





Where sharp minds meet

## **Contents**

Ί.	Introduction	2
2.	About Johnston Carmichael	3
	Business lines	3
	Industry specialisms	3
	Values	4
	Locations and people	5
3.	Legal structure and ownership	6
	Legal structure	6
	Ownership	6
	Regulation	6
4.	Governance	7
	Board composition	8
	Partner Remuneration and Equity Ownership	8
5	PKF International network	12

#### 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 2020 and has been designed to explain our legal structure and ownership, governance structures within the firm and the quality control systems and assurance programmes and practices we have in place to maintain our independence and ensure that we comply with all applicable audit and ethical standards to deliver high quality services in all areas.

## 1. Introduction

The focus placed on quality and risk management were already central features of Johnston Carmichael's strategy at the start of FY19/20. However, nobody could have predicted the abrupt uncertainty caused by a worldwide Covid19 pandemic. We have successfully adapted to working virtually, from home, with the right technology in place to support our people, but the pandemic accelerated additional risks; in delivering audits in remote environments, in maintenance of a culture of continuous improvement, quality and risk management when teams are virtual, in retaining a level of pricing which maintains the quality of resourcing levels in what could be an increasingly competitive market and in continuing to invest in and nurture a pipeline of talent in a time of worldwide economic uncertainty.

This year has, nonetheless, continued to be a period of review and improvement and this cycle will continue in the years ahead. We continue to place emphasis on the foundations of quality within the firm, ensuring internal controls are appropriate and working effectively whilst developing core values and behaviours and a culture of accountability which is tangible for our people and at the heart of measuring the performance of our Partners and staff. On the back of a leadership and governance review initiated in 2019, we recruited a new Head of Audit, to ensure separation of this role from the Audit Compliance and Ethics Partner, and a General Counsel to head up a firm wide Governance, Risk and Compliance team. As part of the same review, we introduced a new governance regime for the function of the Partnership as a whole. The firm continues to build on that leadership and governance review to ensure it remains fit for purpose and underpins the firm's commitment to quality and risk management. We will continue to raise the bar with the development of further audit quality indicators and ongoing consideration of how technology can support and enhance our existing quality framework as well as adherence to professional and regulatory standards.

I confirm, on behalf of the Board, that:

rdres Walles

- 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.

Andrew Walker Chief Executive

On behalf of the Board of Johnston Carmichael LLP

29<sup>th</sup> September 2020

# 2. About Johnston Carmichael

Johnston Carmichael is Scotland's largest independent firm of Chartered Accountants and Business Advisers and we are one of the UK's top 20 accountancy firms. Since the firm was formed in 1936, we have grown to around 750 staff and 63 partners over 13 offices.

#### **Business lines**

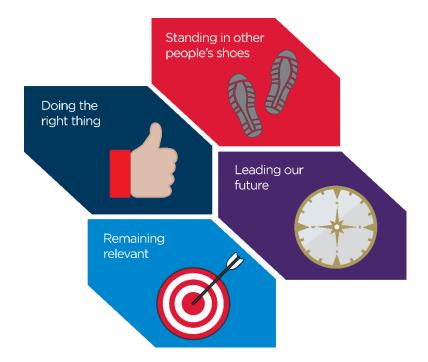


#### Industry specialisms



#### Values

Our approach to corporate social responsibility (CSR) is strongly wedded to the values of the firm:



To this end, as a firm we commit to:

- Identify and address issues of equality, diversity and inclusion amongst our current and future workforce https://johnstoncarmichael.com/about-us/news/johnstoncarmichael-publishes-2018-gender-pay-gap-report
- Minimise the environmental impact of our corporate activities
- Ensure that employees are supported in their mental and physical health and wellbeing
- Give back to the communities we serve supporting a diverse range of charities https://johnstoncarmichael.com/about-us/corporate-social-responsibility
- Understand our suppliers' commitments to CSR issues and practices and ethical approaches to business https://johnstoncarmichael.com/modern-slaverystatement

## Locations and people



# **Gender split of Johnston Carmichael staff and partners**





# 3. Legal structure and ownership

#### Legal structure

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

#### Ownership

Johnston Carmichael LLP (the firm) is owned on 29 September 2020 by its 52 (2019: 47) equity partners. There are an additional 11 non-equity partners.

