



# **TRANSPARENCY REPORT 2017**

BDO LLP is a key member of the BDO global network of public accounting, tax and advisory firms. The firms have representation in 158 territories, with over 67,000 people working out of over 1,400 offices. The fee income of the member firms in the BDO network, including the members of their exclusive alliances, was \$7.6 billion as of 30 September 2016. Being a member of the BDO global network allows us to meet the needs of clients who are growing and trading internationally.

**158**

COUNTRIES AND TERRITORIES

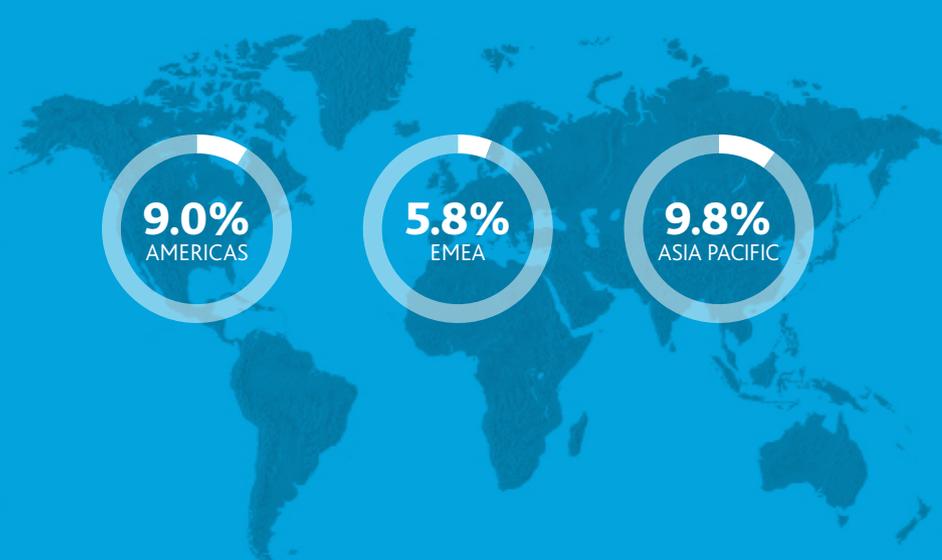
**8%**

INCREASE IN GLOBAL REVENUE

**\$7.6bn**

TOTAL REVENUES

REVENUE GROWTH AT CONSTANT RATE



OVER  
**30**  
MERGERS  
NETWORK-WIDE

GLOBAL HEADCOUNT

**64,121** 2016  
**67,731** 2017

INCREASE YEAR ON YEAR

NUMBER OF

**OFFICES**  
**1,401**

GLOBAL AVERAGE PROFESSIONAL STAFF TO

**PARTNER** RATIO OF 9 TO 1



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## REGULATIONS

We have prepared the Transparency Report, in respect of the period ended 30 June 2017 (the report), in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 issued by the Professional Oversight Board of the Financial Reporting Council and The Statutory Auditors and Third Country Auditors Regulation 2016. The report also includes those matters specified to be included in the Transparency Report by the Audit Firm Governance Code (the Code), issued by the Financial Reporting Council (FRC) in 2010. Our statement on compliance with the provisions of the Code and our report on how we have applied in practice each of the principles of the Code are given on pages 36 to 40.

Reference to "BDO", "we", "our", "us" in this report is to BDO LLP. BDO is a member of BDO International, a separate legal entity. No member of BDO International is in partnership with any other member.

# INTRODUCTION

## FROM THE MANAGING PARTNER



**PAUL ENGLAND**  
MANAGING PARTNER

30 October 2017

Welcome to BDO's 2017 Transparency Report. Within this report we set how we achieve our regulatory obligations in respect of governance and risk. Further details about us, including our annual results, can be found on our website [www.bdo.co.uk](http://www.bdo.co.uk).

Whilst the political and economic environment continues to change in very unpredictable ways the regulatory environment continues to focus on enhancing quality and public trust.

Within BDO, we invest in people and systems to ensure that quality and public trust is an integral part of everything we do, including our vision of 'being an independent, sustainably profitable and globally-focused firm; known for helping people and businesses succeed',

Our executive board (Leadership Team) takes ultimate responsibility for quality – this board comprises a number of full time executive partners (see appendix C) and a number of part-time independent non-executives (INEs).

During the year there have been a number of changes to our INEs. Lesley MacDonagh left us after a nine-year tenure and Jeff Randall and Russell King joined us to bring the number of INEs to the newly recommended three as from July 2017.

I am indebted to Lesley for her challenge and contribution to shaping our governance. Lesley has made an outstanding contribution over many years, drawing on her deep understanding of professional services and wider business experience to support and positively challenge the leadership team to think and act differently.

Russell King is a business and HR strategist who has significant experience in the City with FTSE companies, working in both non-executive and senior executive leadership roles. He brings with him a distinctive mix of expertise in business strategy, turnaround, and people development. He is currently the Senior Independent Director at Interserve, Spectris and Aggreko, and is Chairman at AIM listed Hummingbird Resources.

Jeff Randall also joined us in July 2017. Jeff is a former business and City journalist and broadcaster. He has had a long career at Sky News, the BBC, The Sunday Times and The Daily Telegraph. He is currently a non-executive director at Babcock International.

We have put in place an induction process to ensure the new INEs are briefed on the fundamentals of our business and cognisant of their duties under the Audit Firm Governance Code.

I am confident that the executive partner team, guided and challenged by our three INEs will continue to drive all aspects of quality in our business including the specific area of audit quality.

# REPORT

## FROM THE CHAIRMAN OF THE PUBLIC INTEREST COMMITTEE

Welcome to my report on the work of the Public Interest Committee.

Last year, throughout the period of this report, the Public Interest Committee (PIC) comprised Lesley MacDonagh, David Isherwood and me.

Lesley and I are independent, as are the new INEs who joined on 1 July (our background and experience are set out on pages 44 and 45) while David is the firm's Ethics Partner. He also continues to represent the firm on a number of committees and working parties and has oversight over the firm's audit methodology.

As noted in the Introduction from the Managing Partner, Lesley stepped down with effect from 1 July 2017 and Russell King and Jeff Randall have joined. When I joined BDO as an INE in 2013 Lesley was a fount of knowledge and was of great help on both the PIC and in driving forward the audit quality agenda, I shall miss her.

All INEs are also members of the Leadership Team and PIC and are able to put forward their views in relation to matters which have a wider, public interest, dimension both at PIC and at other management and leadership meetings within BDO.

I am also a member of the Quality and Risk Management Committee and Lesley sat on the firm's diversity and inclusion group. We have also attended other meetings of the partnership group (including the Audit Stream Executive and the Partnership Council).

In these interactions the firm has demonstrated its understanding of, and commitment to, the public interest.

PIC has continued to base its activities on overseeing the public interest and specifically on the principles of the new Audit Firm Governance Code being:

- the promotion of audit quality
- helping to secure the reputation of the firm more generally
- reducing the risks of firm failure

As noted in last year's report a new Managing Partner was elected and a new Leadership Team was appointed with effect from 1 October 2016, full details of the new team are given in appendix C.

I was pleased to note that a detailed regulatory induction was given by the firm's Ethics Partner and the Head of Quality and Risk Management at one of the early meetings of the new Team.

### AUDIT QUALITY

As in previous years we have focused our activities this year on understanding – and challenging – the way in which the firm seeks to deliver audits of the highest quality, including responding to the requirements of the audited entity, the entity's investors and other stakeholders.

Specifically we have focused on the promotion and recruitment of partners together with their remuneration, training and staff development more widely and how quality (and specifically the quality of audit) remains a central tenet of the firm. In addition we have received and discussed reports covering many reviews (both internal and external) to which the firm is subject.



**SIMON FIGGIS**  
CHAIRMAN OF THE PUBLIC INTEREST  
COMMITTEE

30 October 2017

## REPORT FROM THE CHAIRMAN OF THE PUBLIC INTEREST COMMITTEE



### PROMOTION AND RECRUITMENT OF PARTNERS

The process for recruitment and promotion of partners is thorough, involves testing technical interviews, and is overseen by the Leadership Team.

Lesley and I receive the CVs of all potential internal promotions to partner, providing challenge relating to appointments. David is a member of the technical interview panel.

### REMUNERATION

I have met with members of the firm who oversee the remuneration of equity partners and challenged how they take account of quality in their sharing of profits under the partnership agreement.

### TRAINING AND STAFF DEVELOPMENT

The Audit Stream Executive has considered the manner in which audit training should be delivered, recognising the importance of "on the job" training. PIC has maintained its review of the firm's training strategy in general and specifically in relation to audit, and made various recommendations.

We have received reports on the firm's proposed implementation of its 'achieving my potential' programme that looks to combine learning with development objectives monitored through its appraisal process. We continue to monitor the impact on quality.

### AUDIT QUALITY REVIEWS

The firm is subject to numerous reviews, both internal and external.

#### Internal Review

Internally the firm conducts reviews of a sample of all work undertaken. We received a report from the Head of the Audit Quality Assurance Review process on changes made to the process and the results of this year's review. The results of these reviews are set out on pages page 24.

#### External Reviews

The firm has undergone four external review processes during the period under review:

#### FRC - AUDIT QUALITY REVIEW (AQR)

It was pleasing that the AQR had noted improvement in a number of whole firm procedures and the fact that actions identified from last year are being followed up and dealt with.

Whilst the sample size was small (8 files) it was disappointing to note that one file was graded as needing significant improvement.

The INEs met with the AQR, the FRC's Audit Quality Review team, to discuss the outcome of the 2016/17 review process.

The Quality and Risk Management Committee have reviewed and agreed the action plan for the firm.

#### FRC - PUBLIC SECTOR

BDO was subject to the AQR's first review of public sector audits, since the AQR took on that responsibility. At this stage in the process the AQR's focus is on firms developing plans for quality in the sector, prior to public reporting of findings.

#### FRC - THEMATIC REVIEWS

PIC has considered the thematic reviews completed by FRC in 2016/17 on Audit Quality Control processes, Use of Data Analytics and Root Cause Analysis. The firm is responding to the issues identified.

#### ICAEW - QAD

We note that 11 of the 12 files selected achieved a Grade 1 or 2A leaving one file where improvement was needed in the audit of revenue.

It was encouraging that the QAD considered the issues they raised in their previous review had been dealt with satisfactorily.

#### ROOT CAUSE ANALYSIS

The firm has continued its work to identify the root cause of poor quality gradings and has invested significantly more resource in this area during the year. We received a presentation by the firm on their assessment of root causes and the measures being undertaken to address weaknesses identified. This will be a continuing focus for the firm and PIC will continue to receive updates on progress against the action plan.



## OTHER AREAS OF FOCUS

In addition to the focus on audit quality the committee has considered and discussed the following:

### IMPLEMENTATION OF NEW ETHICAL REQUIREMENTS

Following the introduction of new FRC Ethical and Auditing standards and new legislation, the FRC conducted a specific review of how the largest six firms have implemented the new requirements ahead of their application to the audit engagement. Their initial comments have been fed back to the firm and shared with the PIC.

### PROFESSIONAL CONDUCT IN RELATION TO TAXATION (PCRT)

Professional Conduct in Relation to Taxation (PCRT) is a document that has been produced by seven professional bodies, to give specific guidance to their members on how they should act when involved in tax work. PCRT puts the bodies' fundamental ethical principles into context for the situations that arise when a member is involved in tax planning and tax compliance work.

With the introduction of the revised PCRT I met with the tax stream to discuss the firm's preparation and reported back to PIC. The committee was pleased to note the training, guidance, policy updates and procedures that had taken place ahead of the implementation date.

