 15 years' experience in Audit and Financial Services, having worked in a variety of roles across the UK and Canada including within Big 4 firms and investment banking. Prior to joining Johnston Carmichael, Graham led the Accounting Advisory practice for BDO Canada and was Head of Assurance and Accounting for the Greater Toronto Area. Graham also acted as Country Co-ordinator to drive collaboration with the UK and Ireland.

Shaun Millican

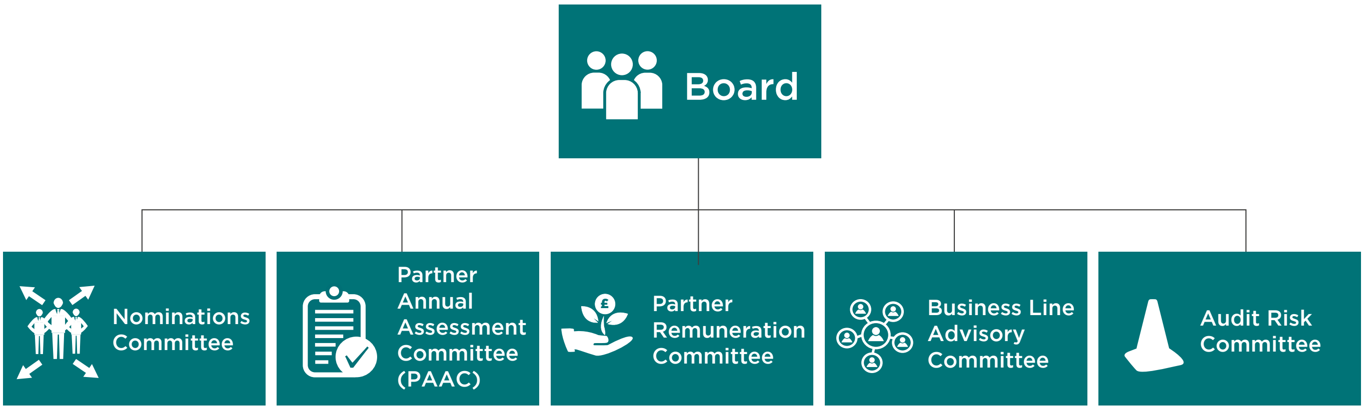
Partner and Head of Technology & Life Sciences, Shaun joined the firm in 2002. In his career he has specialised in providing accounting, tax and business advisory services and has particular expertise in advising fast growing, entrepreneurial businesses in a variety of sectors.

Lynne Walker

Partner and Head of Business Advisory, Lynne joined Johnston Carmichael in 2005 and has over 15 years experience working within our audit and business advisory business lines. In 2018 she took on the role of Head of Business Advisory, overseeing effective operations and driving digital change across Johnston Carmichael's Business Advisory function, having previously worked in Audit as a Senior Statutory Auditor responsible for providing a high level of service to a portfolio of clients in both our Inverness and Elgin offices.

The new members appointed in September 2021 include the firm's Head of Audit, this appointment brings further insight on Audit matters to the Board and ensures that Audit Quality has an owner and champion at Board level. The composition of the Board will continue to be reviewed periodically dependent on the skills required from time to time. Succession planning for both the Board, subcommittees and leadership positions in the firm is regularly reviewed as part of the Nominations Committee remit.

Whilst, currently, there are no independent Non-Executive Directors of the Board, both the General Counsel and Chief Financial Officer are in attendance to provide an objective view of the equity-holding Partners and a mitigation against risk of firm failure. The General Counsel and Chief Financial Officer also, independently, make recommendations to the Board on certain reserved matters such as the key risks, professional indemnity insurance and cash resilience ahead of the Board decisions on these topics. We are mindful of the ongoing consultation on the proposed 2022 Audit Governance Code, and we continue to draw upon the Wates Principles in our approach to corporate governance. The appointment of Independent Non-Executive (INEs) will be considered in greater detail in the coming financial year as the firm grows its PIE Audit practice. It is also considered, that INEs may offer a unique perspective in the ongoing performance evaluation of the Board itself.