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

Johnston Carmichael LLP has two active subsidiary companies:

- Johnston Carmichael Wealth Limited which provides financial planning advice.
- Johnston Carmichael (Scotland) Limited is the service company of the group and the entity through which staff are employed.

#### Regulation

Johnston Carmichael is registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland (ICAS). Details about our audit registration can be viewed at www.auditregister.org.uk, under reference number 0274. As at 31 May 2020 14 (2019: 14) partners and 12 (2019: 9) employees had Responsible Individual (RI) status granted by ICAS. Details of the professional rules can be found in the FRC's Ethical Standard, International Standards on Auditing (UK), Practice Notes, Bulletins and the Companies Act 2006.

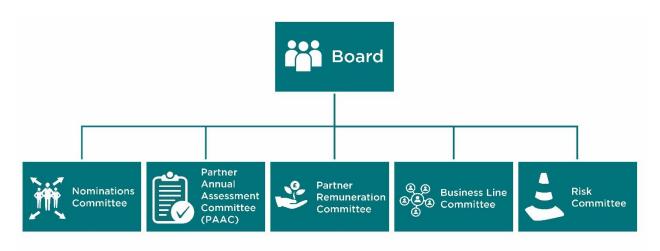
Johnston Carmichael is also licensed by ICAS, a Designated Professional Body (DPB), to carry out a limited range of investment business activities under the terms of this license.

Johnston Carmichael is licensed to act as an insolvency practitioner in the UK by the Institute of Chartered Accountants of Scotland. Details of the Insolvency Practitioner Directory can be found at <a href="https://www.insolvencydirect.bis.gov.uk/fip1/">https://www.insolvencydirect.bis.gov.uk/fip1/</a>. Details of and access to the professional rules can be found in the Insolvency Permit Regulations; Statements of Insolvency Practice (SIPS); and the ICAS Code of Ethics Part D: Insolvency Practitioners.

Johnston Carmichael Wealth Limited is authorised and regulated by the Financial Conduct Authority (FCA) under reference number 114322. Johnston Carmichael also has FCA registration in respect of its debt advisory work as a Continuing Money Advisor (FRN 809465).

# 4. Governance

Johnston Carmichael operates an integrated Governance Structure to provide oversight of our Audit function within the overarching strategic governance of our firm as a whole. This ensures a focus on quality and governance at both an Audit and firm level in adherence to our regulatory commitments that is also consistent with the firm's core values.



Cualia	Deepensibilities
Group Board	<ul> <li>Putting in place a strategy for the Firm and ensuring it is regularly updated and communicated.</li> <li>Overseeing the governance of the Firm including risk management and ensuring the Firm acts in the public interest.</li> <li>Monitoring the performance of the leadership and management of the Firm.</li> <li>Overseeing the financial performance and position of the Firm.</li> </ul>
Nominations Committee (Nom Co)	<ul> <li>Assessing prospective candidates for senior promotion against an objective balanced scorecard, including but not limited to, demonstration of the firm's values and behaviours, leading and managing our people, client service and internal excellence. In the audit Business Line, audit quality is a key metric in progressing potential candidates.</li> </ul>
Partner Annual Assessment Committee (PAAC)	<ul> <li>Responsible for assessing the individual performance of Partners against an objective balanced scorecard.</li> <li>Seeks input and evidence of performance against objectives, from other BLHs, Office Heads and Support Function Heads across the firm.</li> <li>Shares the outputs of Partner's annual assessment to inform the Partner Remuneration Committee ("PRC")</li> </ul>
Partner Remuneration Committee (PRC)	Ensures a rigorous and objective process for the determination of Partner remuneration within the firm rewarding Partners appropriately, reflecting their contribution

