



Johnston Carmichael LLP Transparency Report

Year ended 31 May 2023

An independent member firm
of Moore Global Network Limited



MOORE



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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 2023 and has been designed to explain our:

- legal structure and ownership;
- governance structures;
- quality control systems and assurance programmes and practices;
- leader to leader culture underpinned by supporting and developing our people.

These foundations are 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.

Section 1

Foreword

Andrew Walker, Chief Executive

1. Foreword

When I wrote the introduction to our 2022 report it was against a backdrop of a global cost of living crisis, war in Ukraine, and the climate change emergency. In 2023 these external risks and influences sadly remain front and centre and continue to directly impact our people and our firm.

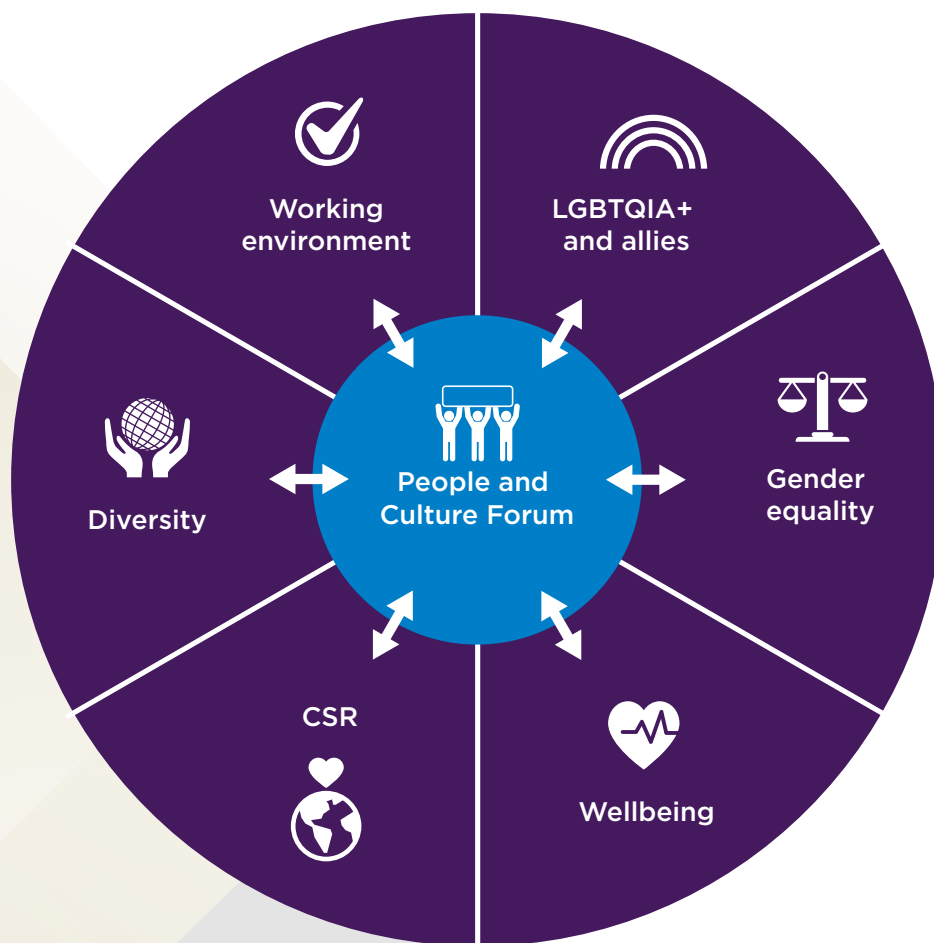
While these macro issues can seem beyond our influence, we can still play our part in supporting progressive change through leading by example, and where possible, taking incremental steps that have an overall impact on the bigger picture. Our values are Doing the Right Thing, Standing in Other People's Shoes, Remaining Relevant, and Leading our Future. We talk to our people about the importance of framing their day-to-day work and lives outside of the office in the context of these values. If we do the right thing while thinking about our ethical and social responsibilities and how our decisions affect our clients and our wider community, we will more often than not make decisions that support positive change, not just in our immediate sphere of influence but sending ripples way beyond.

At Johnston Carmichael we talk about a culture where all our people are enabled to be leaders of their work and their learning. We encourage curiosity about our work and the wider world, valuing constructive challenge of the status quo with an emphasis on agility and innovation. As a Board, our responsibility is to establish and promote a high-performance culture where a laser focus on quality is embedded across each business line and support function, recognising our role in serving the public interest and securing long-term sustainability. This year, we have maintained our momentum in monitoring, measurement and continuous improvement of our quality regime. To enable this, we offer several learning opportunities for our people through our in-house JC Aspire programme that supports skills development in these areas.

We recognise of all the challenges the business community faces, one of the most difficult to quantify but no less impactful, is the need to build a culture that balances commerciality with paying attention to the deep-seated desire for ethical and meaningful work. We have approached this challenge by establishing a People and Culture Forum which is the voice of our employees and suggests and implements ideas for change in our firm. For example, we recently entered a partnership with Netball Scotland to fund development programmes to encourage girls and young women to play the sport and enjoy the mental, physical and social benefits it brings. This partnership has seen a 17% increase in membership growth in the Under 18 category amongst other benefits.

Our People and Culture Forum has subgroups addressing important issues such as:

- LGBTQIA+
- Gender equality including raising awareness of returners to work and the menopause
- Wellbeing, including becoming members of the Mindful Business Charter which seeks to embed working practices that better support positive mental health
- Corporate Social Responsibility, including regular fundraising initiatives for local charities
- Diversity
- Working environment



These groups are the engine room for change in our firm, led by employees of all levels. In addition, we have an ESG strategy group that is coordinating activities across the firm and through our membership of the Moore Global Network, will help ensure we act sustainably while remaining sustainable as a legacy firm.

Last year I wrote that I remained cautiously optimistic for the period ahead. We have continued to make progress as a firm in ensuring a culture of quality where people are supported to do the right thing. I continue to be optimistic despite the challenges we face not least because of the talent, resilience, and agility of the people we employ.

It is with pleasure that I commend this report to you as further evidence of our compliance with all applicable audit and ethical standards to deliver high quality services in all areas of our work.



Andrew Walker

Chief Executive, on behalf of the
Board of Johnston Carmichael LLP
30 September 2023

Section 2

Introduction

Graham Marjoribanks,
Partner and Head of Audit

2. Introduction

Last year, we noted the significant changes in the audit market caused by continued scrutiny on audit quality across the profession. As a firm, we continue to invest in our team, our technology and infrastructure to adapt to these changes in the market as well as preparing for future regulatory changes. This is a key part of our strategy as we look to differentiate our firm in the market.

Investing in our specialists

We have continued to invest in the skills and expertise of our team. We now have over 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. We have also developed our specialist teams in Financial Services and Energy, Infrastructure & Sustainability, the two sectors where we perform Public Interest Entity (PIE) audits. We have continued to build out our Financial Reporting Advisory practice to ensure we have clear separation between our audit team and accounts preparation and to continue to strengthen our technical expertise relating to complex financial accounting matters. Additionally, we have developed our Risk & Resilience team with the hiring of internal audit and regulatory specialists, along with the appointment of a Partner to lead our IT assurance offering. And finally, our culture is crucial to everything we do at Johnston Carmichael, and increasingly so as we grow in size and geographic footprint. As such, this year we also recruited a culture review specialist to

assess our culture create an action plan with our aspirations and help us implement the steps to achieve this.

Quality management – ISQM 1

Like all firms, we implemented ISQM 1 during the year. This process has highlighted areas for improvement, which we continue to work on. This is multi-faceted and pervasive throughout the firm. However, there are some key areas that we believe will help us continue our journey to increase audit quality standards. Firstly, we have further embedded our review of our client portfolio from a profitability and risk perspective and are committed to making changes as necessary. We will keep this under review as the business environment and our client base changes. We are also further refining our client acceptance and continuance criteria to ensure that we are able to deliver the right team, doing the right work for the right price.

Continuous learning and development play a key role in driving quality too, and as such is integral to our ongoing audit strategy. We continue to enhance our in-house technical training programme, JC Academy, with input

from our core audit leadership team as well as supplementing this with global training through our professional network Moore Global.

Last year, we appointed a new Head of Audit Quality Risk & Technical (AQRT). Against a backdrop of an extremely challenging labour market for technical resources, we were delighted to be able to continue to invest further here with one new team member joining in October 2022 and another during August 2023. Another team member is joining later in 2023. This will provide additional bandwidth to continue to progress our ongoing quality initiatives. We have moved forward key initiatives such as our monthly Talking Technical training sessions where we continue to communicate our expectations around audit quality and provide training on critical updates such as ISA 315 (Revised).