## WHISTLEBLOWING AND CONFLICTS OF INTEREST

In addition to the main areas of focus set out above we have received updates on:

- BDO's whistleblowing procedure and reports
- the management of conflicts of interest

In addition as a member of the Quality and Risk Management Committee I consider all audit independence breaches.

### SELF ASSESSMENT OF PIC

As a committee we are continually looking to appraise our impact on the firm and have once again conducted a self-assessment of the PIC's effectiveness.

Feedback from the self-assessment was largely positive in areas such as the skills set of the INEs, access to the business to information and personnel and oversight of audit quality.

Areas identified for the coming year include:

- oversight of other areas of the firm;
- focus on the firm's response to changing business models, innovation and disruptive technology and culture.
- visibility to the partnership below executive level.

## FUTURE AREAS OF FOCUS

Over the coming period I anticipate that the committee will continue to focus on the firm's culture; the remuneration of partners and training. We will also be looking at the pressure on partners and the attractiveness of the profession to new accountants.

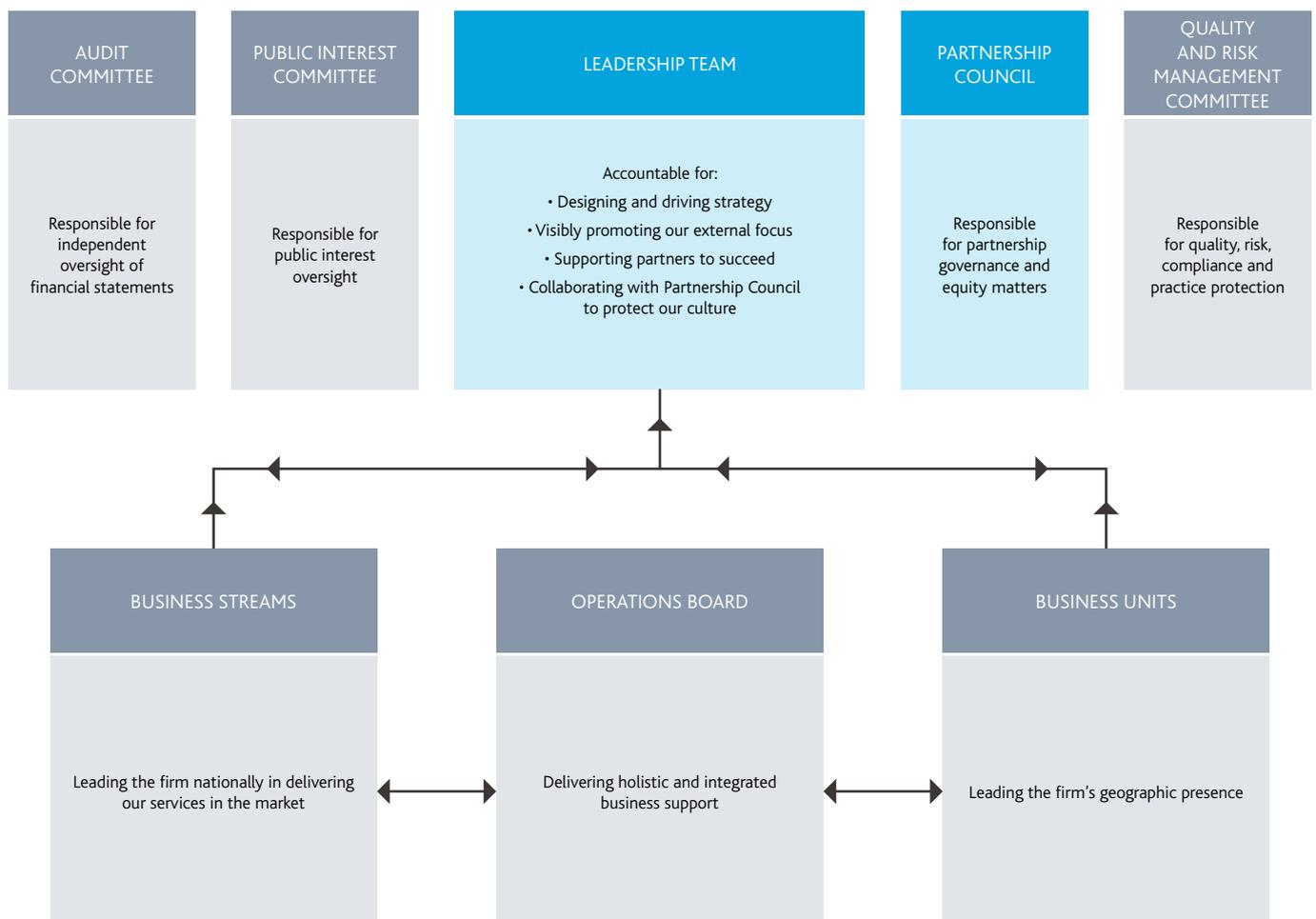
The INEs will be meeting with representatives of CRAG later this year and welcome any interaction with stakeholders. The INEs are available to speak to institutional investors.

We continue to have confidence in the management team's commitment to quality and in the firm's governance processes.



# GOVERNANCE STRUCTURE

As noted in last year’s transparency report Paul Eagland was elected Managing Partner of BDO with effect from 1 October 2016. The Managing Partner is responsible for selecting the Leadership Team and for working with the Senior Partner and Partnership Council to comply with the firm’s governance structure. This report will focus on the governance structure that has been in place since 1 October 2016.



## GOVERNANCE STRUCTURE

### MANAGING PARTNER AND LEADERSHIP TEAM

The partners elect a Managing Partner to hold office for a term of four years commencing from 1 October in the year in which they are elected. The Managing Partner is not eligible for election for more than two consecutive terms in such office but there is no limit to the number of terms that a partner may serve on the Leadership Team other than as Managing Partner.

Upon election, the Managing Partner appoints the partners who serve on the Leadership Team who are then approved by the partners. The INEs are also members of the Leadership Team. The Managing Partner may make subsequent changes to membership of the Leadership Team (save for the INEs) with the consent of the Partnership Council.

The Leadership Team is responsible for the development and implementation of strategy and for the management of the firm. Formal meetings are held monthly and are chaired by the Managing Partner. The Managing Partner has a duty to keep the Partnership Council apprised of any matters of substance that affect the strategic direction of the firm and to refer key management decisions to the Partnership Council for discussion and, where appropriate, for referral by the Partnership Council to the partners.

### SENIOR PARTNER

The partners elect a Senior Partner to hold office for a term of four years commencing from 1 October in the year in which they are elected.

The Senior Partner is not eligible for election for more than two consecutive terms in such office. The Senior Partner is a non-executive position. The Senior Partner is responsible for firm governance as well as acting as a senior representative for, and ambassador of, the firm. The Senior Partner chairs the Partnership Council and takes responsibility for managing all Partnership Council duties. The Senior Partner attends Leadership Team meetings in a non-executive capacity to facilitate the governance oversight role of Partnership Council.

The Senior Partner at 30 June 2017 was Mark Bomer. Mark was elected as Senior Partner with effect from 21 June 2011 and is in his second term which expires on 30 September 2018. He is a member of our Inclusion Steering Group and is our representative at the 30% Club and its professional services sub-group, which are committed to seeing more women on the boards of UK companies.

### INDEPENDENT NON-EXECUTIVES

Candidates for INE roles are proposed by the Leadership Team and approved by the Partnership Council. The Partnership Council reviews the effectiveness and independence of the INEs.

The INEs are invited to attend a meeting of the Partnership Council on an annual basis without executive members of the Leadership Team in attendance and have the right to meet with each other on a private basis. In addition INEs have the right to initiate direct access to the Partnership Council at any other time in order to report and agree a course of action in relation to any fundamental disagreements with the executive members of the Leadership Team. Where ultimately the disagreement cannot be resolved and results in the resignation of an INE they also have the right to report this resignation publicly.

INEs are appointed on a rolling term of one year unless or until terminated by either the INE themselves or by the firm.

The INEs perform duties as set out in their letter of appointment; in particular they:

- Provide advice on governance and fulfilment of INE obligations relating to the Audit Firm Governance Code
- Provide City and institutional support
- Apply independent judgement to matters of particular concern to the firm.

Where occasions arise that the INEs consider they need to obtain independent professional advice, the firm will fully reimburse the cost of obtaining such advice.

**BOARDS AND COMMITTEES\***

| BODY                            | COMPOSITION   | RESPONSIBILITIES  |
|---------------------------------|---|---|
| Leadership Team                 | <ul style="list-style-type: none"> <li>• Paul Eagland - Managing Partner</li> <li>• Five executive members appointed by the Managing Partner</li> <li>• Two Independent Non-Executives (INEs)</li> <li>• The Senior Partner ordinarily attends.</li> </ul>  | <ul style="list-style-type: none"> <li>• Provides strategic leadership with emphasis on the firm's services to its clients.</li> <li>• Sets the culture of the firm through its tone at the top.</li> <li>• Profit sharing.</li> </ul>  |
| Public Interest Committee (PIC) | <ul style="list-style-type: none"> <li>• Simon Figgis – INE (Chair)</li> <li>• Lesley MacDonagh (INE)</li> <li>• David Isherwood - Ethics Partner</li> <li>• Paul Eagland ordinarily attends.</li> </ul>  | <ul style="list-style-type: none"> <li>• Considers public interest matters that affect the firm, with a goal of enhancing stakeholder confidence in the public interest aspects of the firm's activities.</li> </ul>  |
| Partnership Council             | <ul style="list-style-type: none"> <li>• Mark Bomer - Senior Partner (Chair)</li> <li>• Paul Eagland - Managing Partner</li> <li>• Two representatives from the Leadership Team who may attend by invitation of the Managing Partner.</li> <li>• 12 elected partners (four year term, max two terms)</li> </ul> | <ul style="list-style-type: none"> <li>• Overall responsibility for equity and governance matters; including the accountability and oversight of management.</li> <li>• New admissions and exits from the partnership.</li> </ul>   |
| Audit Committee                 | <ul style="list-style-type: none"> <li>• Four members of the Partnership Council.</li> </ul>  | <ul style="list-style-type: none"> <li>• Meets with the external auditors and management to provide a forum for the external auditors' reporting.</li> <li>• Assesses and monitors the independence of auditors.</li> <li>• Reviews and monitors the integrity of the firm's financial statements including key judgements made by management.</li> <li>• Considers the effectiveness of the internal controls maintained and monitored by management as well as reviewing management's prioritisation of key operational risks.</li> </ul> |

\* During the period from Paul Eagland's appointment as Managing Partner, 1 October 2016 to 30 June 2017

## GOVERNANCE STRUCTURE

| BODY   | COMPOSITION  | RESPONSIBILITIES   |
|--|--|--|
| Quality and Risk Management Committee (QRMC) | <ul style="list-style-type: none"> <li>• Iain Lowson - Head of Quality and Risk Management</li> <li>• Simon Figgis - Independent Non-Executive</li> <li>• Paul Eagland - Managing Partner</li> <li>• Andy Butterworth - Chief Operating Officer</li> <li>• Scott Knight - Head of Business Assurance</li> <li>• Nicole Kissun - Head of Technical Standards Group</li> <li>• Pauline McGee - Head of Quality and Risk Management Team</li> <li>• Angela Foyle –Money Laundering Reporting Officer</li> </ul> | <ul style="list-style-type: none"> <li>• Ensures appropriate strategies and plans are drawn up, implemented and monitored to manage risk effectively and to deliver quality services consistent with the firm’s strategy.</li> <li>• Understanding and monitoring all risks facing BDO as a business (be they strategic, reputational, financial or operational) and for scrutinising the processes in place within the business for managing and mitigating these risks.</li> </ul>                   |
| Audit Stream Executive (ASE)                 | <ul style="list-style-type: none"> <li>• Scott Knight - Head of Business Assurance</li> <li>• Nicole Kissun - Head of Technical Standards Group</li> <li>• Angela Lynch - Operations Director for the National Audit Stream</li> <li>• Six partners from a range of sectors and regional offices.</li> </ul>   | <ul style="list-style-type: none"> <li>• Ensures audit quality remains at the top of our agenda.</li> <li>• Develops and delivers the national Audit Stream strategy.</li> <li>• Monitors commercial and regulatory activity in the audit market,</li> <li>• Supports practitioners to be successful in the market, creating a culture of consultation and support.</li> <li>• Sets Audit Stream policies and procedures.</li> <li>• Provides oversight of quality, licensing and rotation.</li> </ul> |





# ETHICS AND INDEPENDENCE

Ethics and independence are of fundamental importance to the firm as a whole. Over the past 24 months BDO have expanded the ethics and independence function, supporting the business in the implementation of important reforms to the independence of auditors.