	to the success of the firm in line with the values and behaviours, using the PAAC's output to inform this view.
Business Line Committee	<ul> <li>Provides integration of the day-to-day business line leadership for Johnston Carmichael and as such has overall responsibility for the operational delivery of the firm.</li> <li>Review of risks, escalating matters to the corporate risk register and periodic reviews including mitigating actions.</li> <li>Ensure compliance at a Business Line level with all laws, regulations and best practices - providing updates on any new or significant developments in a particular Business Line to formulate a corporate compliance framework.</li> <li>Monitoring monthly HR reporting information and people related issues.</li> </ul>
Risk Committee	Standing members include Chief Executive, Head of Audit and Ethics Partner. Convened as required to discuss escalated matters of concern and live issues considered above the firm's risk appetite including but not limited to matters of audit opinion, client acceptance or disengagement.

#### Board composition

As at 31 May 2020, the Board comprised of:

- Alexander Manson (Chief Executive until 31 July 2019, appointed Chair on 1 August 2019)
- Andrew Walker (Managing Partner until 31 July 2019, appointed Chief Executive on 1 August 2019)
- Craig MacPherson
- Mark Houston

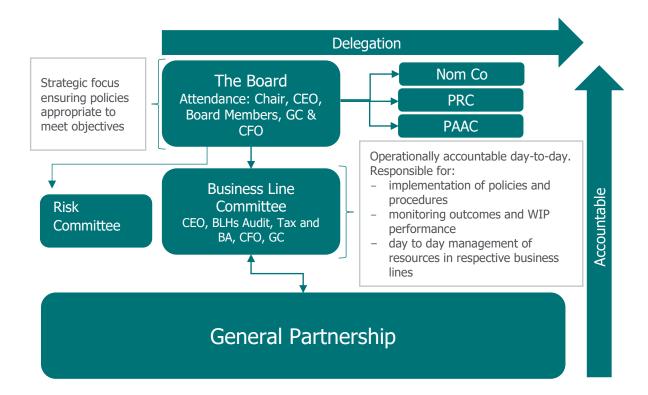
Andrew Shepherd (previously Chair) retired from the Board 1 August 2019.

The composition of the Board is reviewed periodically and succession planning for both the Board and all key leadership positions in the firm is regularly reviewed as part of the Nominations Committee remit. Whilst currently there are no independent Non-Executive Directors of the Board, both the General Counsel and Chief Financial Officer are in attendance to provide a view independent of the equity-holding Partners.

#### Partner Remuneration and Equity Ownership

Partners are remunerated wholly out of the profits of the Firm through a combination of interest, salary allocation and, for equity partners, a share of the remaining balance of profit. This is determined by the Partner Remuneration Committee ("PRC") based on inputs received from the Partner Annual Assessment Committee ("PAAC").

The assessment of remuneration is based on the balanced scorecard approach and considers partners' performance assessed against their objectives and the scorecard criteria. Audit partners are not remunerated on the basis of selling non-audit services to audit clients.



Governance, Risk & Compliance Function

In 2019, Johnston Carmichael introduced a Governance, Risk & Compliance (GRC) function. The purpose of this team is to consolidate and embed a culture of risk management and compliance activity across the firm, ensuring organisational structures and processes are adequate across the firm to ensure accountabilities and responsibilities are clearly articulated, mapped and understood. This approach provides greater awareness and understanding to ensure risks are identified, assessed, mitigated and monitored.

Risk Management is embedded within our governance structure with a framework which views strategic risks at the board level and operational risks within each business line at the Committee level. Risk appetite is a central component of our risk framework to reflect our commitment to the sound management of regulatory and compliance risks whilst recognising that well managed risk taking will allow us to exploit opportunities that will allow us to meet our strategic objectives.