ISQM 1 came into effect halfway through the firm's financial year, so this was a key area of focus in the period running up to the effective date of 15 December 2022. During 2023 we have drawn on the expertise of our Internal Audit function to conduct a wholesale review of our ISQM documentation, which has fed into a programme of further enhancements

and refinements. We will next be moving into the monitoring and testing phase in the last quarter of the calendar year to comply with the requirement to complete our first annual evaluation by 15 December 2023.

Quality monitoring and measures

We have also refreshed our Internal Quality Monitoring programme, which involved reviewing every Responsible Individual (RI). We completed 19 reviews in the 2022 cycle and commenced the 2023 cycle during July 2023. Our Internal Quality Monitoring programme is now outsourced to an external provider to free up capacity within our AQRT team for other quality initiatives. 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 we were notified by the FRC that they would be undertaking an ad-hoc Audit Quality Review of one of our PIE audit files in response to the significant growth in our PIE audit portfolio since their last monitoring review. This review has recently been concluded with the file being graded as a '2' (limited improvements required) – a result which validates our continued investment in and focus on audit quality. We are not, however, complacent and continue to build on our programme of quality improvement, working constructively with the FRC supervision team with whom we now have regular interactions and engagement as a Tier 2 Firm.

Our Audit Quality Indicators (AQIs) are now being formally monitored by our Audit Leadership Group, although we continue to have data challenges that make automating this process complex. We review data on headcount, utilisation, RI portfolios and file archiving at Audit Leadership Group level. We decided to discontinue milestones as an AQI due to difficulties tracking the data. However, it remains an important project given the impact on audit quality, client service and profitability.

Finally, this is the second year that we are in scope of the Audit Firm Governance Code. We are reviewing compliance against the revised 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. 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
Partner and Head of Audit
30 September 2023

Section 3

Johnston Carmichael at a glance

3. Johnston Carmichael at a glance



formed in
1936



876
employees



65
partners



19,000
clients



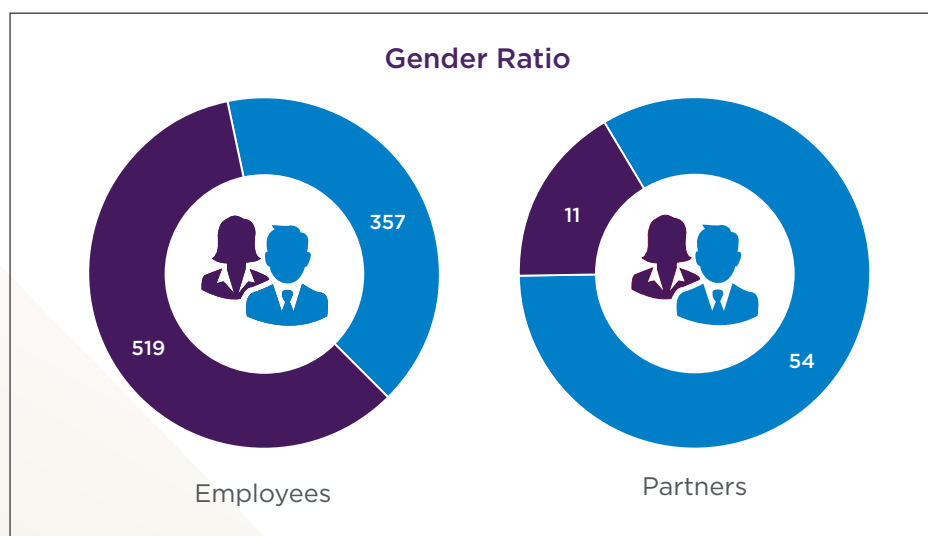
8
specialist services



14
offices



**Top
10**
UK
Accountancy
Firm



Scotland's **largest**
independent firm of
Chartered Accountants
and Business Advisers

5 key sectors



Financial
Services



Food & Drink



Technology &
Life Sciences



Rural



Energy,
Infrastructure &
Sustainability



Member of the international
network – Moore Global

3.1 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

As at the 31 May 2023 Johnston Carmichael LLP is owned by 56 equity partners. We also have 9 non-equity partners. 14 Partners hold the Responsible Individual (RI) Status as well as eight employees.

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 our people are employed.

3.2 Regulation

The firm is registered to carry out the following work in the UK by the Institute of Chartered Accountants of Scotland:

- Audit work and a limited range of investment business activities
- Licensed insolvency practitioner

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).

Section 4

International

4. International

Johnston Carmichael is a member firm of Moore Global Network Limited, a global audit, accounting, and consulting network with 34,423 professionals spread across 112 countries.

Moore Global member and correspondent firms have a combined global revenue of \$3.945 billion and the network is ranked 11th in the global league. Membership is regulated by contractual agreement.

Moore's purpose is to help its people, its clients, and its communities thrive, which closely aligns with our values at Johnston Carmichael. All firms within the network are independent businesses, but the network brings access to further specialist resources, support, expertise, and technology. Collaborating and sharing resources across the network enables all member firms to offer client solutions on a global scale, constantly enhance best practice, 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 future leaders
- a global growth strategy supported by a business plan bringing clear, defined and focused objectives

- delivering quality in everything we do
- a focus on innovation to support member firms to embrace technology
- offering enhanced value to our firms through collaboration, communication, and transparency
- the network-wide strategy, Social Ambition, to deliver positive social impact across all areas

Like Johnston Carmichael, Moore Global has quality at the heart of its strategy with a focus on people development, quality systems and building trusted relationships.



>110

Countries



>260

Firms



>600

Offices



>30,000

People

An independent member firm
of Moore Global Network Limited



Section 5

Leadership and governance

5. Leadership and governance

The Board is responsible for overall governance, accountability and leadership of the firm as well as setting the firm strategy in line with our core values. 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. Five core committees report into the Board and are detailed fully within this section. The underlying principles of our governance structure remain fixed since our last report, however the scope of some of the committees has evolved.

Board members



Andrew Walker
Chief Executive and
Partner



Mark Houston
Chair and Partner



Lynne Walker
Vice Chair, Partner,
and Head of Business
Advisory



Craig MacPherson
Business Advisory
Partner



Graham Marjoribanks
Partner and
Head of Audit



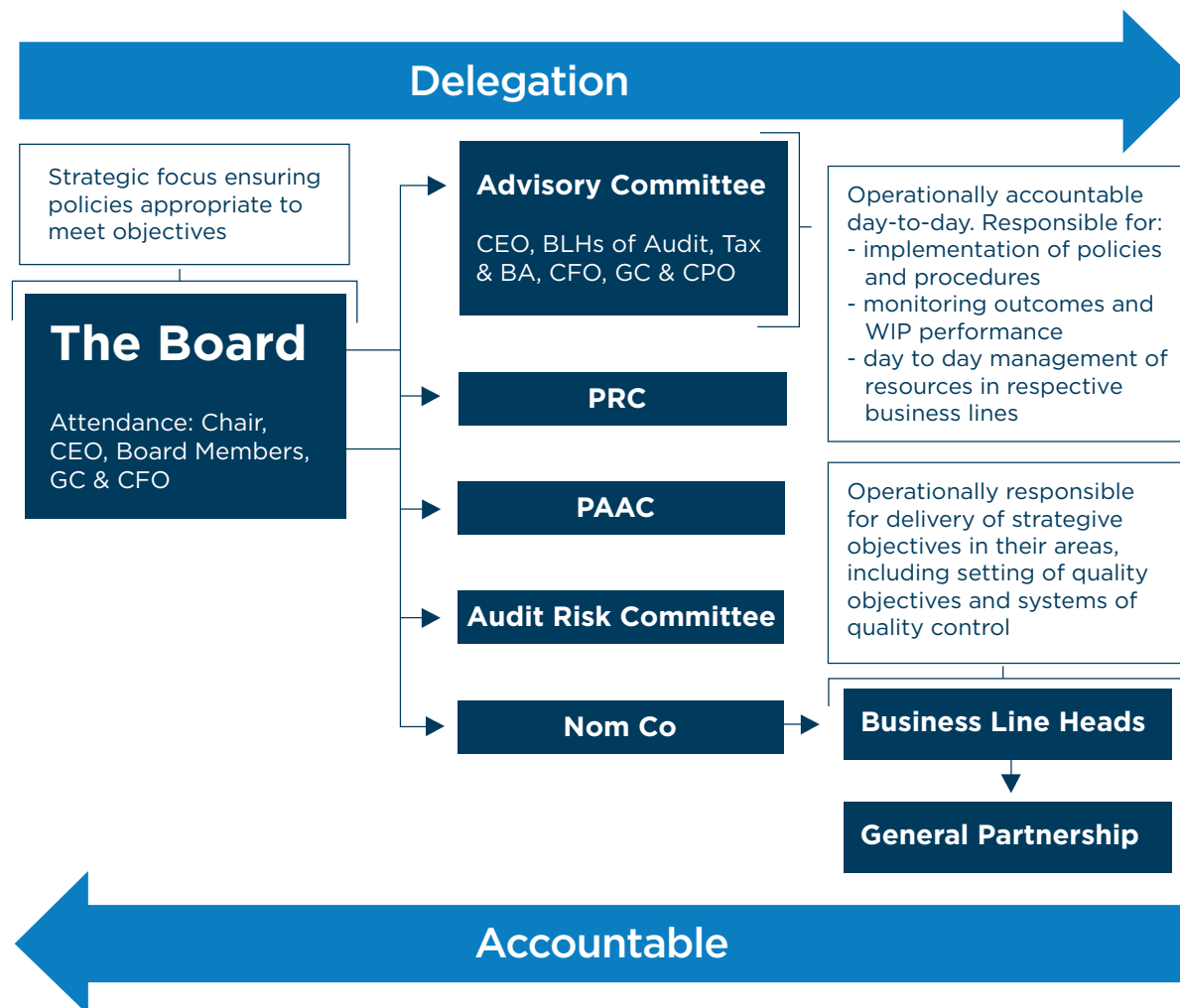
Money Laundering
Compliance Principal
Shaun Millican
Partner and Head of
Technology & Life Sciences