As required we set out in this report our policy and procedures in respect of ethics and independence:

## **INTEGRITY, OBJECTIVITY AND INDEPENDENCE**

If the partner identifies threats to the firm's objectivity, including any perceived loss of independence, they are required to identify and assess the effectiveness of the available safeguards and apply such safeguards as are sufficient to eliminate the threats or reduce them to an acceptable level. If the partner concludes that any threats to the firm's objectivity and independence cannot be reduced to an acceptable level then the firm will not accept or continue to provide that service to the client.

Our partners and staff are not just required to apply the rules but also to adhere to the principles of ethics and independence and consider the views of an objective, reasonable and informed third party in order to reach a judgement that meets the overarching requirement to behave ethically.

Audit engagement partners are required to communicate to those charged with governance on a timely basis all significant facts and matters that bear upon the auditor's objectivity and independence. Internal guidance and templates are

available detailing the matters which should be included in such communications.

Our policies and procedures relating to ethical conduct and auditor independence are set out in detailed internal guidance pages on the firm's intranet and in the BDO UK Audit Manual.

These are supplemented by helpsheets and complemented by extensive advice; consultation and training programmes, designed to ensure compliance with International and UK Ethical Standards. The Ethics Partner and Ethics Team are responsible for providing guidance and support on the application of ethical standards to ensure that our professional objectivity and independence is maintained.

These policies and procedures cover, inter alia, our relationships with audit clients, rotation of audit partners, fees and the provision of non-audit services to audit clients. They meet, and in some instances exceed, those that are promulgated by the FRC's Ethical Standard, the IESBA Code of Ethics for Professional Accountants and the ICAEW Code of Ethics.

In addition to their own national code of ethics, all BDO Member Firms, as members of the Forum of Firms, are required to comply with, and annually report as to their compliance with, the IESBA Code of Ethics.

## ETHICS AND INDEPENDENCE

As chartered accountants we are expected to demonstrate the highest standards of professionalism. Ethical behaviour plays a vital role in ensuring public trust and upholding the reputation of the accounting profession. The ICAEW Code of Ethics assists us by providing relevant ethical guidance.

### FINANCIAL, BUSINESS, EMPLOYMENT AND PERSONAL RELATIONSHIPS

In order to comply with relevant ethical standards, and to allow us to provide the most flexibility to our clients, we have policies in place that prohibit the firm, partners, staff and persons closely associated with them holding a financial interest in an audit client or a significant affiliate of an audit client.

Additionally, the firm, partners, staff and persons closely associated with them may only enter into business relationships with any of the firm's clients or their affiliates where they:

- Involve the purchase of goods and services from the client in the ordinary course of business and on an arm's length basis and where the value involved is not material to either party.
- Are clearly inconsequential to both parties.

Employment type relationships with clients are relatively rare but in order to protect objectivity, approval procedures are in place before any such situation can be established.

Partners and staff members should report to the Ethics Partner where any member or persons closely associated with them, has an involvement with an audit client which they consider might create a threat to the firm's objectivity or a perceived loss of independence.

The annual declaration process seeks confirmation from partners and staff that our policies surrounding financial, business, employment and personal relationships have been complied with. All exceptions are reviewed and investigated by the Quality and Risk Management (QRM) Team and/or the Ethics Team.

### LONG ASSOCIATION WITH THE AUDIT ENGAGEMENT

Our policies are in accordance with the FRC Ethical Standard (Revised June 2016) notably that:

- The audit partner on a listed or Public Interest Entity (PIE) audit client rotates after five years except in exceptional circumstances, where rotation can be extended to occur after seven years. Where an extension of the rotation period occurs additional safeguards will be put in place and approval for the extension will be obtained from the Ethics Partner.
- Key Audit Partners involved in the audit of our PIE audit clients, within the EU, are required to rotate after five years in line with the requirements of the FRC's Ethical Standard. Where an extension of the rotation period occurs additional safeguards will be put in place and approval for the extension will be obtained from the Ethics Partner.

- Audit teams are required to plan the rotation of other partners and senior staff involved in the audit to achieve a gradual rotation to preserve audit quality.
- For non-listed audit clients, the audit partner will normally rotate off the audit after ten years. Where rotation is extended beyond ten years, a rotation plan will be agreed with the firm's Ethics Partner.

Rotation in relation to PIE and other listed audit clients is monitored by the Ethics Team and a designated member of the ASE.

### FEES, REMUNERATION AND EVALUATION POLICIES, LITIGATION, GIFTS AND HOSPITALITY

Ordinarily contingent fees are not allowed for any project where the firm will, as any part of that project or any other project, be required to give an independent opinion. The firm's relationship risk review requires project partners to consider the impact of the prospective project's fees on the partners' portfolio. In addition the firm does not provide tax services to listed entities on a contingent fee basis.

Our appraisal, promotion and remuneration processes for audit staff specifically exclude objectives related to selling non-audit services to their audit clients.

In accordance with The Bribery Act, partners, staff or anyone who performs services for or on behalf of the firm are not permitted to agree to anything that an informed reasonable third party might perceive to be a bribe.

The firm has specific policies regarding situations where a bribe might occur – gifts, hospitality and expenses, facilitation payments, political contributions, charitable contributions, sponsorship, commission payments, commission receipts and recruitment.

Partners, staff and persons closely associated with them may only accept a gift, favour, or other personal benefit from clients (or clients' officers or employees) or introducers of work to the firm or any other organisation or individuals including suppliers to the firm who may benefit or be seen to benefit from their relationship with the firm if it satisfies the criteria set out in the firm's gifts policy.

The annual declaration process seeks confirmation from partners and staff that the firm's policies surrounding gifts and hospitality have been complied with. A sample of annual declarations is reviewed by the QRM Team. In addition, all exceptions are reviewed and investigated by the QRM Team and, where these relate to audit clients, the Ethics Team.

### **NON-AUDIT SERVICES PROVIDED TO AUDIT CLIENTS**

The firm's Client Take On procedures are completed for all new clients and projects. In respect of all non-audit services provided to audit clients, procedures require approval by the audit engagement partner to ensure that the audit engagement partner (or their delegate) is informed about any proposed engagement to provide a non-audit service to the audited entity or any of its affiliates and that he or she considers the implications for the auditor's objectivity and independence before the engagement is accepted.

The provision and approval of non-audit services is specifically reviewed at an engagement level as part of the firm's Audit Quality Assurance programme conducted on a selection of audit files.

### **INDEPENDENCE PRACTICES**

A review of independence practices has been conducted via processes of internal review as part of a series of monitoring and review activities, including:

- An annual declaration undertaken by all partners and staff, a sample of which are reviewed by the QRM Team. All exceptions are reviewed and investigated by the QRM Team.
- The Independent Inspection programme examines a selection of audit files on an annual basis as explained on page 24.
- Regular and ad hoc monitoring activities targeting specific aspects of audit independence.

Where independence violations are identified, appropriate remedial action is instigated and appropriate improvements are made to the firm's systems and processes and additional guidance and training is implemented. Independence breaches are reported to the Quality and Risk Management Committee.

### **BDO INTERNATIONAL GLOBAL INDEPENDENCE PRACTICES**

BDO Member Firms' independence and objectivity on assurance clients is achieved through policies and procedures designed to ensure compliance with the independence standards of the International Federation of Accountants (IFAC) Code of Ethics and the

respective national regulatory organisations. The relevant ethics and independence rules for each member firm are posted on BDO's global intranet, which is accessible by all BDO partners and professionals.

Our member firms have a designated Independence Champion, usually an experienced partner, who monitors compliance with the applicable independence policies and procedures, provides consultations regarding independence matters, and oversees independence training.

BDO also maintains a worldwide database of all our major firms' restricted entities, including listed companies and public interest entities. This is situated on the global intranet and its objective is to prevent the performance of prohibited non- assurance services or investment in restricted entities. The worldwide database is updated monthly and the Independence Champions must positively affirm each month that their member firms' listing of restricted entities is accurate and complete. They also annually confirm that their domestic independence rules comply with the IFAC Code of Ethics and are available on the global intranet.

Prior to accepting any new client or assurance engagement, member firms must perform specific procedures to identify potential conflicts of interest and threats to their independence. Procedures include a custom-made web-based tool to facilitate international conflict of interest and independence checks throughout the BDO network.



# INTERNAL QUALITY CONTROL SYSTEMS

As important as having policies and procedures to ensure the delivery of quality audits is the monitoring of adherence to those policies and procedures.

The firm's internal control framework is designed to provide reasonable assurance that the firm, its partners and staff comply with professional standards and regulatory and legal requirements, work is performed to a consistently high standard and that reports issued by the firm are appropriate.

The Framework can be split into the following elements:

- leadership responsibilities for quality within the firm
- ethical requirements, see pages 15 to 17
- identification, evaluation and mitigation of risks, see pages 31 to 33
- acceptance and continuance of client relationships and specific engagements
- human resources and development
- engagement performance
- monitoring and documentation of the system of quality control
- internal audit.

## **LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM**

Quality control is dependent upon an organisational structure which is inherently sound and which clearly defines the responsibilities of the various levels of management.

The firm has clearly established responsibilities for the Managing Partner, the Senior Partner and other senior personnel. The Managing Partner establishes various boards and committees, as detailed in pages 9 to 13 to implement the firm's business strategy and manages operational issues.

Along with the firm's management, the Head of Quality and Risk Management supported by the Ethics Partner reinforces the appropriate "tone at the top" by instilling professional and ethical values in the firm. The Audit Stream "tone at the top" is set by the Head of Business Assurance, supported by the Audit Stream Executive. The national Audit Stream is supported by the Technical Standards Group (TSG) and the Quality and Risk Management (QRM) Team.

TSG, headed by the Head of Technical, is inter alia responsible for the following:

- maintaining the firm's technical manuals and communicating developments to the firm's partners and staff
- helping maintain the quality of the firm's assurance practice at the highest standards prevailing in the profession
- consulting with local office partners and other professionals seeking technical advice and
- overseeing the firm's technical continuing professional education programmes.

## INTERNAL QUALITY CONTROL SYSTEMS

The Head of Quality and Risk Management who is also the firm's Audit Compliance Principal, is responsible for the following:

- monitoring of independence
- monitoring the firm's auditing work and
- evaluating the firm's quality controls policies and procedures.

### ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS

Robust client and engagement acceptance procedures play a pivotal role in the firm's ability to deliver a professional and quality service.

Prior to the acceptance of any new client and consideration of continuance with that client, certain procedures to assess the risks associated with that client must be carried out. These will include:

- consideration of the client's business including its geographical spread and the industry it operates in
- evaluation of information concerning the client, its management and its owners including obtaining evidence of the identity of the owners and officers of the business
- considering information regarding the character and reputation of the prospective client and key personnel
- assessment of potential independence risks and potential conflicts of interest
- if relevant, inquiry of the previous auditor regarding the reasons for the change in auditor and if there is any reason why we should not accept the appointment

- assessment of our ability to serve the prospective client and
- reviewing filings of the company, including prior year financial statements.