The Audit Leadership Group meets regularly to review the strategic objectives of the Business Line and identify risks and threats to the Business Line. This ensures that there is appropriate identification, mitigation and monitoring of Audit related risks both at an operational and strategic perspective, particularly in relation to quality, compliance and governance standards set by Audit Regulations and Guidance, and the ICAS Code of Ethics and FRC Ethical Standard.

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

Risk	Response
Inadequate and/or inappropriate audit pricing	We recognise that Audit engagements with low projected recovery can create an actual or perceived risk to audit quality.
	Our Audit Strategy includes a key objective of delivering profitable growth which means that our team are expected to build a sustainable client base where we have a sufficient budget to complete all work to the expected standard.
	The firm's balanced scorecard approach to performance ensure that our Audit Partners have personal objectives designed to achieve this strategy objective.
	We centrally review data on actual recoveries, supplemented by review of individual chargeability to identify potential time "leakage", and ensure that significant and/or repeat cases of low recovery are discussed with the relevant Audit Responsible Individual and a plan put in place to address this. In most cases this involves repricing of the work or disengaging.
Lack of team resource to adequately deliver on Audit engagements to agreed quality standards	We operate a job booking system which helps us track the allocation of work to our team. This allows us to plan ahead and take appropriate action to address shortfalls, including sharing audit staff across the firm.
	We have also implemented a resource model that identifies, over a period of years, the anticipated number of individuals required at a particular level mapping this against our current levels and identifying the progression or recruitment plan to reach our target resource levels in the future.
	Central to this, we have a strong history of "growing our own" and this year have recruited a record number of graduates into our audit business on a professional training path. However, where required, we will recruit in the marketplace and utilise internal and external recruitment contacts to help ensure that vacant positions can be filled as quickly as possible.
	We recently completed a portfolio review of our audit RIs and managers which involved some work being reallocated to help ensure manageability of portfolio sizes.

Insufficient skills or knowledge	As set out in section 10, we have an annual training programme involving internal and external speakers to take account of changes in regulations and any identified knowledge shortfalls. The annual programme is supplemented by ad-hoc additional courses where required to address more urgent areas of developing change.
	Our technical department provide monthly technical updates on changes to auditing or accounting standards and company law and interim guidance on any emerging matters.
	With regards to specialist areas of audit, such as financial services, we restrict audit team composition to a core bespoke team. Any new individuals to this team or individuals providing support beyond this team are subject to high levels of supervision.
	We recognise, alongside certain sectors where we have specific expertise, there are certain sectors where we have limited existing skills or knowledge. Prior to acceptance of a client, we evaluate the expected audit challenges including need for specialist resource and will reject opportunities not fitting with our risk criteria.
	Over recent years, we have continued to move progressively to a model whereby our audit team are fully dedicated within our Audit Business Line. We continue to transition individuals working in both audit and other areas of our business either into audit full-time or out of our audit business. The vast majority of our audits are staffed 100% by staff who only work within our audit business.
	Our performance management, both at RI and staff level, identifies areas of non-performance or where skills improvement is required. Training is provided to support staff in gaining the knowledge and skills they need to undertake their role. Our graduate programme aims to provide the auditors of the future with the skills and competence they need to deliver on audit engagements.
Ineffective or incomplete audit tools	We utilise a commercially available third-party audit platform and methodology, which our technical

team modify where appropriate to address specific areas of risk or focus for our firm.

We also have available to our team a range of additional tools including those related to data analytics, data visualisation, investment and financial instrument pricing, technical reference material and industry sector analysis.

Lack of understanding or compliance with Audit and Ethics Standards The firm and the Audit function take compliance with regulation seriously and apply significant resources to ensuring that our Audit Team are aware, understand and practice according the rules and regulations set out by our regulators.

Our Technical Team provide monthly updates on changes or current standards, highlight lessons learned from compliance reviews and address topical issues from within our sector. This is supported by an annual training programme and compliance calendar including our annual Fit & Proper Review which all staff within the firm must complete.