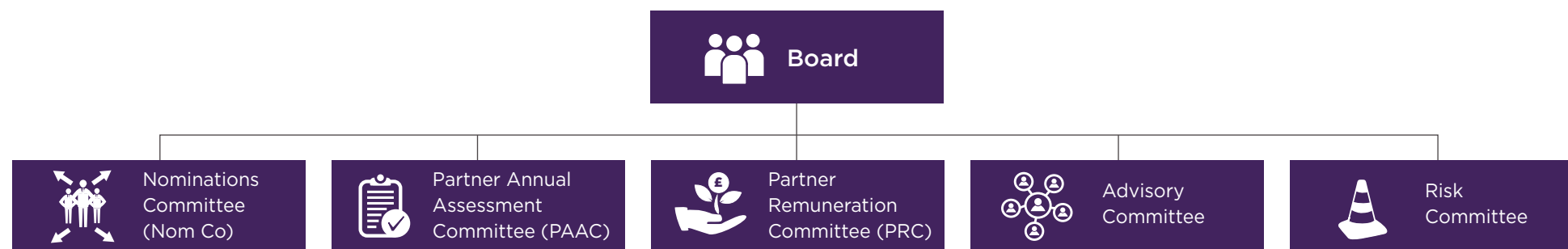
Board	Name	Details	Attendance at Board Meetings
Chief Executive	Andrew Walker	Appointed as Chief Executive 1st August 2019. Board member since 1st August 2008.	100%
Chair	Mark Houston	Appointed as Chair 1st June 2022. Board member since 1st August 2013.	100%
Vice-Chair	Lynne Walker	Appointed as Vice Chair in June 2022. Board member since September 2021.	100%
Board member	Craig MacPherson	Board member since 1st August 2014.	100%
Board member	Graham Marjoribanks	Board member since 1st September 2021.	100%
Board member	Shaun Millican	Board member since 1st September 2021.	88% (owing to annual leave)

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 Legal Counsel (LC) both remain in attendance at Board meetings in order to provide independent counsel and challenge for the equity partners and designated members against the risk of firm failure. The CFO and LC 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 and risk register is produced for the Board to ensure visibility of red rated risks. The report also includes an overview of the following areas: the number of professional indemnity cases, quality assurance of Anti-Money Laundering risk assessments, data protection breaches and gifts and hospitality.

Key risks considered at firm level include an increased threat of cyber-attack, which has led to substantial investment in augmenting our managed end point detection, to maintaining the focus on ongoing mitigation actions around quality across the firm, and protection of our corporate reputation.





Board

Function: Overall governance, accountability and leadership of the firm as well as setting the firm strategy in line with our core values.



Nominations Committee (Nom Co)

Function: The Nominations Committee considers candidates proposed from across the firm for promotion to Director and Partner level. The Committee acts as the guardian of professional standards and ethics, ensuring that the leaders of the firm represent those capable of strengthening trust in the profession and the future sustainability of the firm, with a keen focus on values led leadership. 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.



Partner Annual Assessment Committee (PAAC)

Function: The Partner Assessment Committee continues 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 PAAC acts as a calibration function on assessment to ensure performance evaluations are consistent across the firm. Outputs from PAAC can include action on demotion or reallocation of responsibility.



Advisory Committee

Function: The Advisory Committee remains an important mechanism in the operational implementation of quality frameworks across the firm. Its cross functional membership is designed to improve harmonised prioritisation and smarter operational decision making by considering thematic operational risks across the firm. The committee's core remit is currently being reviewed to focus on key firmwide projects.



Partner Remuneration Committee (PRC)

Function: Partners are remunerated from the distributable profits of the firm. Any over-distribution is recoverable from Partners. The PRC determines the final remuneration awarded to each Partner, considering the recommendations of the PAAC and assessing those findings against 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.



Risk Committee

Function: This Committee is convened to discuss contentious matters which have the potential to cause reputational damage to the firm.

5.1 Audit Firm Governance Code

In the latter part of the year ended 31 May 2022 we came formally into the scope of the Audit Governance Code 2016 for the first time and we continue to report under this version of the Code for this report.

As a Firm we are committed to the Principles of the Audit Firm Governance Code and in Appendix 4 we set out our Statement of Compliance with the 2016 Code. However, our progress towards this is ongoing, and in line with the 'comply or explain' approach to reporting on the Code. We also set out in Appendix 4 further explanations in relation to those principles and provisions with which we did not comply in the financial year to 31 May 2023.

Looking ahead for future reporting, we are now in scope of the strengthened provisions under the 2022 Code and will report under this version for our next report – year ended 31 May 2024.

In next year's Transparency Report we will be required to report on our compliance with the 2022 Code. Our key projects in progress to move us towards compliance with the revised code include:

- Appointment of Independent Non-executives (INEs) – section 5.2 explains further
- Governance / management structure review including establishing an Audit and Risk Committee
- Centre for Quality Excellence and firmwide framework for Quality Management
- Firmwide Quality and Governance KPIs reporting
- Culture reviews
- Board and members evaluations programme

5.2 Independent Non-Executives (INEs)

This year we have continued to closely monitor the increasing number of listed PIE audits and undertaken work to scope out the remit and selection criteria for potential Independent Non-Executives (INEs) at successive Board strategy sessions. As mentioned earlier, the Legal Counsel does provide independent counsel and challenge not dissimilar to an INEs and therefore we will look to ensure that the appointment of the INEs dovetails and supports the work of the Legal Counsel and vice versa.

The role of INEs in external Board and subcommittee evaluation is recognised as valuable and would enhance the existing internal methods of evaluation. Similarly, the Board has considered the potential value and external perspective that INEs might bring by validating the activity of the Partner Remuneration Committee (PRC) and objectively challenging remuneration decisions based on the objective KPI data available.

We intend to go to market in Q4 with the ambition to appoint an INE before the end of the financial year.

Section 6

People, values and behaviour

6. People, values and behaviour

Our values underpin the day to day work we do and conversations that we have in our firm. We are committed to Doing the Right Thing, even when no-one is looking, and Standing in Other People's Shoes to ensure we understand the needs and perspectives of our employees, our clients, and the communities in which we work.

Active listening is key to our approach to culture. We engage with our colleagues regularly to hear their views and ideas for change in our firm. Our People Survey 2023 had an engagement rate of 72% (69% in 2022) and we saw a significant shift from one red, 13 amber, and seven green ratings, to no red, 10 amber and 11 green ratings. We believe this demonstrates that our ongoing regular engagement with our people, listening and then acting on their ideas for improvement, is bearing fruit.

In addition, we recently launched a review of our culture undertaken by our Internal Audit and HR teams. This involves carrying out a firmwide survey, focus groups and one-to-one conversations with Board members to assess how far our espoused culture is being demonstrated in action across the business. This project will report to the Board in the Autumn of 2023.

As members of the Moore Global network, we have committed to its international Social Ambition strategy to deliver positive social impact. This strategy has aligned to our existing work in this area with our ESG Strategy Group

and Corporate Social Responsibility subgroup of our People and Culture Forum. This Forum has an annual action plan against which progress on our governance, social and environmental priorities are tracked and monitored.