Committee	Changes introduced in 2020-21
Board 	• Augmented membership from prior year • Now includes a Designated Member responsible for audit quality • Allocation of an accountable Designated Member for each segment of balanced scorecard (Internal excellence, Leading and managing people, Financial targets and performance & Client Service) to ensure continued drive for improvement against each area and send a clear message from the Board.
Nominations Committee (Nom Co) 	• Assessing prospective candidates for senior promotion against an objective balanced scorecard has illustrated the need for greater visibility of evidence to support nominations and mitigate against subjective bias. This has led to strengthened reporting on internal excellence and, in particular, quality monitoring outputs by Partners to reinforce the tone from the top and cascade the importance of these metrics through individual teams • This year the Nominations Committee also performed some analysis of the impact of prior appointment rounds to assess ongoing adherence to values and the effectiveness of selection criteria. The outputs of this activity also feed into future training programmes across the firm • The Nominations Committee is also tasked with ensuring future leaders have adequate support measures for any new promoted posts.
Partner Assessment Committee (PAC) 	• Despite the pandemic, progress has continued to embed the balanced scorecard at the core of the Partner appraisal process. • The Partner Assessment Committee provides a calibration mechanism of consistent performance across the firm. • Outputs from the PAC inform the Partner Remuneration Committee and where serious failures of expectation arise, the PAC can make recommendations on action including demotion or reallocation of responsibility. • The PAC also monitor trends in performance across the Partner population to assess where specific intervention may be required/

Committee	Changes introduced in 2020-21
Partner Remuneration Committee (PRC) 	• Partners are remunerated wholly out of the profits of the Firm through a combination of interest, salary allocation and, for equity partners, a share of the remaining balance of profit. The assessment of remuneration is based on the outputs of the balanced scorecard assessment and PAC performance calibration, no reward is attributed to cross selling services to businesses audited by the firm. • The PRC increased its membership in September 2021 from 4 to 6 to add enhanced rigour and greater perspective. • Enhancing the transparency of evidence and linkage between Partner rewards and quality, specifically confirming how consideration has been given to PAC outputs where sanctions are proposed to address quality shortcomings and other deficiencies, will be factored into this year's deliberations.
(Business Line) Advisory Committee 	• To enhance the value that flows from each Business Line Head's individual accountability for operational delivery, line management and quality of their business line, we have seen a benefit to having a forum for the major business lines to address common issues at firm level. Further, by reviewing the thematic risks of business lines holistically, this allows us to respond quickly and consistently on the priority actions for the firm. Harmonised management action similarly avoids individual silos by Business Line or geography and ensures coordinated compliance at a firm level. The presence of senior HR representation at these meetings similarly ensures the effective engagement and deployment of our people against the priority issues.
Audit Risk Committee 	• This Committee primarily address audit specific risks including, but not limited to, matters of audit opinion, client continuation / acceptance or disengagement. The Board and Business Line Advisory committee consider wider, enterprise risk management identification and action • Standing members include Chief Executive, Head of Audit and Ethics Partner. The role and prominence of this committee has increased and the agility to meet on an ad hoc basis provides a useful consultation mechanism to act quickly when required.

3. Values

Johnston Carmichael's core values remain the guiding tenets of our identity. The timeless nature of these principles continues to be ingrained in the firm's philosophy. The pandemic has, nonetheless, provided us with an opportunity to reiterate these values in a new way and focus on how these values remain the constant as we embark on a period of rapid technological and workplace change.

Throughout the pandemic, we undertook a series of pulse surveys to continue to engage with our people and understand how they were coping with regards to their health and wellbeing as well as how best to support them when working in a remote environment. As we transition to covid secure offices with a mix of hybrid staff, we have launched a series of working groups, drawing on a diverse population of employees by level and geography to address an array of topics, from office layout to culture, and how we, as a firm, need to adapt and support new ways of working. Engagement across the firm has been encouraging and we plan to continue to build on this in the months ahead as we transition to an enduring model of staff engagement with a wide-ranging firm culture survey planned for later this year, as a temperature check and comparator against pre-covid culture surveys.

4. Quality and Risk Management

The audit profession's approach is transitioning from a controls-based approach established by International Standard on Quality Control 1 (ISQC 1) to one of quality and risk management which is at the heart of the International Standard on Quality Management 1 (ISQM 1). We welcome this change of focus and we continue to make good progress in developing our response to the new standard which is effective from 15 December 2022. The starting point of our own shift as a firm from quality control to quality management was to re-baseline the foundations of risk management within the firm to underpin all aspects of a risk-based approach. We have taken a grass roots review of our business and specifically quality related risks. Although these standards are focused on audit, we are committed to embedding these principles across our firm.