Our culture of compliance and ethics is managed using a top-down and bottom-up approach whereby our senior team is expected to role model our values and behaviours and demonstrate good practice. At the bottom, our induction programme addresses Governance, Risk and Compliance from both a firm-wide view and audit specific perspective. By instilling these practices from dayone we develop a culture where compliance is routine and 'how we do things'

This is further embedded in our performance management framework where all Partners, RIs and staff are measured against their commitment and demonstration of the core Audit values and behaviours.

## 5. PKF International network

#### Introduction

We are the Scottish member firm of the PKF International (PKFI) family of legally independent firms. PKFI consists of member firms in locations around the world,

providing assurance, accounting, business advisory and taxation services. The PKFI network is a member of the Forum of Firms - an organisation dedicated to consistent and high-quality standards of financial reporting and auditing practices worldwide.

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

#### Legal Basis

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

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

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

#### Key elements of the licensee agreements

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

Many provisions of the OLA and IPSM are covered throughout this section of the Transparency Report. Additional significant requirements are summarised below.

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

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

At the heart of PKFI's approach to managing independence is the Transnational Entities Database (TREND), part of the PKF Network's proprietary platform for global co-ordination and communication. A secure central repository of member firms'

transnational client details is accessible by all PKF firms and the database assists in detecting potential cross-border conflicts involving PKFI firms. The transnational entity listing (including transnational audits) must be continuously updated and its accuracy confirmed annually.

Structure, Committees and relationships between them

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

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

There are two international committees responsible for professional and practice standards – the International Professional Standards Committee (including Assurance) (IPSC) and International Tax Committee (ITC). There is also an Assurance Strategy Group responsible for identifying developing trends in audit and supporting network firms in being market leading in this environment. Recognising the importance of this Group to ensuring we remain highly relevant in our business; the firm's Audit Chair is also the chair of this international Group. Several additional practice area committees operate both regionally and internationally. Each region is represented on these committees who report into the International Board and CEO on a regular basis. The IPSC and ITC convene meetings several times a year as required.

#### Quality Assurance

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

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

The aggregate fee income which relates to the statutory audit of annual and consolidated financial statements for EU EEA member firms (excluding correspondent firms) that belong to the PKFI Network (see Appendix I), as reported in the Firm Compliance Reporting 30 June 2019, is US \$121.45 million.

The PKF Network is present in over 450 locations operating in 150 countries across five regions, providing assurance, accounting, taxation and business advisory solutions. PKFI member and correspondent firms have £1.169 billion (US \$1.475 billion, €1.306 billion) in aggregate fee income and around 20,000 employees (year end June 2019).

#### Membership of the Forum of Firms

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

#### 1) Quality control

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

i. Leadership and responsibilities for quality within the firm Responsibility for ensuring that the Firm complies with all regulatory requirements, that appropriate policies are in place for all services to ensure that work undertaken to a satisfactory standard within the firm lies with the Chief Executive, Andrew Walker (from 1 August 2019).

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

- David McBain, Audit RI (Audit Compliance Partner and Audit Ethics Partner)
- Scott Holmes, Audit RI (Deputy Ethics Partner)
- Shareen Gault (General Counsel and Head of Risk & Compliance) Money Laundering Reporting Officer
- Graham Marjoribanks, Audit RI (Head of Audit) accountable for delivery of audit quality within the Audit Business Line and responsible for the overall Business Line performance

Quality systems of review and sampling are embedded into individual Business Lines and the firm is looking to consolidate this as part of our Internal Excellence framework to ensure a consistent baseline of quality measurement is now part of each individual's appraisal by virtue of the balanced scorecard approach. All of our policies are published on our intranet, JC Connect, and accessible to all staff members, irrespective of the business line they work in.

The Audit Compliance Partner is supported by the Technical Department which has been expanded during the year by the addition of a new member, demonstrating the Firm's commitment to audit quality. The Technical Department perform a key function in meeting our Audit Business Line's strategic pillar around audit quality through its programme of compliance

monitoring, providing technical training and support and helping ensure our policies and procedures are continually re-evaluated and updated.