The acceptance and continuation of all clients requires an approval process that is appropriate to the perceived risk. "High risk" assurance clients require pre-approval by the Head of Business Assurance and in certain circumstances by the firm's Client Acceptance Panel (a panel of experienced partners including a member of the Leadership Team, the MLRO and the Head of Quality and Risk Management).

### HUMAN RESOURCES AND DEVELOPMENT

Human resources are a critical factor in our ability to provide professional services. In order to ensure that the firm has sufficient personnel with the capabilities, competence, and ethical standards necessary to provide quality audits in accordance with professional and legal requirements we have established clear and consistent policies and procedures addressing the following areas:

- Clear job description: tasks, responsibilities and expectations
- Recruitment procedure
- Grades and levels: explanation and theoretical timeline, career path (specialism or upward)
- Workforce planning, succession management
- Continuous performance appraisal and engagement surveys
- Development plan and training policy.

Procedures and policies related to personnel are contained on our intranet and provide clarity and coherence on goals, structures, vision and accepted behaviours of BDO employees. In short, they cover the rules of engagement within our firm.

Non-compliance with the firm's policies and professional standards are reflected through additional training, delays in promotion or through dismissal for serious instances of non-compliance.

### CLEAR JOB DESCRIPTION: TASKS, RESPONSIBILITIES AND EXPECTATIONS

A good job description is the basis for most personnel matters in our firm: recruitment, selection, coaching & mentoring, career development & mobility and performance evaluation.

A job description is a structured, written record of all facets of a position; it provides clarity on the tasks, scope of the function responsibilities and authorities, what we expect of the person and the standard of performance required.

The job description contains the following information:

- Purpose of a function
- Role of a function in the firm, reporting line, position in the structure, workflow
- Core tasks and specific activities
- Responsibilities / authority and scope
- Expectations
- Job requirements (knowledge, skills and behavioural competencies)
- Qualifications required for the role.



### RECRUITMENT PROCEDURE

Policies and procedures for recruitment are designed to provide reasonable assurance that those employed possess the appropriate characteristics to enable them to deliver a high quality service and perform their duties with professional competence.

We work actively to promote diversity within the firm's culture, not just in principle but in practice. Inclusivity within the organisation, whether it is based on age, gender, ethnicity or physical capabilities, strengthens the firm's values, makes the firm more representative and more capable of providing a quality professional service.

We seek smart people with integrity, motivation, aptitude and leadership qualities appropriate to the role for which they are being hired.

### GRADES AND LEVELS: EXPLANATION AND THEORETICAL TIMELINE, CAREER PATH (SPECIALISM OR UPWARD)

Competency management concerns 'the right person, in the right place, at the right time'. But the influence goes further:

- It enables the 'matching' of a potential employee to the firm
- It strives to tie the individual's career needs and aspirations to the needs of the firm
- It structures the HR processes and administration of:
  - new staff (recruitment and selection procedures)
  - existing staff (remuneration, appraisals, training and development) and
  - leaving staff (exit policy).

We provide a clear set of grades and levels with appropriate competencies explanation and timing guideline. Compensation matches the grade and the market benchmark. It is reviewed periodically to ensure market competitiveness.

Staff career development is addressed on both a national and regional basis. Staff are promoted to the next level only when they are prepared for the increased responsibilities that promotion entails.

Partner compensation is reviewed regularly which includes consideration of the partner's role in the firm, and the quality of the work, but is not directly related to the individual's financial performance. The appraisal and compensation of partners includes consideration of the findings from internal and external inspections of audit engagements.

### WORKFORCE PLANNING, SUCCESSION MANAGEMENT

We recognise that ultimately it is the quality and commitment of the partners and staff that really makes a difference and enables us to deliver a quality audit. Given this, our ability to attract and retain the right number of high quality people is of utmost importance. We predict personnel requirements so as to continue to service the firm's clients and provide sufficient capacity to enable its partners and staff to develop the business.

Policies and procedures for assigning personnel to engagements are designed to provide reasonable assurance that only those persons having adequate technical training, proficiency and competence will perform the work.

A current profile of staff's technical proficiency is obtained by personal knowledge and by reviewing evaluation forms completed by his or her superiors on previous engagements. This profile is used to assess the suitability of the staff member for specific subsequent assignments.

In staffing an engagement, consideration is given to ensure that partners and staff have the necessary technical knowledge and other skills appropriate to the size, complexity and nature of the planned work.

Succession management enables BDO:

- To protect the firm's present strengths and build for its future, ensuring sustainability and continuous strong leadership
- To reduce the risk of having leadership gaps for critical positions (either because of lack of talent or unprepared key successors)
- To engage the leadership in supporting the development of high-potential leaders and, in return, motivate, retain and engage key talents
- To anticipate and align resources with future needs and strategies and create a flexible business by responding faster to new leadership needs
- To counter the increasing difficulty and costs of recruiting employees externally.

## INTERNAL QUALITY CONTROL SYSTEMS

Succession management enables the employee:

- To get opportunities to grow and develop skills necessary for future roles and meet career development expectations
- To remain committed, motivated and engaged
- To stay with the firm.

### CONTINUOUS PERFORMANCE APPRAISAL AND ENGAGEMENT SURVEYS

All our partners and staff members are subject to formal performance appraisal, review and counselling on a regular basis, in order to evaluate the level of competence, monitor development and to help them reach their full potential. Performance appraisals include a review of each individual's contribution to the quality of service(s) provided by our firm.

Appraisals are completed on an assignment-by-assignment basis at certain levels and also at frequent intervals at all levels. The factors appraised (which may vary by level) include professional and technical competence (including analytical and judgement skills), personal and management skills, and client servicing skills.

Our firm provides regular engagement surveys to monitor employee engagement to ensure the motivation to maximise the success of the firm.

### DEVELOPMENT PLAN AND TRAINING POLICY

Our learning and development strategy ensures the firm's ability to remain competitive and to motivate our staff.

It includes both the technical expertise and skills to meet the needs of the higher demands of the market; that is business advisers, financial analysts, communicators, negotiators and managers. At the same time integrity, objectivity, professional scepticism and willingness to take a firm stand are essential attributes of professionals.

We provide our individuals a clear career path and complementary development plan.

Our staff's integrity, honesty and moral character must be above reproach. While attributes of individual applicants may differ because of technical specialisation and years of experience, there are three basic attributes that all our staff possess:

- Technical competence in a chosen field of expertise
- Pride in self, the firm and the profession and
- Strong personal skills in managing and engaging staff and in leading engagements.
- These are mandatory requirements for partnership.

### ENGAGEMENT PERFORMANCE IN THE AUDIT STREAM

#### COMMON METHODOLOGY

Our policies and procedures are designed to ensure that audits meet all applicable professional standards, regulatory requirements and that the firm issues reports that are appropriate in the circumstances. To achieve this and to promote consistency in the approach to auditing and related fundamental application

of professional scepticism throughout the BDO network, BDO International has developed the common BDO Audit Methodology, related software tools and other standard forms of documentation. This methodology is fully compliant with International Standards on Auditing.

APT, BDO International's in-house state of the art audit software, remains BDO's single largest global project of its kind and its evolution continues. With further substantial audit methodology and IT investment, the next generation of APT is already under development. By designing APT to take advantage of recent technological advances, we will be able to:

- Safeguard the structural integrity of the tool for the future;
- Utilise a fully-integrated tool that reflects the latest interpretations of the auditing standards and
- Enable teams to work efficiently on both large and small engagements.

BDO Advantage is our data analytics audit tool. It works by combining smart technology with our knowledge and understanding of our clients' business to deliver information for in-depth interpretation.

This includes graphics that aid the exploration and understanding of data and make it easier to spot patterns and trends and crucially to identify anomalies. BDO Advantage has improved our awareness, provided valuable insights and delivered improvements to audit quality.

Journal Analyser is the first step in the BDO Advantage journey. Audit journal adjustments are a key part of the audit and are often difficult to cover. Advantage makes it easier for the audit team to identify the journals that are large or unusual and support the process of auditing them.

Version 3 of BDO Advantage incorporates a Financial Analysis Tool that enables our audit teams to drill down and explore financial movements within the areas of the financial statements. The latest version also includes a Keyword search capability that enables our teams to search journals for high risk phrases such as error, correction or adjustment. It also supports our audit procedures to identify related party transactions.

### **SUPERVISION AND REVIEW**

We require all professional work to be supervised by staff members who have appropriate knowledge and experience. It is the responsibility of the relevant partner, principal or director to ensure that related risks are identified and that decisions are taken by those with an appropriate level of authority. The relevant partner, principal or director must also ensure that professional work is carried out with appropriate professional scepticism, and that it meets the firm's standards in all respects.

Our review procedures are designed to ensure effective control of the audit as it progresses. These policies are designed to ensure that:

- the work is performed in accordance with applicable standards and regulations
- significant matters have been raised for further consideration and appropriately addressed

- appropriate consultations have taken place
- the planned work has been reviewed and that the objective of all planned work has been achieved
- the work performed and evidence obtained supports the conclusions reached and
- the documentation present on the audit file enables an experienced auditor to understand the significant matters arising on the audit as well as the nature, timing and extent of the procedures undertaken, the results of those procedures and the evidence obtained.

An engagement quality control review is performed for audits of public interest entities, other listed entities and other high risk engagements. The engagement quality control reviewer will be familiar with the auditing and reporting practices used during the engagement, and be knowledgeable and familiar with the client's industry, but is not part of the audit engagement team. They will be an experienced audit partner and not likely to be unduly influenced by the views of a particular engagement partner. The engagement quality control reviewer will not be actively involved in making ongoing decisions relating to the engagement and will not be involved in performing the engagement. Engagement quality control reviewers are selected from a list of approved reviewers, as determined by the Head of Quality and Risk Management.

### **CONSULTATION**

Our culture encourages consultation with experienced partners and other specialists where appropriate. The firm has a process in

place for audit partners and teams to follow when consulting and seeking a 'firm' opinion, support on a client issue, judgement or risk.

### **RESPONSIBILITY FOR AUDIT QUALITY**

The firm's Leadership Team has overall responsibility for the quality of work across the firm including the quality of our audit work. Within this it has responsibility for the design of a system of internal monitoring to ensure that audit quality is maintained and improved. The Leadership Team has delegated the design and implementation of this system to the firm's Audit Stream Executive (ASE), but the work of the ASE is subject to review and approval by the Leadership Team prior to implementation.

The firm's Head of Business Assurance sits on the Leadership Team and the Head of Quality and Risk attends for agenda items regarding quality. Audit quality is a standing item on the agenda of every Leadership Team meeting. The Head of Business Assurance provides a monthly update on audit quality issues to the Leadership Team.

The Head of Business Assurance and the Head of Quality and Risk Management have regular communications with audit partners on audit quality issues.

### **MONITORING AND DOCUMENTATION OF THE SYSTEM OF QUALITY CONTROL.**

Our policies and procedures concerning monitoring activities are designed to give the firm reasonable assurance that the firm's internal quality control system is operating effectively and is being complied with in practice.

**INTERNAL QUALITY CONTROL SYSTEMS**



Our quality control system includes an annual programme of inspections of audit files (the Audit Quality Assurance Review). This is designed by the Audit Stream Executive and approved by the Quality and Risk Management Committee and the Leadership Team. Its purpose is to monitor compliance with the firm’s policies, procedures and standards and to ensure that audit work carried out in order to arrive at an appropriate opinion, is properly documented and of high quality.

