

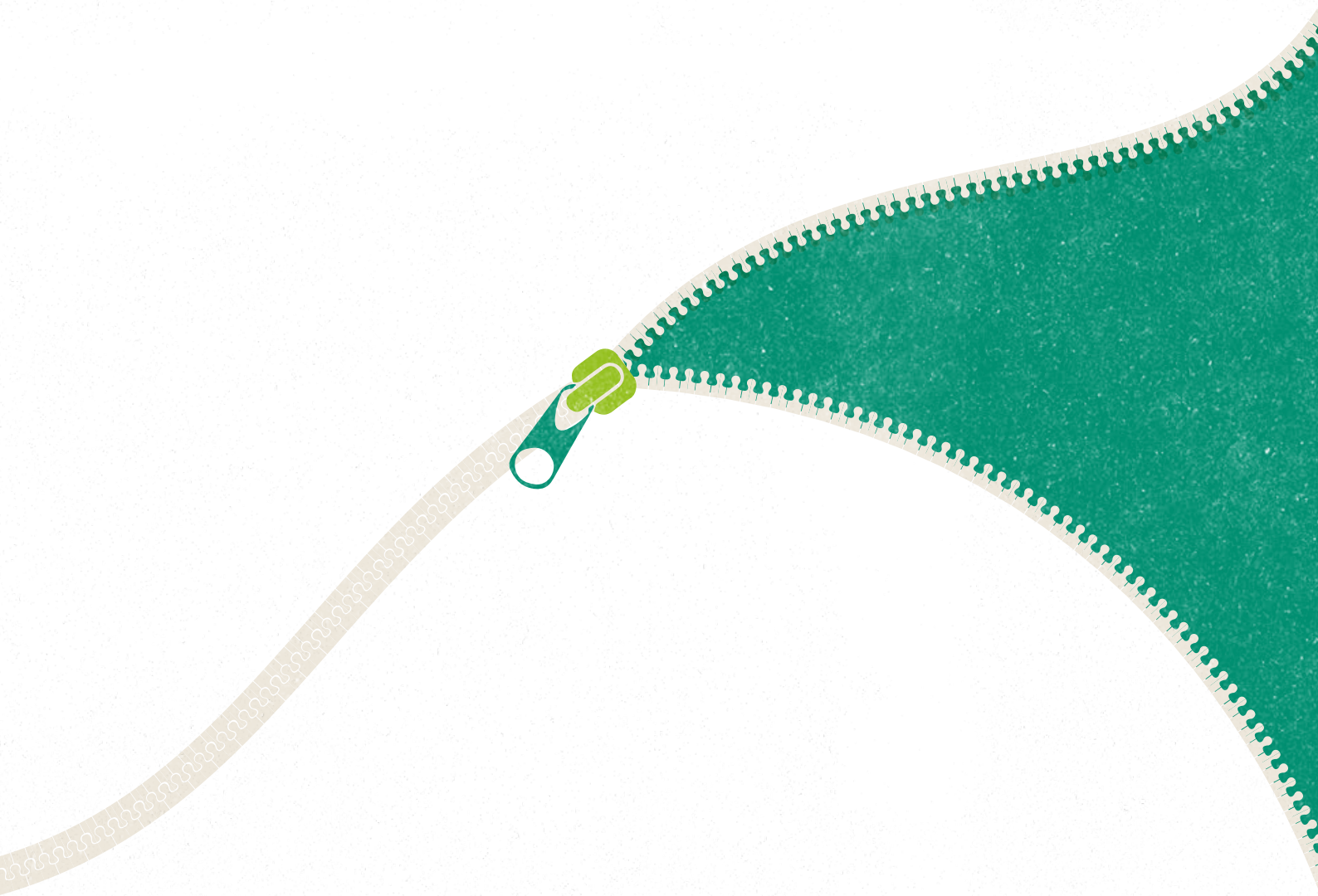


Grant Thornton

An instinct for growth™

Transparency Report 2015

For the year ended 30 June 2015



Get to know Grant Thornton



**OVER
4,500 PEOPLE
IN 26 OFFICES
THROUGHOUT THE UK**
PART OF A GLOBAL ORGANISATION
WITH OVER 40,000 PEOPLE IN 130 COUNTRIES



UK GOVERNMENT AWARDS
'CHAMPION'
FOR DEMONSTRATING LEADERSHIP
AND EXEMPLARY PRACTICE
IN THE FIELD OF SOCIAL MOBILITY




**GRANT THORNTON
IS LEADING
COLLABORATION
IN IMPROVING ACCESS
TO THE PROFESSION THROUGH
'ACCESS ACCOUNTANCY'**

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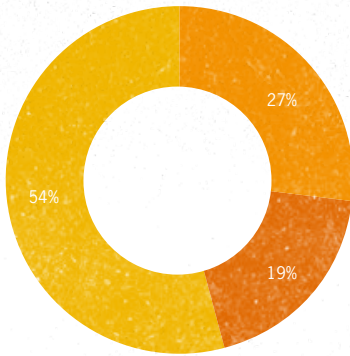


WE ARE ONE OF THE LARGEST AUDITORS FOR COMPANIES LISTED ON THE AIM MARKET

WE ARE A PRINCIPAL PROVIDER FOR THE EXTERNAL AUDIT OF PUBLIC SECTOR BODIES

81%
OF CLIENTS SCORED US 8/10 FOR CLIENT SATISFACTION

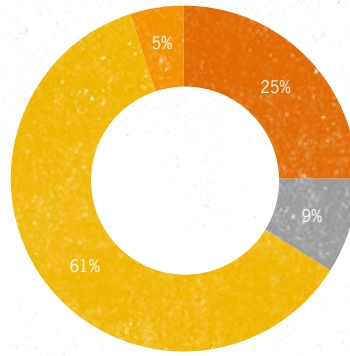
The work that we do with clients can be broken into three broad areas:



- Audit
- Tax
- Advisory

Note that our advisory category includes internal audit and business risk services.