#### ii. Relevant ethical requirements

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

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

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

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

The Technical Department oversees that the rotation of key audit staff on all of our Public Interest Entity Audits (PIEs) and listed audit assignments occurs at the appropriate time. Further details on this can be found in Section 9 of this report, 'Independence procedures'.

iii. Acceptance and continuance of client relationships and specific engagements The firm has a detailed Client Take On process that must be followed before accepting a new client. At the heart of this, is a risk-based approach to knowing the client and consciously addressing and mitigating issues of concern within the firm's established risk appetite. The procedures have been designed to ensure that all staff follow the correct processes for client identification, independence/conflict assessments and to ensure that staff allocated to the assignment have the relevant skills/specialist knowledge to perform their roles and that the risk of accepting the engagement is deemed acceptable. A critical facet of this is ensuring work is appropriately priced to ensure the appropriate level of personnel is assigned to the work on a risk-based approach. Whilst this presents its own challenges in a competitive marketplace, as a firm we will not compromise on quality, regardless of price and whilst this means we may be more expensive than our competitors, we remain confident that this is iustifiable. Risk assessments are reviewed on at least an annual basis in order to assess continuance.

For potential new audit clients, the Head of Audit, or delegate for low risk appointments, approves the client appointment. For PIE and listed audit assignments, approval is also required from the Audit Compliance Partner. A client risk assessment memo requires the team to consider the audit risks the assignment poses, such as significant judgemental accounting as well as the risk to our Firm, including any potential reputational risks and adequacy of resource to maintain the quality of audit. The Head of Audit, or delegate, reviews the memo, obtaining additional information before approving our appointment. In

cases where the risk profile is considered particularly high approval is sought from the firm's Risk Committee. In the past year there have been occasions where work has been declined where the risk was deemed out with the firm's risk appetite.

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

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

#### iv. Human resources

The firm has established policies and procedures that enable all of the partners and staff to develop the appropriate competencies, capabilities and technical skills to carry out their role within the firm. Where instances of failure to meet these standards arise, action, including demotion and reallocation of responsibility, will be taken. The firm has now introduced a balanced scorecard approach to performance and a competency framework for every grade which will underpin development and training needs at every level of the organisation.

All policies and procedures are developed with the relevant professional standards and legal and regulatory requirements in mind and are designed to ensure that the firm continues to deliver high quality work in all areas.

#### v. Engagement performance

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

A clear review hierarchy is in place for all audit assignments. Policies have been established which clearly define when an audit assignment is required to be reviewed by another RI. All of our 2<sup>nd</sup> RI reviewers are approved by the Audit Compliance Partner. New 2<sup>nd</sup> RI reviewers are supported in this role by the Audit Compliance Partner. Technical and Ethics reviews are also included in our policies and procedures.

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

#### vi. See 'Monitoring' section below.

#### 2) Monitoring

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

The Firm applies a range of audit quality indicators. Data is captured systematically, through our internal review process or through bespoke compliance checking procedures, the results of which are reported to the Audit Compliance Partner and the Head of Audit. These audit quality indicators capture factors including our internal review pass rate, number of regulatory breaches and compliance with specific aspects of our methodology, such as our own data analytics methodology, or International Standard on Quality Control (UK) (ISQC 1 (UK)), such as timely close-down of audit files. Any failings of a quality indicator are reported to the relevant RI. We are currently in the process of developing and implementing an enhanced range of audit quality indicators following a review of the Financial Reporting Council's "Audit Quality Indicators: AQR Thematic Review" published in May 2020.

As part of the Firm's focus on audit quality, our internal reviews are stringently marked as a pass or fail. A fail grade is given when the reviewer identifies a material error in a primary statement, the audit opinion on the strategic and/or directors' report is incorrect or there is insufficient or inappropriate audit evidence on key and material items included within the financial statements. In the event of a fail, the RI is provided with a detailed summary of the reasons for the fail which they must respond to. Our Technical Department undertake a root cause analysis which identifies the underlying reasons for the fail and will ensure that relevant action is taken, such as providing training and/or amending our audit system. A summary of other areas which require improvement is also provided to the RI, together with the reviewer's detailed notes.