**INTERNAL INDEPENDENT REVIEWS PROCESS**

The review process is separated between reviews of those clients that are within the scope of the AQR and those within the scope of the Quality Assurance Department of the ICAEW.

Those that are in-scope of the AQR are reviewed by a dedicated team of reviewers and follows similar procedures and grading to those of the FRC’s AQR.

Reviews of those that are in scope of the ICAEW’s Quality Assurance Department (QAD) are overseen by an experienced independent audit partner following the approach adopted by the QAD.

Each set of reviews considers all matters from client take on, through planning and executing the assignment, to reporting and the role of the EQCR. It also considers the appropriateness of accounting policies and disclosures.

The sample is chosen to ensure that each audit Responsible Individual (RI) is subject to review at least once every two years, and to ensure that an average 60% of all RIs are reviewed in any one year with 100% of RIs

covered in a two year period. Each Sector Business Unit (SBU) will have at least one RI subject to review each year with all financial services RIs reviewed annually. Newly appointed RIs are selected for review in their first year. The sample is weighted to include an appropriate number of Public Interest Entity (PIE), including listed and US issuers, audits each year.

Each review team is headed by an experienced audit partner. Where the sample includes a client in a specialised industry, appropriate internal specialists are involved in the review.

Independence of the reviewers is ensured through having each partner reviewed by a team from a business unit/ office other than the partner’s own.

Instructions are issued to the reviewers in advance of the review setting out the objectives of the process, a checklist, appropriate guidance and reporting templates.

A conclusion is drawn on each audit reviewed as to whether the audit work was acceptable or required significant improvement.

At the conclusion of the annual programme the results are discussed with the Head of Business Assurance and the Audit Stream Executive and the results are reviewed by the Quality and Risk Management Committee and the Public Interest Committee. Root cause analysis of findings is carried out and appropriate action plans drawn up.

The Head of Quality and Risk Management is responsible for monitoring the implementation of, and compliance with, any corrective actions. The Head of Quality

and Risk Management is also responsible for ensuring appropriate documentation of the operation of each element of the firm’s quality control system.

**RESULTS OF INTERNAL REVIEW PROCESS**

The review process is conducted in respect of a calendar year. The results of the review conducted in 2016 were:

| TOTAL            | 2016 | 2015 | 2014 |
|------------------|------|------|------|
| Satisfactory     | 87%  | 89%  | 87%  |
| Not satisfactory | 13%  | 11%  | 13%  |

Files are graded 1-3 with, 1 being good and 3 needing significant improvement (not satisfactory).

**INTERNAL AUDIT**

The firm’s internal audit function reports to the Quality and Risk Management Committee. The Quality and Risk Management Committee reviewed and approved the Internal Audit plan of activity for the year which is based on an overall three year plan approved in the prior year. The Internal Audit plan is based primarily on the firm’s Top Risks and includes both service stream and PMD specific reviews.

Reports are presented to the Quality and Risk Management Committee setting out the recommendations raised to address any weaknesses identified in the firm’s system of internal control. These reports along with quarterly updates of progress against the internal audit plan and implementation of actions in response to findings from reviews were considered by the Quality and Risk Management Committee.



### CONFLICTS OF INTEREST

The engagement partner is responsible for the identification of conflicts. Client-side checks involve a review of the firm's systems which must be supplemented by an email to the Conflict of Interest group and/or publication on the firm's intranet. These additional methods are also used to identify 'other sides' where relevant. Responses to the proposed engagement partner are required within a specified time period if there is a potential conflict. There is also a facility to perform conflict checks confidentially using the Quality and Risk Management Team (QRM) as an independent facilitator.

International conflict of interest checks are performed using the network's computerised, conflict checking system. The system initiates conflict checks for either separate countries, group of countries or worldwide, logs responses and keeps a detailed audit trail for future use. If a conflict is identified, the QRM Team assists with conflict resolution. Solutions are tailor made to each situation. Where appropriate we seek informed consent and if required ensure that teams, the location of those teams and the servers used for the work are kept separate.

Information barriers and the use of a wall partner are other tools used to manage conflicts. Where in our opinion, a conflict is not manageable, or where it cannot be managed to the satisfaction of all parties then we decline to act.

### WHISTLEBLOWING

The whistleblowing policy has been designed to ensure that our people deal responsibly and in the interest of all concerned in the event of any malpractice within the firm.

By disclosing any information, our people will not be treated any differently by the firm. We will attempt to ensure that there is no victimisation or harassment as a result of any disclosure and any appropriate disciplinary action may be taken against another individual in breach of this.

Wherever possible, we will discuss in confidence the disclosure of information and protect the identity of anyone disclosing information and, wherever appropriate, investigate the matter thoroughly. Any action taken as a result of whistleblowing will be dependent on the nature of the concern, and dealt with as the firm deems appropriate.

Under our policy it is a requirement that all actions arising out of incidents of whistleblowing, including reports from any investigations, be reported to the Head of Quality and Risk Management who will make an annual report on incidents to the Public Interest Committee.

We would wish to deal with any disclosure internally by following our internal procedures. If however, an individual remains concerned about an internal investigation, and reasonably believes that the appropriate action has not been taken, then he/she should report the matter to the proper authority.

If an external contact of the firm has any concerns they would like to raise, they should contact the firm's Head of Quality and Risk Management in the first instance. Concerns can be raised verbally and/or as a written statement. All concerns will be taken seriously and investigated and escalated as appropriate.

### LEADERSHIP TEAM'S STATEMENT ON EFFECTIVENESS OF FUNCTIONING

These policies, procedures and monitoring activities have provided the firm's Leadership Team with reasonable assurance that the firm, its partners and staff have materially complied with applicable professional, regulatory and legal requirements, that work has been performed to a consistently high standard and that appropriate reports have been issued. The firm's Leadership Team has inter alia considered the results of the annual regulatory inspections by the FRC in reaching this opinion.



# AUDIT QUALITY INDICATORS

The following twelve metrics give an indication of audit quality. Although it would be overly simplistic to use these metrics as blunt 'benchmarks' in their own right, when combined with contextual descriptions, we are confident that they will provide additional valuable information to audit committees and other stakeholders. We set out the identified metrics below:

| METRICS FROM PARTNER AND STAFF SURVEYS  |   | 2016 <sup>1</sup> | 2015 |
|---|---|-------------------|------|
| 1. Delivering quality work is a priority for me   |   | 98%               | n/a  |
| 2. I have sufficient time and resource to do my job   |   | 63%               | 43%  |
| 3. The leaders I work with are committed to providing a high quality service to external clients              |   | 96%               | 98%  |
| 4. The learning and development I receive from BDO has prepared me for the work I do.                         |   | 90%               | 90%  |
| METRICS ON EXTERNAL INVESTIGATIONS  |   |                   |      |
| Number of cases in the last 12 months in which the:   |   |                   |      |
| 5. FRC's conduct committee has found against the firm or one of its members                                   | We have no such findings against the firm and no matters currently under investigation.   |                   |      |
| 6. Disciplinary committee of any other regulatory body has found against the firm or one of its members       | We have no such findings against the firm and one audit related matter currently under investigation.   |                   |      |
| METRICS ON EXTERNAL INVESTIGATIONS  |   |                   |      |
| 7. Results of firm's internal audit quality reviews   | The results of our internal reviews along with a description of our Audit Quality Assurance Review process and a definition of the grades awarded are set out on page 24.   |                   |      |
| 8. Results of the FRC's Audit Quality Review Team reviews on the firm   | Our last review by the FRC's Audit Quality Review took place in 2016/17. The full report can be downloaded from the FRC website <a href="http://www.FRC.org.uk">www.FRC.org.uk</a> . BDO is subject to annual reviews by the FRC's Audit Quality Review in line with the recommendations made by the our Competition and Markets authority. |                   |      |
| 9. Annualised percentage of Responsible Individuals subject to firm's internal engagement performance reviews | Circa 60% of RIs are reviewed each year ensuring all RIs are reviewed every two years; those RIs receiving an unsatisfactory grading are reviewed annually.   |                   |      |

<sup>1</sup> No survey was conducted in 2017 the next survey will be completed in 2018.

## AUDIT QUALITY INDICATORS

| METRICS ON INVESTMENT  |  |
|--|--|
| 10. The extent of training undertaken per person in the Assurance practice | Training covers technical competence; core competencies and personal development.  |
| 11. Investment in research and development on assurance                    | Our investment in BDO Advantage; our global audit methodology and tools and the investment we make in training our people are set out in pages 19 to 25 our investment in assurance research and development is reflected in the profitability figures set out on page 41. |
| METRICS ON INVESTOR LIAISON  |  |
| 12. Qualitative description of investor liaison                            | As noted in our Public Interest Committee report we remain keen to develop communication with the investor community.  |





# TOP RISKS

An important element of governing any firm is to identify and mitigate risk. At BDO we have identified our top risks and put in place key mitigation activities to minimise those risks.

| RISK   | DESCRIPTION   | KEY MITIGATING ACTIVITIES  |
|--|---|--|
| Organisational change – our appetite for change          | <p>Accelerating pace of change due to the demands of external conditions.</p> <p>Our appetite for change is inadequate and we fail to deliver the changes we require.</p>   | <p>Overall Firm governance and reporting.</p> <p>A strategy that incorporates the importance of change.</p> <p>Business transformation and change management regularly discussed by the Leadership Team.</p> <p>Dedicated resources to assist with the implementation of change programmes.</p>  |
| Changing business models for professional services firms | <p>Professional service firms such as ours face the risk of loss of market share due to:</p> <ul style="list-style-type: none"> <li>• Competitors innovating faster than us</li> <li>• New disruptive technology transforming markets and the cost of providing services</li> <li>• Existing methodologies, processes and IT becoming obsolete</li> <li>• New skills and expertise being required to deliver services</li> <li>• Our property portfolio becomes inflexible/obsolete.</li> </ul> | <p>Forward horizon scanning by the Leadership Team and management.</p> <p>Digital Board established to oversee the implementation of new digital solutions.</p> <p>Dedicated resources to assist with the implementation of change programmes.</p>   |
| Information security (including cyber security)          | <p>Failure to protect confidential client or personal data.</p> <p>Failure to prevent and recover from cyber attacks.</p> <p>Failure to identify and manage emergent cyber risks.</p>   | <p>IT policies and processes, including access controls and appropriate disaster recovery and business continuity plans.</p> <p>Use of appropriate software tools to help protect against cyber threats.</p> <p>Extensive data protection policies and processes. Control of sensitive data through limited access.</p> <p>Ongoing training to alert partners and staff to cyber and other risks of data loss and the behaviours necessary to minimise such risks.</p> |