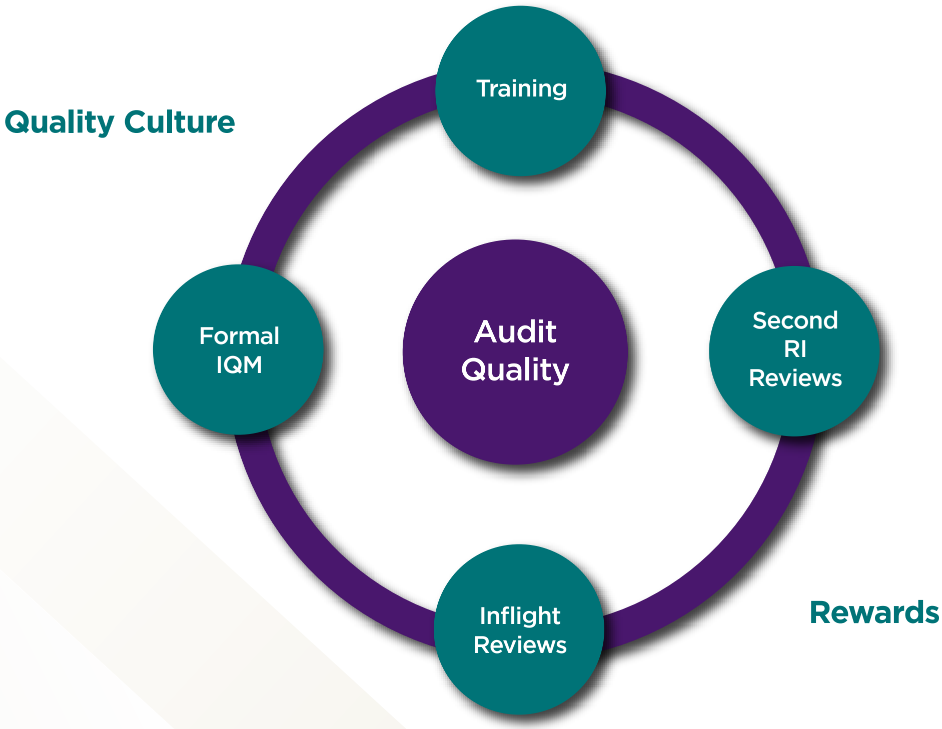
An integral part of our quality and risk management processes is the work of the Governance, Risk and Compliance (GRC) function. Established in 2019 this team works across the firm to embed risk management into our governance structures. Identifying the firm's risk appetite was a central component to the development of our risk framework, reflecting our commitment to the sound management of regulatory and compliance risks whilst recognising that well managed risk taking would allow us to exploit opportunities to meet our strategic objectives. Core to this activity was identifying strategic risks at the board level and operational risks within each business line at the Committee level.

The GRC team provides oversight of compliance activity, ensuring organisational structures and processes are transparent, adequate and appropriate, with accountabilities and responsibilities clearly articulated, mapped and understood. This has laid the foundations of greater awareness of assessing risks by impact and likelihood as well as building the processes and practices of identifying, assessing, mitigating and monitoring risks. Our revised approach has proven invaluable to the acceptance and continuance of client relationships and specific engagements as well as improving the quality of risk assessments undertaken by the firm on an annual basis in order to assess continuance.

Having established the foundations of risk-management framework across the firm, the next step has been to ensure that specific quality objectives are identified by each business line. Using the tools developed in our approach to risk management, each business line now has the capability to assess quality objectives on a prioritised basis. Root cause analysis of known issues complements this activity and encourages an environment of continuous improvement rather than being a reactive problem-solving exercise.

5. Audit Quality Monitoring Programme

There are several elements to the firm's audit quality monitoring programme which has established a feedback loop between training, second Responsible Individual (RI) reviews, inflight reviews and our formal internal quality monitoring. These elements are, in turn embedded in a quality culture which is set by our Board and ultimately ensures there is alignment between quality, behaviours and rewards.



The first of these is an established policy on which audits require the input of a secondary independent Responsible Individual (second RI) to perform either a full scope engagement quality control review (as defined by International Standards on Auditing) or more targeted procedures relevant to the risk profile of that engagement. The policy and operation of these procedures is overseen by the Head of Audit or the Audit Compliance Partner using a risk- based approach.

The Audit Leadership Group has mandated that certain audit engagement or elements thereof are subject to 'in-flight' reviews. The nature and depth of reviews are determined by risk and engagement specific circumstances. These reviews tend to be more thematic in nature and examples include the requirement for targeted review of going concern which took place on all engagements during the majority of the Covid 19 pandemic, instances where a non-standard audit opinion is anticipated or to evaluate the audit approach to an area of heightened risk arising from a new circumstances, such as a change in busines model or a new accounting standard.