Ethics and the understanding of what this means when applied day to day in our interactions with each other and our clients is a focus for development. Our in-house programme of learning opportunities for our people, JC Aspire, includes several workshops that aim to develop an understanding of ethical behaviour, how to appropriately challenge where this is not maintained, and how to provide constructive feedback on improving performance. Our in-house Leadership Programme for Senior Managers, Directors and Partners also takes time to discuss ethical challenges and the practical application of ethical behaviour in our business, underpinned at all times by our values. Mandatory annual training on anti money laundering, data protection, information security and Health & Safety continues to be tailored in mixed media format to target areas of identified improvement.



Developing and reinforcing the skills of personal integrity, professional judgment and professional scepticism in our people remains a key focus. Our Partner and employee induction process includes mandatory compliance training, designed to supplement existing whistleblowing policies and embed ownership of risk management at an individual level, by empowering people regardless of grade, to raise concerns and challenge where they see inappropriate behaviours or areas of concern. This is key to our espoused culture of everyone being enabled to be a leader of their work and their learning.

We are committed to supporting our people to find balance between work and life in today's frenetic world. We encourage flexible working and operate a hybrid working environment where employees can agree with their line manager, based on business need, the days they spend in the office and the days they work from home. In order to manage this shift in our working patterns, we have again used our programme of learning opportunities to provide workshops on how to effectively manage hybrid working to all our people. We recognise, particularly for our graduates and school leavers, that it is important there is regular and meaningful interaction in person between our people and this is requested and supported. As a flexible and diverse employer, we do have several people who work fully remotely and to date we have not seen this impact their productivity. We remain alert to the potential challenges; ensuring that

all our people remain visible and connected, with equal opportunity for future progression in the firm. This is an approach we continually monitor and discuss to ensure it meets our business needs and does not compromise our approach to quality.

Above all we appreciate that we live in a world replete with a myriad of choices and complexities which often adds additional stress to our people. Their wellbeing is a primary concern of ours and to address this we have established a wellbeing subgroup of the People and Culture Forum. This group has made significant progress in the past year including - the firm becoming members of the Mindful Business Charter initiative, training nearly 40 Mental Health First Aiders, offering mental health workshops run by the Scottish Association for Mental Health and introducing functionality on MS Office which encourages meetings to finish ten minutes before the hour to allow for breaks. Several focus groups have also been run within business lines to consider what approaches we can introduce, including improved use of technology, to reduce workload and support an improved balance of work and life responsibilities.

We continue to work to strengthen equity, diversity and inclusion in our workplaces, using a performance review approach based on our balanced scorecard and emphasising an ethos of meritocracy underpinned by our values. We have evolved our approach to student recruitment

to introduce blind recruitment applications, followed up by video interviews to support flexibility, and then assessment centres to ensure we are measuring candidates as a whole and not relying on interview only practices. We provide workshops on unconscious bias for our people and assessment centre training for our Early Careers team. We are actively encouraging school leaver applications from a broad range of public sector schools and colleges in Scotland, using our employee value proposition of flexible working within a leader to leader culture to attract talent from all backgrounds and circumstances. This has also helped us in our experienced hire recruitment and as a result we are starting to show improved diversity from a wider pool of talent in our firm. 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.



Section 7

Quality and risk management

7. Quality and risk management

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

Five levels of risk appetite:

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

Our Governance Risk and Compliance (GRC) function has been in place since 2019 and has a focus on effective risk management across the firm to ensure operational resilience. The function continues to develop as the firm grows. Risks are identified against a scale of impact and likelihood of occurrence in order to determine whether they are within, or outwith 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 GRC Senior Manager and Legal Counsel to provide independent challenge on identifying risks and progress against mitigating actions. Reporting is provided on key red flag categorised risks and thematic issues arising across business lines and support functions to the Board at every meeting. The other risks highlighted during the progress meetings with business lines and support functions are also categorised by way of a traffic light system. Strategic risk assessment at a firm level is undertaken as an exercise with the Board and Legal Counsel at the biannual Board strategy sessions.

Since last year, we have used our risk management framework to identify quality risk objectives for each business line and enhanced how we collect our metric data 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 ISQM 1 to business lines, beyond Audit alone, and ensure the focus on quality permeates throughout the whole firm. Currently an app is in development for tracking all quality assurance processes across the firm. This will allow full visibility as well as providing a baseline quality score metric for individuals across the firm.

This section gives a high level overview of some of the current and emerging risks inoted within our Audit business line risk register.



Risk:
Audit technology

Mitigating action: We recognise the importance of monitoring the effectiveness of our software platforms to assist us with our digital by default agenda. We are committed to supporting effective upgrades of our audit software platforms and understand the prudence of monitoring such upgrades and alternative software providers to assist the firm in remaining relevant. We intend to use appropriate audit software platforms to help us minimise manual workarounds which create greater opportunity for error, which in turn will assist us in achieving internal excellence and support audit quality.



Risk:
Macro and regulatory risks

Mitigating action: We remain alert to the risks associated with our external environment and we understand the importance of evaluating the possible effects macro risks can have on the audit sector. It is therefore of great importance we assess our external environment, and the factors that can affect the culture and transparency of the clients we work with. Having professional scrutiny when performing audits is a clear objective for our firm, with clients under extensive pressure to perform well in these periods of economic downturn, it is imperative we display professional scepticism in all areas of the work we undertake.



Risk:
Key person dependency

Mitigating action: We recognise the evolving nature of the audit profession and the need to future proof existing skills and capabilities within the team. In order to reduce this risk within the firm we have made some strategic hires over the last 12 months, introduced a comprehensive succession plan and utilised resources from our Moore Network. In addition to this we have retention strategies in place to reduce regretted attrition and our ongoing work on culture, engagement and continuous development of our people assists us in retaining talent.



Risk:
Audit resource

Mitigating action: As our firm grows it becomes imperative for us to understand the importance of effective resources within the Audit team, whether this be our people or the digital platforms we utilise. Recognising our people and enabling them to lead their own future by remaining relevant is key to our success. In order for our people to achieve this we have invested in our team, our technology and our infrastructure to assist the firm in being agile in responding to the future of audit.



Risk:
Control testing

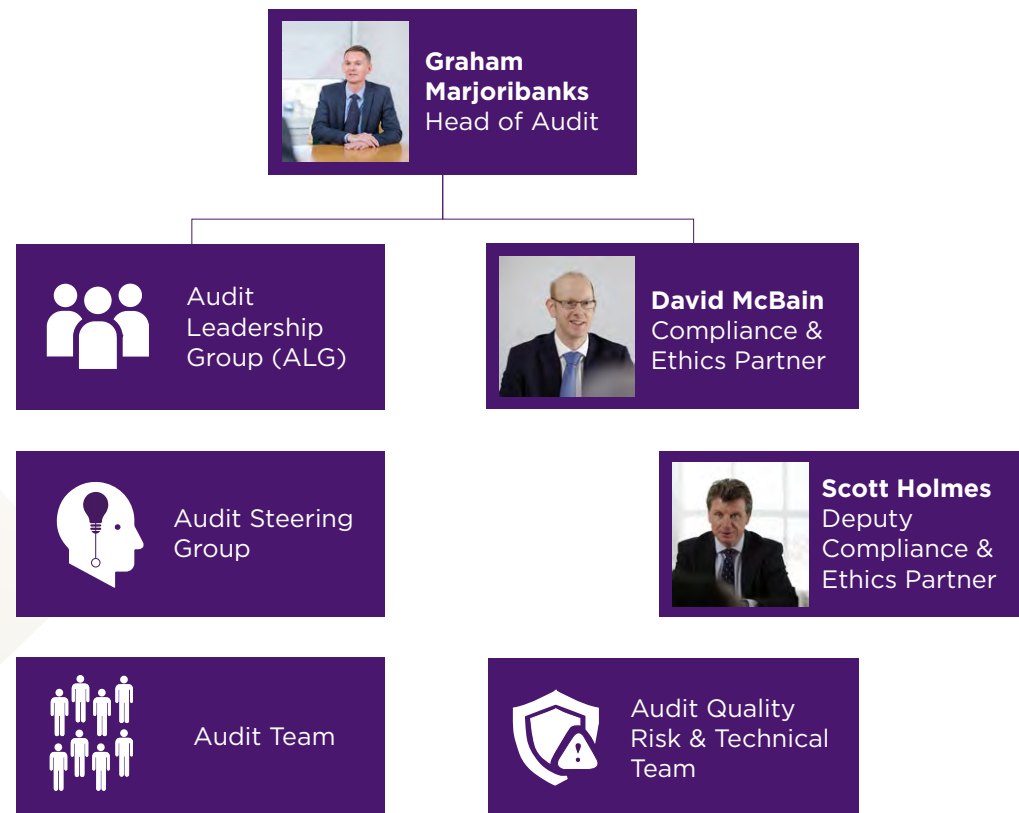
Mitigating action: Given the changing nature of our client base, we recognise the need to adapt our approach. In particular, more extensive use of control testing can assist in detecting and preventing noncompliance. Through lateral hires and expansion of our AQRT team, we are well placed to facilitate the roll-out of a revised control testing methodology.