## TOP RISKS

| RISK                                | DESCRIPTION   | KEY MITIGATING ACTIVITIES  |
|-------------------------------------|---|--|
| Regulation                          | <p>Some of our activities are highly regulated and major changes in regulation can impact our business model.</p> <p>Failure to maintain quality standards to the required regulatory standard or deal with any adverse findings from regulatory inspections to the regulator's satisfaction.</p> <p>Failure to recognize changing regulation and/or to invest in enhancing quality to meet new requirements.</p> | <p>Partner involvement with professional institutes and regulatory bodies. (Identifying change and influencing where possible).</p> <p>Maintaining an appropriate level of interaction and relationships with regulatory authorities.</p> <p>Regular review of anticipated regulatory changes and assessment of their impact.</p> <p>Comprehensive quality control systems, methodologies and guidance.</p> <p>Dedicated technical support services.</p> |
| Client acceptance and scope of work | <p>Failure to identify engagement or other commercial risks associated with a potential client or project.</p> <p>Failure to define the scope of projects with sufficient clarity, or engage those who have the right knowledge and skills to deliver the scope of work.</p> <p>Failure to comply with anti-money laundering regulations.</p>   | <p>Rigorous client and engagement acceptance policies and procedures.</p> <p>Levels of approval of potential clients or engagements with higher risk characteristics.</p> <p>Dedicated technical support services.</p> <p>Maintaining adequate professional indemnity insurance (PII).</p>   |
| Failure to develop our people       | <p>Our ability to develop sufficiently qualified, motivated and experienced people is vital to our ability to deliver exceptional client service.</p>   | <p>Significant technical and commercial training, development and on the job coaching.</p> <p>Structured performance reviews and feedback to help the development of partners and staff.</p>   |

| RISK  | DESCRIPTION   | KEY MITIGATING ACTIVITIES  |
|---|---|--|
| Failure to deliver quality work   | Major service failure resulting in litigation and/or regulatory action, with the potential to impact the reputation of the firm.  | <p>Excellence in quality is at the heart of our strategy and is embedded in our activities.</p> <p>Comprehensive quality control systems, methodologies and guidance.</p> <p>Dedicated technical support services.</p> <p>Significant technical and commercial training to enhance the skills of our people and to ensure they remain up to date.</p> <p>Controls to ensure that partners and staff with the right specialist knowledge and skills are assigned to engagements.</p> <p>Internal inspections to review the quality of work and clear action plans to address the findings from internal and external reviews.</p> <p>Established Risk Reporting procedures for claims, complaints or potential concerns about our work.</p> <p>Maintaining adequate professional indemnity insurance (PII).</p> |
| Failure of our IT infrastructure  | Major IT failure or major data loss results in the inability to carry out business as usual.  | IT policies and processes, including access controls and appropriate disaster recovery and business continuity plans.  |
| Failure of a major BDO member firm  | <p>Significant litigation or service failure by an international firm resulting in a loss of reputation to the BDO network as a whole.</p> <p>Failure of BDO International to implement sufficient adequate controls resulting in criticism by regulators and loss of reputation.</p> | <p>Methodologies and supporting tools applied globally, including our global audit methodology and electronic Audit Process Tool.</p> <p>International quality inspection programme.</p> <p>Strong collaboration between member firms.</p>   |
| Macro risks and business resilience/ sustainability (e.g. terrorism, global warming, Brexit, other geo-political risks) | Significant external geopolitical events have a major direct adverse impact on our business and/or economic conditions.   | <p>Brexit Task Force established to address the opportunities and challenges arising from Brexit.</p> <p>Business continuity planning and testing.</p>   |



# LEGAL STRUCTURE AND OWNERSHIP

## BDO LLP

BDO LLP (the LLP or the firm) is a limited liability partnership, incorporated in the UK and is owned by its members (who are often referred to as partners). At 1 July 2017, there were 197 members.

A service company, BDO Services Limited, employs people, contracts with suppliers and provides services to the LLP and third parties.

BDO Northern Ireland is an independent partnership that is aligned to BDO LLP and operates within BDO LLP's territory.

The firm has the following wholly owned subsidiaries:

- BDO Limited, a limited liability company incorporated in Guernsey authorised to undertake audits by the ICAEW.

BDO is an international network of independent public accounting, tax and advisory firms, which are members of BDO International Limited and perform professional services under the name and style of BDO. BDO is the brand name for the BDO network and all BDO Member Firms.

## BDO INTERNATIONAL

Each BDO Member Firm is a member of BDO International Limited, a UK company limited by guarantee, as either a voting member (one per country) or a non-voting member. BDO International Limited is the governing entity of the BDO network and sets the membership obligations of the BDO Member Firms in the Regulations.

The BDO network is governed by the Council, the Global Board and the Global Leadership Team of BDO International Limited.

The Council comprises one representative

from each voting member and comprises the members of BDO International Limited in general meeting.

The Council approves the network's central budget, appoints the Global Board and approves any changes in the Articles and Regulations of BDO International Limited.

The Global Board, which is the Board of Directors of BDO International Limited, comprises a representative of the BDO network's seven largest member firms, whose appointment, each for a three year term, is approved by the Council. The Global Board sets priorities for the BDO network and oversees the work of the Global Leadership Team. The Global Board meets at least four times a year.

The Global Leadership Team is tasked with coordinating the activities of the BDO network. It is headed by the CEO and comprises the Global Heads of Audit & Accounting, Tax, HR & Development, Business Development & Marketing, IT, the CEO EMEA (currently also acting as Global Head of Advisory), the CEO Americas, the CEO Asia Pacific and the International Secretary.

The Global Leadership Team is supported by the Global Office at Brussels Worldwide Services BVBA. Brussels Worldwide Services BVBA, a Belgian limited liability company, provides services to assist in the coordination of the BDO network.

BDO International Limited and Brussels Worldwide Services BVBA do not provide any professional services to clients. This is the sole preserve of the BDO Member Firms.

Each of BDO International Limited, Brussels Worldwide Services BVBA and the BDO Member Firms is a separate legal entity and

has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of BDO shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide services BVBA and/or the BDO Member Firms.

The global aggregated turnover for BDO member firms (including their exclusive Alliances) in 158 countries for the year ended 30 September 2016 was in excess of \$7.6bn. Partner and staff numbers at 30 September 2016 were some 67,000.

Appendix E sets out the name, operating country of statutory auditors within the EU. the combined turnover achieved by those firms is set out in appendix B.

## KEY FEATURES OF THE MEMBER FIRM NETWORK AGREEMENT

Each BDO Member Firm is an independent legal entity and profits are not shared between member firms. All BDO Member Firm client engagements – whether for domestic work, referred work from other firms in the network, or international work sourced from non-BDO sources – are conducted in the name of the local BDO Member Firm.

Membership of the network confers certain rights on BDO Member Firms, as well as certain obligations. Rights include the use of the BDO brand, including the network name and logo, the ability to refer work to and from other BDO Member Firms and a wide range of resources.

Obligations include the capability to offer the minimum core services, including accounting and auditing, taxation and specialist advisory services, and a high standard of professionalism and ethics.

# APPENDIX A

## AUDIT FIRM GOVERNANCE CODE STATEMENT OF COMPLIANCE

In accordance with Audit Firm Governance Code ('the Code') principle E.4: Governance Reporting we make the following statement with regards to the application in practice of each of the principles of the Code on which we are required to report.

BDO LLP complies with the principles and provisions of the Code as explained below.

|                          |  |
|--------------------------|--|
| <p><b>LEADERSHIP</b></p> | <p><b>A.1 Owner accountability principle</b></p> <p>Decisions made by the Leadership Team are reviewed by the Partnership Council. There are specific matters which are reserved for the decision by the Partnership Council and certain matters which are reserved for decision by all partners.</p> <p>Our Transparency Report gives further details on the Leadership Team, the Partnership Council and other governance structures.</p> <p>We have formal processes for on-going performance evaluation of the firm's governance structures and management team and their members.</p> <p><b>A.2 Management principle</b></p> <p>The Leadership Team provides strategic and operational leadership to the firm.</p>  |
| <p><b>VALUES</b></p>     | <p><b>B.1 Professionalism principle</b></p> <p>The Leadership Team and the whole firm are committed to quality work, the public interest and professional judgement and values. Along with the firm's management, the Head of Quality and Risk Management and the Ethics Partner reinforce the appropriate 'tone at the top' by instilling professional and ethical values in the firm.</p> <p>We have an internal code of conduct which employees are expected to comply with. More details on our values can be found at <a href="https://www.bdo.co.uk/en-gb/about/our-values">https://www.bdo.co.uk/en-gb/about/our-values</a></p> <p><b>B.2 Governance principle</b></p> <p>We remain committed to applying the principles and provisions of the Code and continue to review our detailed structures and governance procedures to consider whether they meet the spirit and the requirements of the Code.</p> <p><b>B.3 Openness principle</b></p> <p>Our culture of openness encourages consultation with experienced partners and other specialists where appropriate in order to achieve quality outcomes that properly take into account the public interest.</p> |

**INDEPENDENT  
NON- EXECUTIVES****C.1 Involvement of independent non-executives principle**

We appointed Independent Non-Executives ('INEs') in July 2008.

In 2013, we established a Public Interest Committee (PIC) to consider public interest matters that affect the firm, and to enhance stakeholder confidence in the public interest aspects of the firm's activities, including those activities in the firm's business that are not otherwise effectively addressed by regulation. The firm's INEs form the majority of the PIC, one of whom takes the role of Chairman. Further details on the terms of reference and composition of the PIC can be found on page 11. A report from our PIC can be found on pages 5 to 7.

The INEs met with the Partnership Council during the year to discuss matters relating to their remit under the Code.

Page 10 gives further details about the INE's appointment, duties and the support available to them.

**C.2 Characteristics of independent non-executives principle**

Our INEs are chosen to ensure they have sufficient experience and expertise to command the respect of the partners. Biographical details of our INEs are given on pages 44 and 45.

**C.3 Rights of independent non-executives principle**

The INEs have formal contracts covering their duties. They are also covered by our professional indemnity insurance and have sufficient resources to undertake their duties including having access to independent professional advice at the firm's expense, if needed. We have formalised procedures by which fundamental disagreements between the INEs and the firm are resolved. Further details of the procedures are given on page 10.

Where ultimately the disagreement cannot be resolved and results in the resignation of the INE they have the right to report this resignation publicly.

## APPENDIX A

## OPERATIONS

**D.1 Compliance principle**

We have policies and procedures in a series of manuals and internal online guidance designed to ensure that we comply with professional standards and applicable legal and regulatory requirements.

Our procedures for managing potential and actual conflicts of interest are explained on page 25.

We welcome independent inspection of our audit process and the findings and observations from these inspections assist us in achieving our shared objective of improving audit quality.

**D.2 Risk management principle**

Page 24 of our Transparency Report includes further details on the internal audit function's activities.

During 2013/14, an enhanced internal audit function was introduced, with a three year internal audit plan being developed, based on the Top Ten Risks of the firm. The internal audit function is the primary mechanism by which the effectiveness of the firm's system of internal control is reviewed and tested.

**D.3 People management principle**

We have policies and procedures in place for managing people across the whole firm that support our commitment to professionalism, openness and risk management.

Lesley MacDonagh, one of our INEs, provided support on the firm's people agenda with a particular focus on diversity and inclusion, potential partners and succession planning. Following Lesley's retirement this role is now the focus of our new Unity Board headed by Chris Grove, a member of the Leadership Team.

**D.4 Whistleblowing principle**

The firm's whistleblowing policy has been designed to ensure that partners and staff deal responsibly and in the interest of all concerned in the event of any malpractice within the firm. Under our policy it is a requirement that all actions arising out of incidents of whistleblowing, including reports from any investigations, be reported to the Head of Quality and Risk Management who will make an annual report on incidents to the Public Interest Committee.

Further information on our whistleblowing policy is given on page 25.

## REPORTING

**E.1.1 Internal reporting principle**

Our Leadership Team, Public Interest Committee, Partnership Council, Audit Committee and Quality and Risk Management Committee are supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties. Agendas and relevant papers are sent out well in advance of upcoming meetings.

**E.2 Financial statements principle**

We publish annual audited financial statements prepared in accordance with IFRS.

**E.3 Management commentary principle**

Our annual report and accounts include a commentary by management on the firm's financial position, performance and prospects.