With regard to formal quality monitoring programme (IQM) this is overseen by the firm's long established audit quality, risk and technical (AQRT) team. The remit of the AQRT team is threefold:

- to work along the firm's training team, to ensure that teams keep front of mind key quality and technical issues which arise either from thematic reviews or emerging issues
- Provide technical support and guidance to audit teams on specific queries and matters arising; and,
- Operate an effective IQM which supports the Head of Audit and Audit Risk Committee in ensuring the firm can sustainably deliver high quality audits.

During the year firm changed its approach from a binary based evaluation model to a system of graduated findings which uses a grading methodology more closely aligned with those of the FRC's Audit Quality Review Team and ICAS audit quality monitoring team. The change is considered necessary so that Audit RI's can more clearly link internal and external quality ratings. Graduated quality review findings are also more transparent and make it easier to develop more targeted responses by way of training, coaching and mentoring where quality issues are identified. The ALG recognise the importance of performing root cause analysis when shortcomings are identified. The need for such analysis is included in our updated procedures and both the AQRT team and the Head of Audit have the opportunity to commission an independent root cause analysis should that be considered more helpful in resolving any significant issue identified.

To maximise the value of the various elements of our quality monitoring procedures the second RIs, inflight reviewers and members of the AQRT meet to discuss matters arising with a view to identifying thematic issues and develop appropriate interventions and pro-active support and guidance.

In terms of our audit training this is informed through the output of our second RI, inflight reviews, the results of our formal IQM procedures and on-going horizon scanning. Further details on this are set out in point 8 below 'Learning and Development'. Due to the lead time taken to deliver effective training, AQRT produces monthly newsletters which highlight topical issues and provide guidance thematic areas. Complementing these newsletters are ad hoc on-line bite-sized recorded training sessions.

This year, there has been an increased focus on assessing the effectiveness of our internal quality monitoring programme in Audit. Our review illustrated that we needed greater focus on follow-on actions from the quality monitoring outputs, particularly when shortcomings were identified. This will ensure that the lessons from the quality review are retained and put into enduring practice. The internal reviews conducted also include a review of the independence practices on each file. Independence procedures for the firm are considered as part of the whole firm review annually.

Our Audit Business Line continues to grow as does the complexity of our client base and the regulatory environment. In recognition of this environment, it is our intention to increase the strength of the firm's AQRT team by recruiting another specialist in the year ahead to ensure that there is sufficient capacity and resource to provide technical support to the audit team whilst also undertaking proactive interventions. Equally, we are mindful that the first line of defence in achieving quality is skilled auditors and the team are only as strong as the weakest link. Whilst technical competency and adherence to internal processes is one aspect of this training and continuous professional development remains an important element of maintaining that competency, it is crucial that we are empowering audit teams to hone their individual sense of professional judgement and professional scepticism and how that is utilised is practice. All these elements combined are the driving force behind our revision to the JC Academy training programmes in the year ahead.

Relevant ethical requirements

The firm's Ethics Policy requires all members of staff to comply with the ICAS Code of Ethics. Ethics training is a mandatory training programme for all professional staff. 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 Audit Ethics Partner (for audit assignments) or Chief Executive (for non-audit assignments) must be alerted for a risk consultation.

All employees undertake a mandatory fit and proper questionnaire annually with a series of questions designed to identify potential conflicts of independence, assess risks to financial integrity, reliability, fitness and proprietary of the employee in question. Employees are obliged to disclose any directorships or similar offices they hold.

The AQRT team 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.

Acceptance and continuance of client relationships and specific engagements

The firm has a detailed Client Take On process that must be followed before accepting a new client. 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. A critical facet of this is ensuring work is appropriately priced to ensure the appropriate level of personnel is assigned to the work on a risk-based approach. Whilst this presents its own challenges in a competitive marketplace, as a firm we will not compromise on quality, regardless of price and whilst this means we may be more expensive than our competitors, we remain confident that this is justifiable. Risk assessments are reviewed on at least an annual basis in order to assess continuance.

For PIE and listed audit assignments, approval is required from the Audit Compliance Partner. In addition to the universal Client Take On processes, for audit clients, an additional client risk assessment memo requires the team to consider 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 memo, and confirms ultimate approval. 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 where the risk 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 extend across the PKFI Network.