The reviews are designed to create a high threshold of pass grade and instil a culture of continuous improvement. This helps ensure that all relevant standards are met, staff members are continually being assessed on the relevancy of their knowledge and professional skills and values, and potential systemic issues are identified early on and then adequately addressed. The internal reviews also include a review of the independence practices on each file and the independence procedures for the Firm are also considered as part of the whole firm review.

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

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

The annual performance evaluation of our RIs includes consideration of quality factors and agreed annual objectives must include appropriate quality targets to help drive maintenance or improvement of quality.

The firm is also regulated by two external regulators, the Financial Reporting Council's Audit Quality Review (AQR) team and ICAS for all other audit assignments. The last ICAS review was in 2018, following which the firm instigated spot checks in compliance with our Data Analytics methodology and enhanced training. At the time of this report's publication, our first AQR review has commenced.

As a requirement of our international network membership of PKFI we must comply with ISQC 1. PKFI operates a Global Monitoring Programme to ensure that the required standard is being met. The PKFI review was undertaken in Spring 2019. We are also required to submit an annual Member Firm Compliance Report to PKFI.

#### 3) Public Interest Entities

During the year to 31 May 2020, the firm expressed an opinion on the financial statements of the following entities that currently meet the definition of a Public Interest Entity (PIE):

- Discovery Education plc
- Dudley Summit plc
- Dunedin Enterprise Investment Trust plc
- HpC King's College Hospital (Issuer) plc
- Summit Finance (Wishaw) 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 2021:

- Blue Planet Investment Trust plc
- Healthcare Support (North Staffs) Finance plc
- Merseylink (Issuer) plc
- Mid Wynd International Investment Trust plc
- SVM UK Emerging Fund plc
- EP Global Opportunities Trust plc
- Highway Management (City) Finance plc

#### 4) Independence procedures

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

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

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

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

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

#### 5) Learning and development

As a firm, we strongly believe in a grow your own approach to the talent pipeline. To this end Johnston Carmichael is currently developing a full scope JC Academy to ensure that training covers all aspects of both technical and professional competencies and skills development throughout the professional lifecycle of our staff. Currently, all members of the Audit Business Line are required to comply with all the firm's policies and procedures, including continuing professional development (CPD). For the year to 31 May 2020, our Technical Department were responsible for ensuring that relevant staff were on track to meet the firm's minimum CPD requirements for any specialist sectors as well as generally, reporting expected shortfalls to the Audit Compliance Partner in order to identify objectives for improvement. In the event of any projected shortfalls of CPD, staff are required to put in place a time bound plan to address the shortfall and to explain to the Technical Department how that shortfall will be resolved.

Our People Experience team oversees the firm's recruitment processes supporting the specialist Business Lines, and supports ongoing performance management via appraisal and training processes to ensure that all staff are operating at the required level and are developing and maintaining the right competencies and skills for our clients. All staff are trained against International Education Standard 7. Our internal training ensures that all RIs meet the requirements of International Education Standard 8. Despite the challenges of this year's pandemic, investment in the recruitment and further training of audit graduates has continued, to ensure a healthy pipeline of appropriate audit resource well equipped to meet the needs of the business line.

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

Our training programme includes both internal and external courses covering developments in accounting and auditing standards, company law, Pensions Act and other legislation/regulations relevant to our clients, taxation, ethics, anti-money

laundering, bribery and corruption, General Data Protection Regulations and career specific soft skills. Staff who are undertaking work in specialist sectors such as charities and financial services also receive technical based training in those areas.

In addition to the above training programme, during the year ended 31 May 2020, the following mandatory training courses were run for audit staff who had completed their training contract and partners:

- Annual two-day conference for all Audit Seniors, Audit Supervisors, Managers, Senior managers, Directors and Partners including a technical update session run by Mercia Group.
- Two half day audit forums for the same audience as the above conference (Winter 2019 and Spring 2020).