**E.4 Governance reporting principle**

This statement forms the required statement under E.4. Our Transparency Report for the 52 weeks ended 30 June 2017 includes those disclosures required by Code

|       |  |  |
|-------|--|--|
| A.1.2 | The firm should state in its transparency report how its governance structures and management team operate, their duties and the types of decisions they take  | Governance structure - UK firm   |
| 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 team, how they are elected or appointed and their length of service, meeting attendance in the year, and relevant biographical details.  | Governance structure - UK firm   |
| 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.   | Report of the public interest committee, Governance structure of the UK firm |
| 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.   | Ethics and independence  |
| D2.2  | The firm should state in its transparency report that it has performed a review of the effectiveness of the system of internal audit, 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. | Pages 19 to 25   |
| D2.3  | In maintaining a sound system of internal control and risk and in reviewing its effectiveness, the firm should use a recognised framework such as the Turnbull Guidance and disclose in its transparency report the framework it has used.   | Based on COSO  |

**E.5 Reporting quality principle**

The Audit Committee meets with the external auditors and management to provide a forum for the external auditors' reporting. Each year the Audit Committee seeks reassurance from the external auditors of their independence and objectivity. It assesses and monitors their independence in line with the ICAEW publication 'Reviewing auditor independence: guidance for Audit Committees'.

## APPENDIX A

## DIALOGUE

## F.1 Firm dialogue principle

We recognise that dialogue between audit firms and stakeholders is essential in order for the firm to keep abreast of shareholder opinion. Representatives of the firm have met informally with representatives of listed companies and their shareholders during the year. The firm ensures that it is well represented on panels and working groups relating to our profession and the wider economic environment. Senior representatives of the firm meet frequently with our domestic and international regulators and members of the UK Government, both individually, and collectively. Typically these groups include representatives from the investor community. Discussions concerning the future developments of audit and the audit report have been of particular relevance this year and partners from the firm have met with a number of key institutional shareholders in order to understand their needs and help the firm play its part in shaping the future.

In addition to our proactive measures to increase dialogue, our senior partners and INEs continue to engage with stakeholders who would like to understand more about our approach to the Code, audit quality, or indeed any other matters affecting the audit profession.

## APPENDIX B

### FINANCIAL INFORMATION

| STATUTORY AUDIT                      | REVENUES<br>2016/17 | REVENUES<br>2015/16 |
|--------------------------------------|---------------------|---------------------|
|                                      | €M                  | €M                  |
| PIEs and Entities within a PIE group | 7                   | 4                   |
| Other Entities than above            | 144                 | 139                 |
| <b>Total audit fees</b>              | <b>151</b>          | <b>143</b>          |

| PERMITTED NAS | REVENUES<br>2016/17 | REVENUES<br>2015/16 |
|---------------|---------------------|---------------------|
|               | €M                  | €M                  |
| Audit clients | 68                  | 71                  |

| NAS            | REVENUES<br>2016/17 | REVENUES<br>2015/16 |
|----------------|---------------------|---------------------|
|                | €M                  | €M                  |
| Other Entities | 237                 | 222                 |

Note: All disclosures above are unaudited  
Audit comprises statutory audit work and directly related services.

The combined turnover from statutory audits of the BDO EU/EEA audit firms for the period 2016/17 was €557,930,819



# APPENDIX C

## MEMBERS OF THE FIRM'S GOVERNANCE STRUCTURES AT 30 JUNE 2017

### LEADERSHIP TEAM

The executive members of the Leadership Team at 30 June 2017, all of whom are based in the London office, are:



**PAUL ENGLAND**  
MANAGING PARTNER

Paul ensures the development and execution of national strategy for all professional services including P&L, sales and people plans, risk and quality, technical/ knowledge sharing/ best practice and business models. He is responsible for going to market, including Markets, Sales and Clients (MSC) and Sectors. He has served on the Leadership Team since 5 July 2008.



**GERVASE MCGREGOR**  
HEAD OF INTERNATIONAL ADVISORY

Gervase is responsible for setting the firm wide risk framework and policies, provision of education and ensuring adherence. He represents the firm on the BDO International Advisory Leadership Group. He is a forensic services partner and has served on the Leadership Team since 5 July 2008.



**SCOTT KNIGHT**  
HEAD OF BUSINESS ASSURANCE

Scott has responsibility for the development and delivery of Audit and Assurance strategy, including sales and people plans, risk and quality, technical/ knowledge sharing/ best practice and business model/P&L. He is a Business Assurance partner and was appointed to serve on the Leadership Team on 1 April 2014.



**CHRIS GROVE**  
HEAD OF TRANSACTION SERVICES

Chris leads the Transaction Services team, having previously worked in Business Recovery. Chris is the past Chair of BDO's International Corporate Finance Group and a past member of the firm's Partnership Council; he was appointed to the Leadership Team on 1st October 2016.



**ANDY BUTTERWORTH**  
CHIEF OPERATING OFFICER

Andy works alongside the Managing Partner and Finance Partner in the operational running of the firm. He also chairs our Operations Board and our Digital Board, and is responsible for PMD budgets and performance. He is also a member of our Quality and Risk Management Committee. Andy has served on the Leadership Team since 1st October 2016



**WENDY WALTON**  
HEAD OF GLOBAL PRIVATE CLIENT SERVICES

Wendy is the Head of Global Private Client Services specialising in the taxation of high net worth individuals. She has been with BDO for 30 years, joining as an A level trainee in 1987. Wendy joined the leadership team on 1 October 2016 and has specific responsibility for our Partner Engagement Strategy and Partner Development.

## APPENDIX C

## INDEPENDENT NON-EXECUTIVES

Please see below for details of the INE members of the Leadership Team:



**LESLEY MACDONAGH**  
INDEPENDENT NON-EXECUTIVE

Lesley had an impressive legal career at the international law firm, Lovells (now Hogan Lovells). During her terms as Managing Partner, the firm doubled in size and expanded to 27 locations around the world, becoming the sixth largest law firm in the world. Lesley has had a portfolio of non- executive directorships which has included Segro (formerly Slough Estates) and Bovis Homes Group plc (both FTSE listed companies). Lesley has been an INE at the firm for eight years. Lesley stood down on 30 June 2017



**SIMON FIGGIS**  
INDEPENDENT NON-EXECUTIVE

Simon joined KPMG (then Peat Marwick) in 1977, his career spanned audit, corporate finance, transaction services and litigation support advice. When Simon retired from KPMG he was Head of Business Assurance Quality and Risk Management, overseeing quality in 19 countries across Europe and the Middle East. Simon was appointed as an INE on 1 October 2013 and chairs the Public Interest Committee and is a member of the Q&R Committee.

Simon is a Trustee of the Marine Society and Sea Cadets and volunteers for Riding for the Disabled.

**RUSSELL KING**

INDEPENDENT NON-EXECUTIVE

Russell brings a broad experience in business strategy/development, human resources, government relations, and sustainable development.

His specialties include experience in mining, consumer goods and metals/mining.

Russell holds non-executive posts at FTSE firms Interserve, Spectris and Aggreko, as well as AIM-listed Hummingbird Resources.

Russell joined the firm on 1 July 2017

**JEFF RANDALL**

INDEPENDENT NON-EXECUTIVE

Jeff is a well-known and respected former journalist, who fronted the Jeff Randall Live show on Sky News as well as senior roles at the BBC, Sunday Times and Daily Telegraph, has been a non-executive director of Babcock International since 2014 and is a director of Sandown Park Racecourse. He is also a visiting fellow at Oxford University's Business School and an honorary professor at Nottingham University's School of Economics.

Jeff joined the firm on 1 July 2017

# APPENDIX D

## LEADERSHIP AND GOVERNANCE MEETING ATTENDANCE IN THE PERIOD 1 OCTOBER TO 30 JUNE 2017

| STATUTORY AUDIT                              |   | LEADERSHIP TEAM  | PARTNERSHIP COUNCIL | PUBLIC INTEREST COMMITTEE | AUDIT COMMITTEE | QUALITY AND RISK MANAGEMENT COMMITTEE |
|--|---|------------------|---------------------|---------------------------|-----------------|---------------------------------------|
| NUMBER OF MEETINGS HELD SINCE 1 OCTOBER 2016 |   | 9                | 9                   | 4                         | 4               | 7                                     |
| NAME   | POSITION  |                  |                     |                           |                 |                                       |
| Paul Eagland                                 | Managing Partner                                    | 9                | 9                   | 4 In attendance           |                 | 6                                     |
| Andy Butterworth                             | COO   | 9                |                     |                           |                 | 3                                     |
| Wendy Walton                                 | Head of Engagement                                  | 9                | 9 in attendance     |                           |                 |                                       |
| Scott Knight                                 | Head of Business Assurance                          | 9                |                     | 2 In attendance           |                 | 6                                     |
| Gervase Macgregor                            | Head of International Advisory and Risk and Quality | 9                |                     |                           |                 | 1                                     |
| Chris Grove                                  | Head of Corporate Finance                           | 9                |                     |                           |                 |                                       |
| Simon Figgis                                 | INE   | 9                | 1                   | 4                         |                 | 7                                     |
| Lesley MacDonagh                             | INE   | 7                | 1                   | 2                         |                 |                                       |
| Mark Bomer                                   | Senior Partner                                      | 11 in attendance | 9                   |                           | 4               |                                       |
| Nick Carter-Pegg                             | Audit Partner                                       |                  | 9                   |                           | 2               |                                       |
| Ian Bingham                                  | Tax Partner   | 1 in attendance  | 9                   |                           |                 |                                       |
| David Brookes                                | Tax Partner   |                  | 9                   |                           |                 |                                       |
| Stuart Collins                               | Audit Partner                                       |                  | 8                   |                           |                 |                                       |
| Jo Gilbey                                    | Tax Partner   | 1 in attendance  | 9                   |                           | 4               |                                       |
| Russell Field                                | Audit Partner                                       |                  | 9                   |                           |                 |                                       |
| Geraint Jones                                | Audit Partner                                       |                  | 8                   |                           |                 |                                       |

| STATUTORY AUDIT                              |   | LEADERSHIP TEAM | PARTNERSHIP COUNCIL | PUBLIC INTEREST COMMITTEE | AUDIT COMMITTEE | QUALITY AND RISK MANAGEMENT COMMITTEE |
|--|---|-----------------|---------------------|---------------------------|-----------------|---------------------------------------|
| NUMBER OF MEETINGS HELD SINCE 1 OCTOBER 2016 |   | 23              | 9                   | 4                         | 4               | 7                                     |
| NAME   | POSITION                                  |                 |                     |                           |                 |                                       |
| David Pooler                                 | Tax Partner                               |                 | 9                   |                           |                 |                                       |
| Julien Rye                                   | Audit Partner                             |                 | 9                   |                           |                 |                                       |
| Andy Viner                                   | Audit Partner                             |                 | 9                   |                           |                 |                                       |
| Martha Thompson                              | Business Restructuring Partner            |                 | 8                   |                           |                 |                                       |
| Matthew White                                | Audit Partner<br>Chair of Audit Committee | 1 in attendance | 9                   |                           | 4               |                                       |
| David Isherwood                              | Ethics Partner                            | 1 in attendance |                     | 4                         |                 |                                       |
| Iain Lowson                                  | Head of Quality and Risk                  | 4 in attendance |                     | 4 in attendance           | 1               | 7                                     |
| Pauline McGee                                | Head of Risk Management                   |                 |                     |                           | 2               | 7                                     |
| Nicole Kissun                                | Head of Technical Standards Group         |                 |                     |                           |                 | 7                                     |
| Angela Foyle                                 | Money Laundering Reporting Officer        | 1 in attendance |                     |                           |                 | 6                                     |
| Gary Hanson                                  | Audit Partner                             |                 |                     | 2                         |                 |                                       |
| Mark Sherfield                               | CFO                                       |                 |                     | 2 in attendance           |                 |                                       |

1 The Managing Partner attends Public Interest Committee meetings by invitation. During the year, he attended all Public Interest Committee meetings.