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

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

As a PKFI member firm, we also update the Transnational Entities Database (TREND) with the details of all our transnational clients. This is accessible to all PKFI 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 RI's subject to a two-year transitional period where an ethics review being undertaken by another RI is undertaken. In exceptional circumstances, tenure may continue beyond 10 years, other than through the transitional period but only with the approval of the Audit Ethics Partner and not beyond a maximum 15-year term.

6. Audit Team Governance

Since last year, there have been further changes to the Audit Team Governance structures and a new Audit Advisory Committee has been established with operational responsibility for driving improvement under each of the firm's Balanced Scorecard pillars. This will ensure operational accountability is embedded and progress maintained.

The ALG continues to operate as a consultative forum for the strategic objectives of the Business Line and, at a high level, the group is responsible for identifying risks and threats to the function, particularly in relation to quality, compliance and governance standards set by Audit Regulations and Guidance, the ICAS Code of Ethics and FRC Ethical Standard.

In the past year, the Audit Leadership Group has considered the following risks:

Risk	Response
Inadequate and/or inappropriate audit pricing	We recognise that Audit engagements with low projected recovery can create an actual or perceived risk to audit quality and independence. Our Audit Strategy includes a key objective of delivering profitable growth which means that our team are expected to build a sustainable client base where we have a sufficient budget to complete all work to the expected standard of quality. Increased focus has been brought to this in 2020-21 with each Partner now being held accountable for ensuring that action is taken on low recovery audits with either re-pricing or disengagement. An equal focus on the adequacy of risk assessment of processes at Client Take On and Continuance ensuring AML, independence procedures, conflict checks and commercial assessment is appropriate and aligned to our risk appetite and resource availability to deliver a quality audit. A central audit resourcing manager now allocates the audit resource at Business Line level with oversight from the Audit Operations Director who has central oversight of resourcing and pricing.
Lack of team resource to adequately deliver on Audit engagements to agreed quality standards	There is evidence of a growing skills shortage in an increasingly specialised audit market which has led to us revisiting our attraction and retention strategies within Audit and expanding our search to more diverse talent pools. We have also undertaken resource modelling for the years ahead to understand our target resource levels for future years. We continue to focus on longer term skills development and this year we welcomed 40 students for the 20/21 graduate intake plus 19 six-year training contracts as part of the JC Futures programme.
Insufficient skills or knowledge	An extensive and regular training programme involving internal and external speakers ensures there is access to training on demand on areas of regulatory change. The internal monitoring programmes also identify specific needs-based training on the file review outcomes. The technical department provide monthly technical updates on changes to auditing or accounting standards and company law and interim guidance on any emerging matters. Auditors are also aligned to sectors to ensure there is a depth of understanding of sector specific trends or developments. In specialist areas of audit, such as financial services, we restrict audit team composition to a those with the requisite skills and experience. The focus of the firm is ensuring all training programmes also seek to develop within the individual skills in professional judgement and professional scepticism.

Risk	Response
Ineffective or incomplete audit tools	We utilise a commercially available third-party audit platform and methodology, which our technical team modify where appropriate to address specific areas of risk or focus for our firm. We also deploy a range of additional software tools including those related to data analytics, data visualisation, investment and financial instrument pricing, technical reference material and industry sector analysis. The firm is currently reviewing its audit software and methodologies to ensure they provide an adequate system of quality controls, in line with current regulation and risk areas.
Lack of understanding or compliance with Audit and Ethics Standards	The firm and the Audit function have invested time and effort to ensure that the values and behaviours expected of professional accountants and auditors are honed from entry to Johnston Carmichael. This underlines our recruitment processes, management, training and promotion and is intended to create a holistic culture whereby compliance with Audit & Ethics standards is the baseline expectation of good quality performance.
ISQM 1 Implementation	By utilising a holistic and substance driven approach to the creation of a culture supporting quality in terms of our end-to-end processes, implementation of the revised quality management standards will be achieved in a timely manner. Accountability ultimately sits with the designated member for Quality and by project managing implementation this will build the foundations of an enduring quality management system for the firm going forward.

7. Learning and Development

As a professional service firm, all of 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.

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. Our training programme includes both internal and external courses with elements specific to the technical role, sector specific knowledge building (ie charities and financial services) and more general courses of universal application such as Ethics, Anti-money laundering, Whistleblowing, Bribery and corruption, Equality, Diversity and Inclusion and Data protection.