Section 8

Audit team governance

8. 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.



Section 9

Audit quality

9. Audit quality



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

The over-arching quality objective for the Audit business line is to ensure effective quality audits that address risks. In pursuit of this aim we have identified the following strategic objectives to achieve this:

- Retain, attract and recruit the right people with the right skills set for the future. This includes both trainees and experienced hires.
- Provide the right training and support both on the job and through formalised training programmes, for all our people.
- Continue to review the structure of the Audit team to ensure that it is conducive to promoting audit quality.
- Ensure open communication with other business lines to promote the importance of audit quality in the current environment.
- Embed the support of the AQRT team into the way the wider Audit team works.

9.1 Audit Quality Indicators

During the year, our Audit Leadership Group formally reviewed our Audit Quality Indicators (AQIs). As noted last year, these remain under development while we build out the data in order to report on these consistently and accurately. The firm currently has an ongoing project on reporting to address any data gaps and, importantly, allow us to automate data collection for our AQIs. However, we are pleased to see meaningful improvement in certain AQIs, along with ensuring tone at the top throughout the business exists by reinforcing quality messages based on data. We have also further embedded AQIs within our business by involving our Steering Committee in initial review, leaving the ALG to review and challenge.

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).

Ref	Title	Description
1	Time spent - manager and RI	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	Staff headcount	Staff headcount for each financial year is in line with budgeted head count.
3	Staff turnover	Staff turnover does not exceed targets agreed by Audit Leadership Group on an annual basis.
4	Utilisation	Audit business line employees are working no more than 2,100 hours p.a.
5	RI portfolio reviews	RI portfolio reviews do not exceed £1,500,000 of audit fee income.
6	Training	All qualified staff will receive a minimum of 40 hours of training p.a.
7	Training	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 one month.
8	File close down	Audit files are closed down within 30 days of sign off.
9	Prior Year Adjustments	Prior Year Adjustment required that does not relate to change of accounting policy or financial reporting standard.
10	Monitoring of higher risk clients	RI portfolio is made up of less than 30% of higher risk clients.
11	Internal inspection results	No Audit files within the improvements required and significant improvements required categories.
12	External inspection results	External inspection concludes that there are no systemic or serious issues within the firm.
13	Ethics breaches	No ethical breaches recorded on audit files.
14	Internal 2nd RI reviews	2nd RI sign off completed before signing of financial statements.
15	RI quality ratings	Minimum of a grade '3' given for quality at Audit RI level.

9.2 ISQM 1 implementation

ISQM 1 came into effect on 15 December 2022, halfway through the firm's financial year, so our System of Quality Management (SoQM) was a key area of focus in the period running up to that date. Since the effective date, however, the need for continued focus has become increasingly more evident and we see the standard as a catalyst for ongoing change, moving us forward into a continuing cycle of quality improvement. During 2023, we have drawn on the expertise of our Internal Audit function to conduct a wholesale review of our SoQM documentation, which has fed into a programme of further enhancements and refinements. We aim to complete the programme by the end of September 2023, with a view of moving into the monitoring and testing phase in the last quarter of the year.

9.3 Relevant ethical requirements and independence

The firm's Ethics Policy requires all Partners and employees 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 employees 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 employees 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 employees 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 (PIEs).

In cases of doubt, or where threats to our independence, integrity and objectivity arise (or might be perceived to arise) the firm's Ethics Partner (for audit assignments) is alerted for a risk consultation. During the past year, the firm has also established an Ethics Panel to

allow consultation on complex or judgemental ethical matters. The Ethics Panel will typically be comprised of the Ethics Partner (or deputy), the Head of Audit and the Head of GRC.

In addition to pre-employment vetting, all Partners and employees must complete a mandatory fit and proper questionnaire on joining the firm. This 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 employees 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 employees annually reconfirm any actual or potential ethical conflicts or risks are positively confirmed.

The AQRT team oversees that the rotation of key audit employees occurs at the appropriate time, on all of our PIEs and listed audit assignments.

9.4 Independence procedures

The firm's Partners and employees (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 RI 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 is 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 member firm, we also update the network's Copernicus database with details of all our PIEs, other listed clients and any clients with a PIE or other listed entity in the group. We check this database before accepting any new services or clients. This is accessible to all Moore 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 PIEs 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 and manager in the same reporting period. A central log of periods of involvement is maintained for all of our PIEs 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.

9.5 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 employees and partners follow the correct processes for client identification, independence/conflict assessments and to ensure that the team 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 as a review point in providing clients with non-audit services. 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 people and adequate wider resource allocated, according to the risk level of the client. While 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 issues and adequacy of resource to maintain the quality of audit. We have conducted an in-depth review and refresh of the memorandum to map it against the requirements of ISQM 1. The revised memorandum is more granular to prompt articulation of the critical judgements taken when considering whether the audit engagement should be accepted. We have also produced a guidance document (APS 6A) to help prospective RIs ensure that the documentation is sufficient.

For PIEs and listed audit assignments the memorandum now also contains a pre-tender section to document the completion of conflict checks and approvals before the firm can participate in the tender process.

Conflict and independence checks are undertaken before the client can be accepted. For audit clients with an international presence, in addition to PIEs and listed companies, our conflict checks now also extend across the Moore Network, as previously detailed under our independence procedures heading, earlier in this section.

The Head of Audit, or their 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 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.

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 continued our risk review of our client portfolio with subsequent actions including repricing or disengagement. This process will continue throughout the new financial year. 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. This has been incorporated into our Risk Register process to ensure we capture risks, including within our key sectors, and identify the appropriate mitigating actions.

9.6 Engagement performance

The implementation of the ISQMs brought focus to our efforts to further enhance quality in a number of aspects of engagement performance, and various initiatives and projects were delivered under this umbrella.

Audit Policy

We undertook a comprehensive overhaul and restructure of our Audit Policy to ensure that it is aligned to the requirements of ISQM 1. This included the development of new 'Audit Practice Statements' (APSs) which are designed to provide our auditors with guidance as to how the Audit Policy is applied in practice.

Engagement Quality Reviews (EQRs)

ISQM 2 brought further rigour to the requirements for Engagement Quality Reviews and we undertook an implementation project in conjunction with ISQM 1 to ensure that our policy and processes are compliant with the requirements of the new Standard.

This included reassessment and formalisation of the risk criteria which are to be considered when assessing whether an EQR is required. These were developed in conjunction with our requirements for other mandatory reviews and consultations.

Together with an updated role profile, associated practical guidance (APS 1) and a mandatory

template (Engagement Quality Reviewer Memorandum) were published as of 15 December 2022. A training session was run with the EQRs and other RIs on 3 February 2023 to explain the requirements and highlight key changes. Regular EQR meetings are held so that the individuals fulfilling this role can share challenges and good practices – these meetings are also attended by a member of the AQRT team to ensure an effective two-way communication process for identifying audit quality matters.

9.7 Mandatory reviews and consultations

As ISQM 2 acknowledges, there are engagement quality risks where an EQR will not necessarily be the best response and so we have captured in our Audit Policy a series of risk criteria and mapped these to the required response of a mandatory review or consultation, setting out practical guidance for each review or consultation type in another in our Audit Practice Statement series.

This approach has resulted in fewer engagement quality reviews being performed than under our previous policy, allowing our EQRs to direct their efforts towards the higher risk engagements, and creating more capacity to ensure these reviews have sufficient depth and rigour to meet the requirements of ISQM 2.

At the same time the mandatory reviews and consultations bring in a targeted focus to

address specific risk criteria where a ‘whole file’ review is not considered to be the most appropriate response.

9.8 Audit platform and methodology

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 recognise that as we work with increasingly complex and/or higher risk audit clients, there is a need to continually assess whether this solution meets our needs, and we have continued to develop our 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.

These challenges came to head in late 2022 when it became apparent that the audit platform software provider would be unable to deliver a fully functional ISA 315 (revised) compliant product in time for the planning cycle for our 31 December year end audits. As a consequence, the decision was taken not to upgrade the platform version but instead to produce a suite of checklists and templates to be completed by audit teams and embedded within the audit files created within the legacy platform. The planned Autumn Roadshow was then repurposed to introduce these templates and enable

audit teams to become familiar with them in a facilitated workshop.

The agility of this response ensured that audit teams were able to plan ISA 315 revised compliant audits, however such workarounds carry risk and can only be a short term solution. As outlined below this situation has accelerated the need to evaluate our technology solutions.

9.9 Resources

9.9.1 People

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. During the year, the last remaining general practitioners finalised their transition plans. Our practice will be fully specialist during our new financial year 2023-24.