Specialist courses in the FY to 31 May 20, for all applicable staff included:

- 2019 Annual Funds Update & Training
- A Charity update
- Clients with premium listed equity Training for Auditors
- Webinars on the following:
  - The Ethical Standard
  - o ISQC 1
  - o Ethical Standard Requirements for PIE and Listed clients
  - Financial Services Training
  - Narrative Reporting requirements

#### 6) Financial Information (Group)

	Year ended 31 May 2020 (unaudited)	Year ended 31 May 2019	Year ended 31 May 2018
	£000	£000	£000
Revenue from audit work for PIEs and subsidiaries of PIEs	457	311	194
Revenue from audit work for other clients	8,933	8,237	7,496
Revenue from non-audit work for audit clients	6,724	5,717	5,408
Revenue from non-audit work for non-audit clients	35,277	35,022	32,408
Total	51,391	49,287	45,506

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

Registered Name	Country	Head Office City
PKF Corti & Partner GmbH	Austria	Graz
Wirtschaftsprüfer und Steuerberater	7 10.0 01.10.	0.02
PKF Österreicher & Partner GmBH & Co	Amatuia	Visions
KG Wirtschaftsprüfungs und	Austria	Vienna
Steuerberatung PKF Centurion	Austria	
Wirtschaftsprüfungsgesellschaft mbH	Austria	Vienna
PKF Revisionstreuhand		
Wirtschaftsprüfungsgesellschaft m.b.H.	Austria	Salzberg
PKF-VMB Bedrijfsrevisoren cvba	Belgium	Antwerp
PKF Bulgaria Ltd.	Bulgaria	Sofia
Anticic Savjetovanje d.o.o	Croatia	Zagreb
PKF ATCO Limited	Cyprus	Nicosia
PKF Savvides & Co Ltd	Cyprus	Limassol
APOGEO Group, SE	Czech Republic	Prague
PKF Munkebo Vindelev, Statsautoriseret Revisionsaktieselskab	Denmark	Copenhagen
PKF Estonia OÜ	Estonia	Tallinn
Cabinet GROSS-HUGEL	France	Strasbourg
Cogeparc S.A.	France	Lyon
PKF Audit Conseil	France	Marseille
William SARL	France	Rouen
PKF - Fi.Solutions SAS	France	Paris
PKF Deutschland GmbH	Germany	Hamburg
Wirtschaftsprüfungsgesellschaft	Germany	_
PKF Fasselt Schlage Partnerschaft mbB	Germany	Berlin
PKF Industrie- und Verkehrstreuhand	Germany	Munich
GmbH Wirtschaftsprüfungsgesellschaft	, , , , , , , , , , , , , , , , , , ,	
PKF Issing Faulhaber Wozar Altenbeck	Germany	Würzburg
GmbH & Co. KG	Cormany	Heidelberg
PKF Riedel Appel Hornig GmbH PKF Sozietat Dr. Fischer	Germany Germany	Nuremberg
PKF Vogt & Partner Wirtschaftsprüfer	Germany	indiciliberg
Steuerberater	Germany	Herford
PKF WMS Bruns-Coppenrath & Partner		
mbB Wirtschaftsprüfungsgesellschaft	Germany	Osnabrück
Steuerberater Rechstanwälte		
PKF WULF & PATNER mbB		
Wirtschaftsprüfungsgesellschaft	Germany	Stuttgart
Steuerberatungsgesellschaft		
PKF Euroauditing S.A.	Greece	Athens
PKF Canillas	Gibraltar	Gibraltar
PKF Audit Kft	Hungary	Budapest
PKF O'Connor, Leddy & Holmes Limited	Ireland	Dublin
PKF-FPM Partnership	Ireland	Balbriggan
PKF Italia S.p.A	Italy	Milan

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