This year, the firm has invested significantly in the development and establishment of the JC Academy training programme. We have also recruited a Head of Early Careers and continue to populate a curriculum of training from across the firm which extends beyond the technical and into a wide variety of professional and personal skills training and development. Our work across the firm on quality has underlined that a critical aspect of training in professional services is building skills that ensure each individual is personally committed to making and evidencing sound judgment and competent of doing so in their own right. Whilst training in and of itself may produce certification acknowledging that the individual has undertaken the training, it is not always a validated measure of efficacy in confirming their ability to perform the function. As the JC Academy develops, we will continue to build upon wider professional skills to ensure our people have the confidence to constructively challenge where appropriate, are able to exercise professional scepticism and apply professional judgment independently. Testing that learning in a controlled environment is also crucial to gaining assurance on competency achievement.

By leveraging the combined experiences of Business Line Heads and the Advisory Committee, we have also identified common areas of skills gap across the firm, such as basic project management, assertiveness, and expectation management. Addressing these areas as a priority and tailoring training requirements to practical need also allows us to visibly monitor learning outcomes in practical use cases.

We also recognise that training need and ongoing support may differ depending on background and experience. The training needs and support measures for a school leaver entrant as part of our JC Futures programme for example, will differ to that of a graduate of accountancy. Our ambition with the JC Academy is that both individuals and their line manager are able to build tailored training packages which are tracked as part of employee development plans each year. This will factor in a mix of business line specific, sectoral and skills training relevant to the individual and their career path.

The following technical training was provided for Auditors in the FY to 31 May 2021

Annual two-day conference for all Audit Seniors, Audit Supervisors, Managers, Senior managers, Directors and Partners including a technical update session run by Mercia Group.

Two half day audit forums for the same audience as the above conference (Winter 2020 and Spring 2021).

Specialist courses in the FY to 31 May 21, for all applicable staff included:

- A Charity update
- Clients with premium listed equity – Training for Auditors

Webinars on the following:

o The Ethical Standard

o ISQC 1

o Ethical Standard Requirements for PIE and Listed clients

o Financial Services Training

o Sampling

o Audit key estimates and judgements

o ISA (UK) 570 Going Concern

o Narrative Reporting requirements

8. Corporate and Social Responsibility

From our rural beginnings, Johnston Carmichael's offices have often emerged as visible focal points in the communities they serve and our approach to corporate social responsibility (CSR) is strongly wedded to our locality as well as to the values of the firm. Our Office of the Future Working Groups are also considering mitigations to the potential impact of changes from the pre-covid traditional office-based approach and how we remain connected at the heart of these communities.

The Office Head for each of our offices traditionally acts as the conduit to the local community, and their involvement is critical to our understanding of the needs of our clients in local markets as well as identifying and championing local charitable causes aligned to the firm's values. Engagement with the local area drives benefits for us too as an employer and links to local educational establishments both at secondary and tertiary level has been fruitful in supporting alternate routes into the accounting profession. The JC Futures programme has been a successful example of this with 19 school leavers employed as part of a six-year training contract across the firm this year. Prior year cohorts have demonstrated that progression statistics through the firm indicate good levels of retention from the JC Futures programme.

We are considering extending our bursary support across all our offices as part of the strategy of attracting a diverse range of talent to the firm from all levels of socio-economic background as part of our equality, diversity and inclusion agenda which was refreshed this year. Whilst reporting obligations on gender pay gap data for the 2019/20 reporting year was suspended, we were keen to continue reporting as part of ensuring the transparency and continued focus on progress in this regard. We have this year published a three-point action plan of recruitment, retention and progression as a means of tracking activity on gender pay gap improvement. A copy of the firm's most recent Gender Pay Gap report can be found on our website: 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: johnstoncarmichael.com/modern-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 and reduce wastage as a firm. This has also informed some of our charitable activities over the course of this year. You can find a copy of our Environmental and Sustainability Statement on our website: johnstoncarmichael.com/documents/general/Environmental__Sustainability_Statement_-_September_2021_%28for_upload%29.pdf

9. 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 815 staff and 57 partners over 13 offices.

57 Partners and **815** staff

Over **16,000** clients

Top 10 Firm

Strong expertise in **11** sectors

across **8** specialist services

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 2021 by its 52 (2020: 52) equity partners. There are an additional 5 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, under reference number 0274. As at 31 May 2021 14 (2020: 14) partners and 10 (2020: 12) 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).