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.

9.9.2 Recruitment

An obvious risk is that we fail to retain our

talented people and fail to recruit talented replacements. There are additional risks in ensuring our onboarding processes are robust, meet legal and government guidelines, and give our people the best possible first impression of our firm.

We have an online onboarding process that ensures all required checks are completed. This also allows the employee to upload documents online, reducing cost and bureaucracy.

We have an experienced in-house recruitment team and a clear Employee Value Proposition based on a culture where we enable everyone to be a leader of their work and their learning, underpinned by an extensive and market competitive pay and benefits package. This ensures we attract and retain talent. Furthermore, working closely with our Early Careers, Recruitment and Learning and Development teams we use a range of assessment methods during our interview selection process to ensure we gain a comprehensive overview of our candidates skills and behaviours. We have covered this in more detail earlier in the report within our [People, values and behaviour section](#).

We know the Audit recruitment market is challenging. There is a clear risk of hiring candidates that won't be able to deliver quality audit work, based on the size of the candidate pool compared to market needs. However, we have a preferred supplier list of recruitment agencies specialist in attracting Audit talent.

Our in-house recruitment team is well versed in navigating this market. We have tailored our approach to ensure that technical and non-technical skills are assessed prior to offers being sent out. Our commitment to flexible working, fully hybrid approach, and our work on CSR and ESG is also a key factor in retaining and attracting talent. For senior hires, the Head of Audit has regular check-ins to ensure team members are settling in and are aware of resources and support available to them.

9.10 Performance

9.10.1 Role profiles

A key to successful performance is clarity of expectations and with this in mind we have in the last year brought together guidance for our whole Audit team - from student through to RI - on our intranet under the umbrella of 'Responsibilities of those involved in the Audit'. This incorporates expectations under the four pillars of the Balanced Scorecard, with an emphasis on how these deliver audit quality; an explanation of the contribution to the audit expected from their role (including permissions and access levels where relevant); and mandatory and optional training, learning and development opportunities.

9.10.2 Performance development reviews

The firm refreshed its approach to performance reviews in the last year to emphasise learning and development as an ongoing process – the objective being that the annual review process should be a continuation from the regular conversations happening between individuals and their line managers throughout the year.

Performance is measured against the balanced scorecard which sets out four performance indicators: Leading and Managing People, Internal Excellence, Client Service, and Financial Performance and Targets.

The ratings structure changed this year from five to four options, which are: unsatisfactory, growing, successful performance, and exceeding expectations. These are narrative-based, reflecting descriptors that capture the extent of delivery against expectations for the role and the modelling of desired behaviours.

Within the Audit business line the 'Internal Excellence' indicator is the linchpin of audit quality and as such is given greater emphasis – an individual rated at less than 'successful performance' in this quadrant will have their overall rating capped accordingly. A 'successful performance' rating overall is the minimum pre-requisite for eligibility for promotion and/or consideration for discretionary bonus payments.

9.11 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.

Under the leadership of our new Head of Audit Quality, Risk and Technical, the team continues to grow to ensure we have the requisite skills, expertise and experience to help deliver the audit quality agenda.

Recruitment in the current audit market remains 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 leveraged our membership of the Moore Network to help us reach further afield to secure a new permanent technical manager who joined us in the Autumn of 2022.

Recruitment activity within the AQRT team has continued apace with the appointment of two further technical managers to the team. One started at the end of August 2023 and the other starts in October 2023.

The team also welcomed a secondee from the wider Audit business line in September 2022. The secondee's time with the AQRT team will shortly come to an end, and it is hoped that the benefits gained from this experience will encourage others to apply for the role. It is envisaged that this will become a rolling secondment

programme, which will provide shorter term resourcing capacity and also develop the technical skills of those involved in the programme, who will return to operational roles with greater breadth and depth of expertise.

The AQRT team launched a programme to support audit senior managers on their journey to becoming RIs. As part of this programme these individuals will be expected to play their part in audit quality projects. This has the double benefit of giving them greater exposure to audit quality matters while at the same time providing additional capacity for the delivery of such projects.

9.12 Resource Management

The Resource Management team has been established within the Audit business line at Johnston Carmichael for two years and continues to focus on a centralised approach to planning and resourcing activities. The function has since grown, now consisting of a team of three covering the full resourcing cycle for the Audit business line. The team continues to have full oversight of the planning and resourcing processes and practices of the business line to ensure effective team structures, a focus on the commerciality of our budgets and enhanced audit quality through resourcing initiatives.

The Resource Management team continues to support a growing business line with a particular focus on the new win and tender process to ensure we have sufficient capacity and expertise to support our new and existing client base.

The team works closely with the Partner and Director group to create a consistent approach to resourcing new clients with audit quality at the forefront. Key to this process is the review of our client base and leveraging capacity in advance to ensure effective team structures, high client service and a quality audit. There is a key focus to create sector specific teams, particularly in relation to our Energy, Infrastructure & Sustainability, Food & Drink and Construction sectors.

The continued growth of our Energy, Infrastructure & Sustainability sector, particularly in relation to PFI work, has led to the Resource Management team taking a key role in managing and developing the relationship with Moore South Africa and the growth of our team in Johannesburg. The Resource Planning Senior Manager works closely with Senior stakeholders and the Moore Operations team to develop and grow the Moore South African team, enhance team development, and create effective team structures that allow support from experienced Johnston Carmichael team members.

The team continues to develop and improve resourcing processes and practices through automation of tasks and this links to the on-going technology review for a new resourcing platform. The review of resourcing technology will be the key focus for the team moving into the new year.

9.13 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.

Implementing the revised ISA 315 has moved us further towards an audit approach where reliance can be placed on the operating effectiveness of controls. Advances in the data analysis tools available mean we are also exploring the possibilities of leveraging the assurance that can be obtained from 'whole data' analysis as a means to pinpoint the items of highest risk on which to focus our audit effort.

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.

9.14 Monitoring and remediation

9.14.1 Audit Quality Monitoring Programme

Last year we relaunched our Internal Quality Monitoring cold file review process and the 2022 cycle was concluded in March 2023.

We chose to extend the scope of the review programme to include all active RIs in the calendar year – one file being reviewed for each RI. Where the RI undertakes higher risk audits (for example PIEs and other listed entities) the file selected for review was for one of these audits. The purpose was to establish a baseline across the whole RI population which will then inform the focus of the programme going forward. Irrespective of the initial baselining exercise, it remains our intention that all RIs undertaking PIEs and listed audits will continue to be reviewed on an annual basis.

We used a grading system that mirrors the system adopted by the FRC and ICAS in their reviews. Files graded 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.

Feedback on the review programme's progress was provided to the ALG each quarter, which included individual file grades together with common findings and recommended remediation.

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. The 2023 cycle, which will involve the review of 10 files, has been wholly outsourced and commenced in July 2023. It remains our intention to develop the capacity to be able bring these reviews in-house as part of a wider quality monitoring function.

9.14.2 External monitoring

ICAS

Our 2021 ICAS monitoring review was concluded in 2022 and as such we were not subject to a review in the year to 31 May 2023.

Throughout the year we continued to focus on the remaining areas where we needed to deliver improvements, in particular in respect of the relaunch of our Internal Quality Monitoring (cold file reviews) programme and we have continued to maintain regular communication with ICAS as to the progress that we are making with these actions overseen by the Head of Audit.

FRC

Our PIE portfolio continues to grow – in the year to 31 May 2023 we issued 35 PIE audit opinions (2022:21). With this growth comes enhanced regulator scrutiny and we were advised by the FRC towards the end of the year that we have been reassessed as a Tier 2 category Firm.

However, for most of the year as a Tier 3 Firm we remained subject to a quality monitoring review from the FRC on a six-yearly basis and their last report was issued in March 2021. 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.

In April 2023 we were advised by the Audit Quality Review team at the FRC that: “due to the significant growth in our PIE audit portfolio since the last monitoring review”, they would be performing an ad-hoc review of one audit file. This review has recently been concluded with the file being graded as a ‘2’ (limited improvements required) – a result which validates our continued investment in and focus on audit quality. We are not, however, complacent and continue to build on our programme of quality improvement, taking on board the feedback received from the review team.

As we move into Tier 2 we are seeing greater proactive engagement from the FRC including quarterly meetings with our supervision team. We view this as a positive development, enabling us to have constructive communication with the Regulator at an earlier stage on the actions we are taking to further improve our audit quality. Their input and challenge on ISQM 1 has been particularly helpful to us as we formulate our plans to enhance our System of Quality Management. Due to the level of engagement we have with our supervision team, we concluded that we would not participate in the FRC’s ScaleBox initiative, but may opt in to certain elements should they be of relevance to our circumstances.