2 Invited to attend specific Audit Committee meeting

3 The Senior Partner is invited to all Leadership Team meetings and sits 'in attendance'.

4 Gervase McGregor resigned from QRMC with effect from 31 October 2016

5 Andy Butterworth was appointed to QRMC with effect from 1 November 2016

# APPENDIX E

## EU/EEA MEMBER FIRMS

| COUNTRY        | TERRITORY             | NAME OF THE AUDIT FIRMS IN YOUR TERRITORY                                    |
|----------------|-----------------------|--|
| AUSTRIA        | Austria               | BDO Agitas GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft         |
|                | Austria               | BDO Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft        |
|                | Austria               | BDO Audit Styria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft   |
|                | Austria               | BDO Salzburg GmbH Wirtschaftsprüfungsgesellschaft                            |
|                | Austria               | BDO Oberösterreich GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft |
| BELGIUM        | Belgium               | BDO Bedrijfsrevisoren Burg. Ven. CVBA  |
| BULGARIA       | Bulgaria              | BDO Bulgaria Ltd.  |
| CROATIA        | Croatia               | BDO Croatia D.O.O.   |
| CYPRUS         | Cyprus                | BDO Limited  |
| CZECH REPUBLIC | Czech Republic        | BDO Audit s.r.o.   |
|                | Czech Republic        | BDO CA s.r.o.  |
|                | Czech Republic        | BDO CB s.r.o.  |
|                | Czech Republic        | BDO Plzen s.r.o.   |
| DENMARK        | Denmark / Greenland / | BDO Statsautoriseret Revisionsaktieselskab                                   |
|                | Denmark               | BDO Holding IV, Statsautoriseret Revisionsaktieselskab                       |
| ESTONIA        | Estonia               | BDO Eesti AS   |
|                | Denmark               | BDO Holding IV, Statsautoriseret Revisionsaktieselskab                       |
| FINLAND        | Finland               | BDO Oy   |
|                | Finland               | BDO Audiator Oy  |
|                | Finland               | BDO Yhtiötarkastus Oy  |
| FRANCE         | France                | BDO France Léger & Associés SARL   |
|                | France                | BDO IDF SARL   |
|                | France                | BDO PACA SAS   |
|                | France                | BDO Atlantique SA  |
|                | France                | BDO Rhone - Alpes SAS  |
|                | France                | BDO AXE SASU   |
|                | France                | BDO 2AS SAS  |
|                | France                | BDO Les HERBIERS SA  |
|                | France                | BDO FONTENAY LE COMTE SAS  |
|                | France                | BDO SAINT GILLES CROIX DE VIE SARL   |
|                | France                | BDO NANTES SAS   |
|                | France                | Vincent Rusé Conseil SAS   |
|                | France                | BDO Les Ulis   |

| COUNTRY        | TERRITORY   | NAME OF THE AUDIT FIRMS IN YOUR TERRITORY                 |
|----------------|---|---|
| GERMANY        | Germany   | BDO AG Wirtschaftsprüfungsgesellschaft                    |
|                | Germany   | BDO Arbicon GmbH & Co. KG Wirtschaftsprüfungsgesellschaft |
|                | Germany   | BeGeKo GmbH Wirtschaftsprüfungsgesellschaft               |
| GIBRALTAR      | Gibraltar   | BDO Limited   |
| GREECE         | Greece  | BDO CERTIFIED PUBLIC ACCOUNTANTS S.A.                     |
| HUNGARY        | Hungary   | BDO Hungary Audit Ltd                                     |
| IRELAND        | Ireland   | BDO   |
| ITALY          | Italy / San Marino  | BDO Italia S.p.A.   |
|                | San Marino  | BDO Srl (San Marino)                                      |
| LATVIA         | Latvia  | SIA BDO Audit   |
| LIECHTENSTEIN  | Liechtenstein   | BDO (Liechtenstein) AG                                    |
| LITHUANIA      | Lithuania   | BDO Auditas ir Apskaita, UAB                              |
| LUXEMBOURG     | Luxembourg  | BDO Audit   |
| MALTA          | Malta   | BDO Malta CPAs  |
| NETHERLANDS    | Netherlands   | BDO Audit & Assurance B.V.                                |
| NORWAY         | Norway/Iceland  | BDO AS  |
| POLAND         | Poland  | BDO SP. Z O.O.  |
| PORTUGAL       | Portugal /Cape VERDE  | BDO & Associados, SROC, Lda                               |
| ROMANIA        | Romania/Moldova   | BDO Audit SRL   |
|                | Romania   | BDO Auditors & Accountants SRL                            |
|                | Romania   | BDO Auditors and Business Advisors SRL                    |
| SLOVAKIA       | Slovak Republic   | BDO AUDIT, SPOL. S R.O.                                   |
| SLOVENIA       | Slovenia  | BDO Revizija d.o.o.                                       |
| SPAIN          | Spain   | BDO Auditores, S.L.P.                                     |
|                | Spain   | BDO Quota, S.L.P.   |
| SWEDEN         | Sweden  | BDO AB  |
|                | Sweden  | BDO Syd AB  |
|                | Sweden  | BDO Syd KB  |
|                | Sweden  | BDO Göteborg KB   |
|                | Sweden  | BDO Göteborg AB   |
|                | Sweden  | BDO Sweden AB   |
|                | Sweden  | BDO Mälardalen AB   |
|                | Sweden  | BDO Stockholm AB  |
|                | Sweden  | BDO Mälardalen Intressenter AB                            |
|                | Sweden  | BDO Syd Intressenter AB                                   |
|                | Sweden  | BDO Göteborg Intressenter AB                              |
|                | Sweden  | BDO Norr AB   |
|                | Sweden  | BDO Norr Intressenter AB                                  |
| UNITED KINGDOM | United Kingdom of Great Britain and Northern Ireland/ Isle of Man/ Guernsey | BDO LLP   |
|                | Northern Ireland  | BDO Northern Ireland                                      |
|                | Guernsey  | BDO Limited   |

# APPENDIX F

## PUBLIC INTEREST AUDIT CLIENTS

A list of public interest entities as at 30 June 2017 is set out below. For the purposes of this transparency report, public interest entities are defined by The Statutory Auditors and Third Country Auditors Regulations 2016 as:

- a) an issuer whose transferable securities are admitted to trading on a regulated market,
- b) a credit institution within the meaning given by Article 4(1)(1) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council(f), other than one listed in Article 2 of Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and investment firms(g), or
- c) an insurance undertaking within the meaning given by Article 2(1) of Council Directive 1991/674/EEC of the European Parliament and of the Council on the annual accounts and consolidated accounts of insurance undertakings. Market.

|  |   |  |
|--|---|--|
| A2D FUNDING II PLC                           | CASTINGS PLC                                | HAZEL RENEWABLE ENERGY VCT 2 PLC           |
| A2D FUNDING PLC                              | CHRYSLIS VCT PLC                            | HSS HIRE GROUP PLC                         |
| A2DOMINION HOUSING GROUP LIMITED             | CITY NATURAL RESOURCES HIGH YIELD TRUST PLC | IMPACT HEALTHCARE REIT PLC                 |
| ALBION DEVELOPMENT VCT PLC                   | CLEARBANK LIMITED                           | JUTURNA (EUROPEAN LOAN CONDUIT NO.16) PLC  |
| ALBION ENTERPRISE VCT PLC                    | CROWN PLACE VCT PLC                         | KINGS ARMS YARD VCT PLC                    |
| ALBION TECHNOLOGY & GENERAL VCT PLC          | DOWNING FOUR VCT PLC                        | LMS CAPITAL PLC                            |
| ALBION VENTURE CAPITAL TRUST PLC             | DOWNING ONE VCT PLC                         | LXI REIT PLC                               |
| ALTYN PLC                                    | DOWNING THREE VCT PLC                       | MALINA FINANCING 2013-1 PLC                |
| AMATI VCT 2 PLC                              | DOWNING TWO VCT PLC                         | MERIDIAN HOSPITAL COMPANY PLC              |
| AMEY ROADS NORTHERN IRELAND HOLDINGS LIMITED | ELDERSTREET VCT PLC                         | METROPOLITAN HOUSING PARTNERSHIP           |
| ANGLO EASTERN PLANTATIONS PLC                | EMPIRIC STUDENT PROPERTY PLC                | MITHRAS INVESTMENT TRUST PLC               |
| ASTUTE CAPITAL PLC                           | ENDEAVOUR SCH PLC                           | MOAT HOMES LIMITED                         |
| BEAUFORT INSURANCE COMPANY LIMITED           | GAME DIGITAL PLC                            | MOBEUS INCOME & GROWTH 2 VCT PLC           |
| BHSF LIMITED                                 | GENESIS HOUSING ASSOCIATION                 | MOBEUS INCOME & GROWTH 4 VCT PLC           |
| BISICHI MINING PLC                           | GREENCOAT UK WIND PLC                       | MOBEUS INCOME & GROWTH VCT PLC             |
| BRITISH SMALLER COMPANIES VCT 2 PLC          | GRESHAM TECHNOLOGIES PLC                    | MORPHEUS (EUROPEAN LOAN CONDUIT NO.19) PLC |
| BRITISH SMALLER COMPANIES VCT PLC            | HARGREAVE HALE AIM VCT 2 PLC                | NATS HOLDINGS LIMITED                      |
| CADOGAN PETROLEUM PLC                        | HAYNES PUBLISHING GROUP P.L.C.              | NORTH MIDLAND CONSTRUCTION PLC             |
|  | HAZEL RENEWABLE ENERGY VCT 1 PLC            |  |

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|  |                                 |
|--|---------------------------------|
| OCTOPUS AIM VCT 2 PLC                              | UNICORN AIM VCT PLC             |
| OCTOPUS AIM VCT PLC                                | UNION BANK UK PLC               |
| OPTIVO   | UP GLOBAL SOURCING HOLDINGS PLC |
| PACIFIC QUAY FINANCE PLC                           | URBAN&CIVIC PLC                 |
| PARAGON ASRA PA HOUSING                            | VENTUS 2 VCT PLC                |
| PENNAF LTD   | VENTUS VCT PLC                  |
| PETERBOROUGH (PROGRESS HEALTH)<br>HOLDINGS LIMITED | WALKER CRIPS GROUP PLC          |
| PETERBOROUGH (PROGRESS HEALTH) PLC                 | WELLESLEY GROUP (UK) LTD        |
| PICTS PLC  | WHITE CITY PROPERTY FINANCE PLC |
| PROVEN GROWTH & INCOME VCT PLC                     | WIDECELLS PLC                   |
| PROVEN VCT PLC                                     | XAFINITY PLC                    |
| RADIAN GROUP LIMITED                               |                                 |
| RICHMOND HOUSING PARTNERSHIP                       |                                 |
| RIVER AND MERCANTILE GROUP PLC                     |                                 |
| SOLAR FINANCING 2012-1 PLC                         |                                 |
| STONEWATER LTD                                     |                                 |
| SUPERMARKET INCOME REIT PLC                        |                                 |
| SUSTAINABLE COMMUNITIES FOR LEEDS<br>LIMITED       |                                 |
| TEX HOLDINGS PLC                                   |                                 |
| THE INCOME + GROWTH VCT                            |                                 |
| THE LAW DEBENTURE CORPORATION PLC                  |                                 |
| TITON HOLDINGS PLC                                 |                                 |
| TOWN CENTRE SECURITIES PLC                         |                                 |
| TRIAD GROUP PLC                                    |                                 |
| TRITAX BIG BOX REIT PLC                            |                                 |
| ULYSSES (EUROPEAN LOAN CONDUIT<br>NO.27) PLC       |                                 |

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FOR MORE INFORMATION:

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