10. Public Interest Entities

During the year to 31 May 2021, the firm expressed an opinion on the financial statements of the following entities that currently meet the definition of a Public Interest Entity (PIE):

- Blue Planet Investment Trust plc
- Discovery Education plc
- Dudley Summit plc

• Dunedin Enterprise Investment Trust plc

• EP Global Opportunities Trust plc

• Healthcare Support (North Staffs) Finance plc

• Highway Management (City) Finance plc

• HpC King's College Hospital (Issuer) plc

• Merseylink (Issuer) plc *

• Mid Wynd International Investment Trust plc

• Summit Finance (Wishaw) plc

• ScotGems plc

• SVM UK Emerging Fund plc

(*Listed in Ireland so ceased being a PIE from 1 January 2021)

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 2022:

• Artemis Alpha Trust plc

• By Chelmer plc

• InspirED Education (South Lanarkshire) Plc

• The Scottish Oriental Smaller Companies Trust plc

• Peterborough (Progress Health) plc

Financial Information (Group)

	Year ended 31 May 2021 (unaudited) £000	Year ended 31 May 2020 £000	Year ended 31 May 2019 £000
Revenue from audit work for PIEs and subsidiaries of PIEs	890	457	311
Revenue from audit work for other clients	10,287	8,933	8,237
Revenue from non-audit services for audit clients	5,738	6,724	5,717
Revenue from non-audits for non-audit clients	37,668	35,277	35,022
Total	**54,583**	**51,391**	**49,287**

11. International network

Introduction

In August 2021 we intimated our intention to leave the PKF Network and as from early 2022, we will be joining Moore Global as the sole Scottish member firm. Moore Global are a member of the Forum of Firms an organisation dedicated to consistent and high-quality standards of financial reporting and auditing practices worldwide. The Forum of Firms is an independent association of international networks of firms and involves them more closely with the activities of the International Federation of Accountants (IFAC) in audit and other assurance-related areas. For more information visit: www.ifac.org/who-we-are/committees/transnational-auditors-committee-forum-firms

For the purposes of the Local Auditors (Transparency) Reporting Regulations 2020, this reporting period relates to our membership of PKF International and accordingly the description of the network and legal, governance and structural arrangements described in this section relate to our prior membership of the PKF International network.

Legal Basis

The network formed by PKF International Limited ("PKFI") and the member firms is regulated by adherence to an Operating Licence Agreement (OLA) between the PKFI and individual member firms. The OLA authorises the member firms to use the PKF name as defined under specific circumstances, under specific conditions, for specific purposes and in a specific territory, in consideration for which the member firms pay a licence fee to the PKFI.

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

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

Key elements of the licensee agreements

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

Member firms are required to implement a system of internal monitoring and quality control assessment for all practice areas across the whole firm. For assurance and related services, the quality control system needs to comply with International Standards on Quality Control 1 (ISQC 1), with implementation of ISQM1 by December 2022. Member firms are required to submit an annual Member Firm Compliance Report to PKFI, as well as an annual Firm Profile Report, consisting of revenue and other statistics.

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

Structure, Committees and relationships between them

Member firms are organised into five geographical regions. Each region has a Regional Board and elects or nominates representative(s) to the PKFI's Board of Directors. PKFI is the central network organisation. Its Directors consist of the International Board members and its CEO. The CEO is appointed by the International Board and reports to the International Chairman and the International Board.

The International Board members are nominated by the various Regional Boards. The Chairman and, when appointed, a second representative, of a Regional Board is normally a member of the International Board. The International Board and Regional Boards convene meetings several times a year in person or by conference calls as required.

There are two international committees responsible for professional and practice standards – the International Professional Standards Committee (including Assurance) (IPSC) and International Tax Committee (ITC). There is also an Assurance Strategy Group responsible for identifying developing trends in audit and supporting network firms in being market leading in this environment. Several additional practice area committees operate both regionally and internationally. Each region is represented on these committees who report into the International Board and CEO on a regular basis. The IPSC and ITC convene meetings several times a year as required.

Quality Assurance at network level

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

Member Firms, Countries and Turnover (including number of offices and employees)

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

The aggregate fee income which relates to the statutory audit of annual and consolidated financial statements for EU EEA member firms (excluding correspondent firms) that belong to the PKFI Network (see Appendix I), as reported in the Firm Compliance Reporting 30 June 2020, is US $123.08 million.

The PKF Network is present in over 490 locations operating in 138 countries across five regions, providing assurance, accounting, taxation and business advisory solutions. PKFI member and correspondent firms have US $1.454 billion in aggregate fee income and around 20,500 employees (year end 30 June 2020).