9.14.3 PIE Auditor registration

We engaged with the FRC throughout their outreach and consultation programme, and submitted our application for registration of both the Firm and the RIs who will be signing PIE auditor reports in line with the transition deadline. Our application for registration was accepted by the FRC for the Firm and our six PIE RIs, effective 5 December 2022. Our registration was subject to certain undertakings with which we have complied for the period since registration.

Section 10

Learning and development: a focus on audit

10. Learning and development: a focus on audit

We have a proactive and supportive approach to Learning and Development across the firm as we grow a culture where all our people are enabled to be leaders of their work and their learning.

As mentioned earlier in this report, we have an established Learning and Development team which has embedded a comprehensive programme focusing on developing leadership and growth mindset skills known as our JC Aspire programme, including online and in person workshops, conferences, coaching and mentoring and 360 review feedback. Additionally, our JC Academy programme which delivers technical training across our business lines and support functions has been further enhanced.

We have implemented a revised JC Academy audit pathway to support our early careers colleagues as they progress from associate through to supervisor. The pathway aligns their formal training with the required skill set (role profiles) at each level and the JC Academy facilitation team works closely with resource management and the Leading and Managing People teams to ensure that training is attended in a timely manner.

A team of experienced auditors takes responsibility for the facilitation and development of the material aligned with latest auditing and accounting standards as well as the most up to date internal policies.

During 2022/23 we worked with an external firm to help ensure that each course had key learning objectives, there are a range of learning styles covered and the outcomes from the training can be measured. All attendees receive an assessment post-course and line managers have guidance notes to check in after each event to discuss key learning, action plans and additional support required.

Where face-to-face learning is not fully possible, our training takes place in a hybrid environment, with the use of Microsoft Teams allowing participants to work together in meeting rooms across a number of offices with facilitators presenting to all at the same time and local representation at each office on hand to answer queries.

As a result of the changes there has been a noticeable increase in the satisfaction levels with this training, as noted in the last people survey. Direct feedback from all courses undertaken in the last year averages at 4.5 out of 5.

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.

10.1 CPD

All our people are expected to keep their Continuing Professional Development (CPD) up to date, per our CPD policy, as part of their professional practice obligations and this is monitored through the firm's objective setting and performance management processes, in line with ICAS requirements. A discrete training log is available digitally to allow for ease of capture. All individuals working within audit who hold a professional qualification are required to complete a formalised CPD plan. 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.

We have continued to take a hybrid approach to learning, combining the advantages of 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, with the opportunity to work and learn collaboratively that in-person sessions can provide.

10.2 Talking Technical

As we noted in last year's report, in May 2022 we held our inaugural Talking Technical sessions. The success of these has now evolved to a mandatory (for qualified employees and Partners) monthly one-hour Microsoft Teams call which gives us the opportunity to deliver 'bite-sized' technical learning on a more iterative basis. These sessions were the vehicle for our 'Unpicking ISA 315 revised' series through 2022 which introduced the new concepts and requirements that audit teams needed to apply for the December 2022 planning cycle. The sessions provided the opportunity to deliver pre-learning ahead of the main Autumn Roadshow event, as well as follow up guidance as teams put the learning into practice.

Other topics covered have included:

- ISQM 1 and resultant changes to policies and procedures
- FRED 82
- Analytical procedures
- Business combinations
- Fraud
- Group audits
- Data analytics

10.3 Autumn Forum 2022

The Autumn Forum in November was our opportunity to return to in-person learning for the whole of the Audit business line, from students through to RIs. This took the form of a roadshow where a one-day workshop was held in each of our four key Audit locations of Inverness, Aberdeen, Glasgow and Edinburgh over the course of a week.

Our auditors worked in their engagement teams to undertake the planning of one of their live audits, guided by facilitators from the AQRT team who introduced the new suite of templates and guidance which had been produced to ensure our audits are compliant with the requirements of the revised ISA 315.

The day also included a session on fraud, outlining the changes brought in by the revisions to ISA 240 and considering the practical application of the fraud risk triangle.

10.4 Spring Forum 2023

The format for our Spring Forum was a half-day online session in which we brought together a comprehensive analysis of key considerations for the audit of tax. This was the culmination of a joint project that had been undertaken in collaboration with our Tax team to develop tools, templates and guidance for auditors to support them in delivering an effective approach to the audit of tax, drawing on tax specialist expertise where this is an appropriate response to the risk assessment.

10.5 Specialist training

In early 2023 we took a critical look at our approach to providing dedicated learning to our auditors working on PIEs and listed company engagements and concluded that, rather than an annual event, a quarterly update would be more effective, enabling us to deliver key messages on a more timely basis. In the period to 31 May 2023 we held two such events which, as well as general technical updates, publications and messages from the regulators, have covered areas such as:

- PIE Auditor Registration
- FRC Audit Firm Supervision
- FRC Ethical Standard requirements
- Extended audit reports and Key Audit Matters

Other sector specific training has included:

Financial Services - In December 2022, the Financial Services team delivered a whole team in-person training day to provide an overview and update on the sector and its specific audit considerations. This was supplemented by a



series of peer-led online sessions (17 in total) covering different sector-specific technical auditing and financial matters.

Energy, Infrastructure & Sustainability (EIS) - Throughout the year, the EIS team delivered training in relation to the audit of and accounting for service concession arrangements under PFI schemes. This included introductions to the sector to both the new intake of trainees and new experienced hires joining the team, as well as refreshers and advanced training for those already experienced in the sector.

10.6 A Shift in Mindset Audit Conference 2022

As well as the more formal technical learning activities described above, in October 2022 we brought the whole Audit business line together for our first in-person conference since before the Covid-19 pandemic.

The conference was built around the FRC's Professional Judgement Framework which provided a structure from which to explore our strategic quality projects and initiatives.

Section 11

Corporate social responsibility (CSR)

11. Corporate social responsibility (CSR)

We firmly believe in adding value and making a positive difference, not only for our clients but for our people and our communities. We already make a considerable contribution to the wider economy and its communities through our extensive graduate and school leaver annual recruitment, but our CSR committee adds further value by supporting and managing a range of initiatives that demonstrate our commitment to the local areas in which we live and work. We also allow our team flexible and hybrid working to allow them to carry out volunteering activities. Recently some of our team took part in the Big Help Out and supported Street Soccer Scotland, Riding for the disabled and Kirriemuir Rotary Club removing plastic for the trees in their Peter Pan Garden.

11.1 CSR Committee

The CSR Committee manages a range of firmwide charity initiatives, encouraging our people across our locations to get involved and raise awareness of various causes. To date we have had a number of firm wide initiatives including “Wear it Pink” for Breast Cancer, Movember, Walk for Wellbeing, Christmas Jumper Day for Doddie Aid, Red January and Blue Monday, raising significant funds for these charities.

In addition to our firmwide CSR initiatives, we also actively support and encourage local initiatives in each of our offices and our sectors. Each local office has a CSR team which links in with the firm’s CSR Committee and each office has a representative on that Committee

which allows joined up thinking, sharing of ideas and helps drive forward our CSR strategy. Our local teams coordinate and organise events and activities supporting local charities, often where there is a connection with one of our team or in support of a campaign which is important in a local community. The activities carried out in each office range from fundraising to volunteering. This allows us to come together socially to collaborate, engage, and embed the values of our firm in our office locations which gives us a huge sense of reward and achievement. As a sector focussed firm we also support charities in these communities. We recently have had our rural team participate in the Great Glen Challenge, which involved our team walking, running, kayaking, and cycling raising funds for RSABI (Royal Scottish

Agricultural Benevolent Institution). This not only helped with fundraising but helps our own teams’ wellbeing, getting out in the fresh air, teambuilding and giving back to our communities. We take part in this annually. We are also very passionate about supporting the next generation and education. We support initiatives such as RHET (Royal Highland Education Trust) and Countryside Learning Scotland, giving back to our young people and helping educate children and teachers about food production and Agriculture in rural Scotland.

11.2 Firm wide sponsorships

As a firm, we support a few large charitable organisations through sponsorship, helping to drive real impact at a grass roots level and build a legacy for the future. 2023 marks Johnston Carmichael's sixth year as Gold Sponsors of the Kiltwalk, which takes place in Dundee, Edinburgh, Aberdeen, and Glasgow and has raised £33.9 million for more than 3,000 charities to date.

Charities supported include: Street Soccer Scotland, Cancer Research UK, and My Name's Doddie. As mentioned previously in our People, Values & Behaviour section earlier in this report, this year we also committed to supporting Netball Scotland. Through our partnership, Netball Scotland has been able to invest in several National Development Officers across Scotland to help promote the sport amongst girls and young women, support local clubs with equipment and fund a series of training camps. Through our partnership we are proud to play a small part in helping drive forward the sport across Scotland and most importantly promoting the benefits of sport for social needs, confidence and improving your mental health and mindset.

11.3 Sustainability

We are very conscious of the need to minimise the environmental impact of our corporate activities and this has served as an important guiding principle of our future office footprint, how we reduce unnecessary business travel, achieve energy efficiency and cut waste. This has also informed some of our charitable activities over the course of this year.



Supporting the communities in
which we live and work.
Proud to be Gold Sponsor of Kiltwalk



Section 12

Appendices

Appendix 1

Public Interest Entities (PIEs)

During the year to 31 May 2023, the firm expressed an opinion on the financial statements of the following entities that currently meet the definition of a PIE:

- abrdn New Dawn Investment Trust plc
- Aberforth Smaller Companies Trust plc
- Annes Gate Property plc
- Artemis Alpha Trust plc
- Blue Planet Investment Trust plc
- By Chelmer plc
- Catalyst Healthcare (Manchester) Financing plc
- Catalyst Healthcare (Romford) Financing plc
- Catalyst Higher Education (Sheffield) plc
- Consort Healthcare (Blackburn) Funding plc
- Consort Healthcare (Mid Yorkshire) Funding plc
- Consort Healthcare (Salford) plc
- Consort Healthcare (Tameside) plc
- Discovery Education plc
- Dudley Summit plc
- Dunedin Enterprise Investment Trust plc
- Exchequer Partnership plc
- Exchequer Partnership (No 2) plc
- Global Opportunities Trust plc
- Healthcare Support (North Staffs) Finance plc
- Highway Management (City) Finance plc
- HpC Kings College Hospital (issuer) plc
- Healthcare Support (North Staffs) Finance plc
- InspirED Education (South Lanarkshire) plc
- JP Morgan Japan Small Cap Growth & Income plc
- Maven Income and Growth VCT 3 plc
- Maven Income and Growth VCT 4 plc
- Maven Income and Growth VCT 5 plc
- Mid Wynd International Investment Trust plc
- Peterborough (Progress Health) 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 2024:

- abrdn Japan Investment Trust plc
- Amey Roads NI Financial plc
- Baillie Gifford Shin Nippon plc
- CC Japan Income & Growth Trust plc
- Maven Income and Growth VCT plc
- Unicorn AIM VCT plc
- RMPA Services plc
- Criterion Healthcare plc

Appendix 2

Financial Information (Group)

	Year ended 31 May 2023	Year ended 31 May 2022	Year ended 31 May 2021	Year ended 31 May 2020
Revenue from audit work for PIEs and subsidiaries of PIEs	2,774	1,547	890	457
Revenue from audit work for other clients	14,864	13,157	10,287	8,933
Revenue from non-audit services for audit clients	6,952	5,506	5,738	6,724
Revenue from non-audit services for non-audit clients	43,300	41,682	37,668	35,277
Total	67,890	61,892	54,583	51,391

Modern Slavery Statement

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/modern-slavery-statement>.

Appendix 3

Firms located in EU/EEA member states that performed statutory audits and were members of Moore Global during the period 01/01/2022-31/12/2022

Country	Town	Firm Name
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 PartGmb
Germany	Frankfurt am Main	Moore Frankfurt AG
Germany	Munich	Moore INTARIA GmbH
Germany	Kassel	Moore Ludewig AG

Country	Town	Firm Name
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
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.
Lithuania	Vilnius	Moore Mackonis UAB
Luxembourg	Livange	Moore Audit SA
Malta	Birkirkara	Moore
Netherlands	Amsterdam	Moore MTH
Netherlands	Rotterdam	Moore DRV
Norway	Oslo	Moore AS
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

Country	Town	Firm Name
Spain	Bilbao	Moore AMS AUDITORES 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 2022

** Member firm left the network at the end of 2022

Total statutory audit fee turnover as at 31/12/22 in Euros €135.3 million

Appendix 4

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

Code	Provision	How we have complied
A	Leadership	
A.1	Owner accountability principle 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	Leadership and governance Matters reserved for the Board as per Scheme of Delegation include Property, contracts for goods, 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.	Leadership and governance Audit team governance 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 the designated member responsible for Audit Quality. He is a member of the ALG, whose remit is Audit Quality and Governance.
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	Leadership and governance
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. Board and member evaluation processes will be reconsidered once we have INEs appointed.

Code	Provision	How we have complied
A.2	Management principle 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. A website refresh is planned in preparation for our reporting under AFGC 2022.
B	Values	
B.1	Professionalism principle 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.	Chief Executive's Foreword People, values and behaviour
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 has appointed a consultant to implement changes to our reporting processes. This will help improve governance through enhanced data collection which should allow the Board to agree a narrow set of KPIs. Currently monthly governance risk and compliance reporting is provided to the Board and 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. A website refresh is planned in preparation for our reporting under AFGC 2022.

Code	Provision	How we have complied
B.2	Governance principle 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.
C	Independent Non-Executives	
C.1	Involvement of independent non-executives principle 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.	5.2 Independent Non-executives (INEs) We intend to go to market in Q4 with the ambition to appoint an INE before the end of the financial year. While the firm had not yet appointed INEs at the financial year end the LC and CFO acted 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 are able to act with a degree of separation for the interests of the wider firm as a whole as they remain 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 nonexecutives.	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, Legal 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"> • Promoting audit quality. • Helping the firm secure its reputation more broadly, including in its non-audit businesses. • Reducing the risk of firm failure 	While there are no INEs, the Foreword from the CEO sets out in overview the activities of the Firm to meet the purpose of the Code.
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 Legal Counsel sits as an independent member of the Audit Risk Panel and Ethics committee to bring external perspective and challenge.
C.2	<p>Characteristics of independent non-executives principle</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. Disclosures on the impact of INEs will be provided once embedded in the business.
C.3	<p>Rights and responsibilities of independent non-executives principle</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 terms of reference for INEs have been drawn up to provided 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"> • Promoting audit quality. • Helping the firm secure its reputation more broadly, including in its non-audit businesses. • Reducing the risk of firm failure 	The role specifications which we have drafted include 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 will be extended to INEs when appointed.
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.	<p>This will be reviewed in conjunction with the INEs when appointed to agree how this should be appropriately managed.</p> <p>A website refresh is planned in preparation for our reporting under AFGC 2022.</p>
D	Operations	
D.1	<p>Compliance Principle</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>Audit quality</p> <p>9.2 ISQM implementation</p> <p>9.3 Relevant ethical requirements and Independence</p> <p>9.4 Independence procedures</p> <p>9.6 Engagement performance</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	The Firm has guidance and templates for individuals performing group audits to help ensure that relevant requirements, in particular ISA 600 and the Ethical Standard, are met.

Code	Provision	How we have complied
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.	9.5 Acceptance and continuance of client relationships and specific engagements
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.	9.14.2 External monitoring
D.2	Risk management principle 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.	The first annual evaluation of the system of quality management required by paragraphs 53-54 of ISQM 1 (UK) will be completed in line with the required timetable (ie by December 15, 2023). Introduction – where 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.	Quality and risk management Firm wide risk registers and 13 week cashflow are in place and reported to the Board at each meeting via the LC and CFO.
D.3	People management principle 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.

Code	Provision	How we have complied
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.	In the absence of INEs, existing checks and balances on people management policies and procedures are conducted by the HR team on an annual basis. This includes checks by an external employment lawyer. In addition, an action plan is developed and managed by the Chief People Officer on behalf of the Board and Advisory Committee, based on People and Culture Forum and People Survey outcomes. Employee remuneration and incentives recommendations are made by the Chief People Officer and reviewed by the Chief Executive and Chief Financial Officer. Remuneration of Partners is managed by the PAAC committee and the Board.
D.4	Whistleblowing principle 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 Firm's LC 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.
E	Reporting	
E.1	Internal reporting principle 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	Governance reporting principle 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, B.1.2, C.2.1, D.1.3, D.2.2, E.2.2 and E.3.1.	Annual transparency reports published on the Firm's website .
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

Code	Provision	How we have complied
E.3	Transparency principle 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	
E.4	Reporting quality principle 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.	<p>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 Legal Counsel and other key areas of management independently prior to reporting to the Board.</p> <p>It is our expectation that our governance structures will be refreshed once we have appointed INE(s) and we anticipate putting an Audit and Risk Committee in place.</p>
E.5	Financial statements principle 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.

Code	Provision	How we have complied
F	Dialogue	
F.1	Firm dialogue principle 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. A website refresh is planned in preparation for our reporting under AFGC 2022.
F.2	Shareholder dialogue principle Shareholders should have dialogue with audit firms to enhance mutual communication and understanding.	
F.3	Informed voting principle 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

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

Newcastle
0191 429 2970

Perth
01738 634001

Stirling
01786 459900

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