Appendix I – PKFI network EU EEA member firms providing statutory audit of annual and consolidated financial statements

Registered Name	Country	Head Office City
PKF Corti & Partner GmbH Wirtschaftsprüfer und Steuerberater	Austria	Graz
PKF Österreicher & Partner GmBH & Co KG Wirtschaftsprüfungs und Steuerberatung	Austria	Vienna
PKF Centurion Wirtschaftsprüfungsgesellschaft mbH	Austria	Vienna
PKF Revisionstreuhand Wirtschaftsprüfungsgesellschaft m.b.H.	Austria	Salzburg
PKF Rößlhuber & Partner Steuerberatungs GmbH & Co KG	Austria	Salzburg
PKF-VMB Bedrijfsrevisoren cvba	Belgium	Antwerp
PKF Bulgaria Ltd.	Bulgaria	Sofia
Anticic Savjetovanje d.o.o	Croatia	Zagreb
PKF ATCO Limited	Cyprus	Nicosia
PKF Savvides & Co Ltd	Cyprus	Limassol
APOGEO Group, SE	Czech Republic	Prague
PKF Munkebo Vindelev, Statsautoriseret Revisionsaktieselskab	Denmark	Copenhagen
PKF Estonia OÜ	Estonia	Tallinn
Rantalainen Audit	Finland	Helsinki
Cabinet GROSS-HUGEL	France	Strasbourg
Cogeparc S.A.	France	Lyon
PKF Audit Conseil	France	Marseille
William SARL	France	Rouen
PKF - Fi.Solutions SAS	France	Paris
PKF Deutschland GmbH Wirtschaftsprüfungsgesellschaft	Germany	Hamburg
PKF Fasselt Schlage Partnerschaft mbB	Germany	Berlin
PKF Industrie- und Verkehrstreuhand GmbH Wirtschaftsprüfungsgesellschaft	Germany	Munich
PKF Issing Faulhaber Wozar Altenbeck GmbH & Co. KG	Germany	Würzburg
PKF Riedel Appel Hornig GmbH	Germany	Heidelberg
PKF Sozietat Dr. Fischer	Germany	Nuremberg
PKF Vogt & Partner Wirtschaftsprüfer Steuerberater	Germany	Herford
PKF WMS Bruns-Coppenrath & Partner mbB Wirtschaftsprüfungsgesellschaft Steuerberater Rechstanwälte	Germany	Osnabrück
PKF WULF & PATNER mbB Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft	Germany	Stuttgart
PKF Canillas	Gibraltar	Gibraltar
PKF Euroauditing S.A.	Greece	Athens

Registered Name	Country	Head Office City
PKF Audit Kft	Hungary	Budapest
PKF O'Connor, Leddy & Holmes Limited	Ireland	Dublin
PKF-FPM Partnership	Ireland	Balbriggan
PKF Italia S.p.A	Italy	Milan
PKF Latvia SIA	Latvia	Marupe
L'Alliance Révision S.à.r.l.	Luxembourg	Luxembourg City
PKF Audit & Conseil S.à.r.l.	Luxembourg	Luxembourg City
PKF Malta Limited	Malta	Birkirkara
PKF Wallast	Netherlands	Delft
PKF ReVisjon AS	Norway	Oslo
PKF Consult Spółka z ograniczoną odpowiedzialnością Sp. k.	Poland	Warsaw
PKF II Portugal Lda	Portugal	Lisbon
PKF Econometrica S. R. L.	Romania	Timisoara
PKF Finconta S. R. L.	Romania	Bucharest
PKF Slovensko S.R.O	Slovakia	Prievidza
PKF – Audiec SAP	Spain	Barcelona
PKF Attest Servicios Profesionales, S.L.	Spain	Madrid
PKF Revidentia AB	Sweden	Stockholm
Francis Clark LLP	United Kingdom	Exeter
Johnston Carmichael LLP	United Kingdom	Aberdeen
KLSA LLP	United Kingdom	Harrow
PKF Littlejohn LLP	United Kingdom	London
PKF-FPM Accountants	United Kingdom	Belfast

Aberdeen
01224 212222

Dundee
01382 411790

Edinburgh
0131 220 2203

Elgin
01343 547492

Forfar
01307 465565

Fraserburgh
01346 518165

Glasgow
0141 222 5800

Huntly
01466 794148

Inverness
01463 796200

Inverurie
01467 621475

London
0203 7144 350

Perth
01738 634001

Stirling
01786 459900

Member of PKF International