Income split between private, public and third sector



- Mid sized businesses, SMEs and scale ups
- Large corporates
- Public and third sector
- Individuals

OUR AUDIT & ASSURANCE PRACTICE GREW BY 5% LAST YEAR

Any feedback?

We are committed to engaging in discussions with listed companies, their shareholders and other stakeholders about matters covered by the Audit Firm Governance Code and other areas which are covered in this report. If you have any feedback or questions arising from this report or about our approach to ensuring audit quality and compliance with the Audit Firm Governance Code, please [contact us](#).

¹ 606 client respondents to Grant Thornton UK LLP client survey. The survey is conducted by an external agency or an independent Grant Thornton senior partner for certain selected clients.

1. Introduction

The main purpose of this Transparency Report is to help investors and potential buyers of audit services understand how we deliver on audit quality. It covers information on the firm’s processes and practices for quality control, how we ensure independence and objectivity, how partners are remunerated, how we are governed, our network arrangements as well as our culture and core values. It demonstrates that we have the skills and necessary processes in place to enable us to conduct high quality audits objectively and effectively and to provide high quality services to our clients.

Within this report we have set out how the firm complies with the requirements of the Audit Firm Governance Code, the benchmark for good governance, and the steps we have taken to drive audit quality by reference to the Audit Quality Framework.

Audit Firm Governance Code

Ref	Narrative
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.
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 terms, length of service, meeting attendance in the year, and relevant biographical details.
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.
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.
D.2.2	The firm should state in its transparency report that it has performed a review of the effectiveness of the system of internal control, summarise the process it has applied and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary.
D.2.3	In maintaining a sound system of internal control and risk management 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.

90% of all Audit clients rated our audits higher than 8/10 for robustness of audit challenges

100%
OF AUDIT CLIENTS AGREED
THAT GRANT THORNTON PROVIDES
“A CLEAR EXPLANATION
OF THE FINAL POSITION
ON MATTERS AFFECTING
THE AUDIT REPORT”

Audit Quality Framework

Ref	Narrative
AQF1	The culture within an audit firm
AQF2	The skills and personal qualities of audit partners and staff
AQF3	The effectiveness of the audit process
AQF4	The reliability and usefulness of audit reporting
AQF5	Factors outside the control of auditors affecting audit quality

Our [financial statements](#) and [strategic review](#) will also be made available online and will include an overview of our purpose, strategic objectives, credentials in the marketplace, financial performance and sustainability. For a broader view of what we stand for and how this manifests itself in our people and our work, you can also visit our [website](#).

This Transparency report was approved by the Leadership of Grant Thornton UK LLP on 30 September 2015 and signed on its behalf by Paul Etherington, Quality & Professional Affairs Leader.

2. Foreword from the Chief Executive Officer

A firm with purpose, delivered through shared ideas and responsibility

On 1 July 2015 I took over the baton as CEO from Scott Barnes, having been part of his leadership team since he took on the role six years ago. His leadership has left the firm in a strong place on which to build. I take on this role in a fast changing world. We've all seen the key themes of connectivity, transparency and innovation that are transforming the world around us as it takes advantage of technological advances, networks and addresses the challenges of a world reaching the limits of its sustainable resources.

Why we do what we do

In this changing world we've taken stock of the part that we play in it. Our focus has always been on working with dynamic growing organisations. This year we asked why that was important to us. We know that these businesses are the ones that drive a vibrant economy. And yet for them to thrive there also needs to be trust and integrity in financial markets and investment in the business and social environment to make it easy to

do business. So our purpose is about shaping a vibrant economy where businesses and people can thrive. It translates into who we work with, what we do, what we speak out on and how we are as a business. It is clear that audit and assurance is fundamental to trust and integrity in markets – and this is why we do this work. Our purpose also informs our vision – that by 2020 we are the Go-to firm for growth.

How we do our work

Our culture drives how we do things around here. Everyone knows that excellent businesses are able to inspire and equip all of their people to contribute to delivering the business goals. We have focused on building a culture based on our values: Collaboration, Leadership, Excellence, Agility, Responsibility and Respect. In doing so creating an environment where each person is able to do their best thinking. Going forward we are taking this further, to create a Shared

Enterprise model, to enable our people to share ideas, responsibilities and success. Shared responsibility goes to the heart of our excellence and quality agenda. Where people have clarity of what is expected of them. Where they are equipped with the information and capability to deliver excellent work. Where they hold each other accountable for living up to our commitments. And where we live our values in everything we do.



Sacha Romanovitch
Chief Executive Officer



Our purpose also informs our vision – that by 2020 we are the Go-to firm for growth

What we do

Audit and assurance are an important part of our business and delivering our work to a high quality is a top priority for me. In 2015 27% of the firm's revenues came from audit and assurance and the practice grew by 5% compared to a flat external market. We are proud to provide audit services to 196 public interest companies, including 139 listed entities. With this significant footprint in the audit market, training to equip our people to deliver the highest quality audits, consistently across the global organisation, is key. This year investment approaching US\$100m has been committed globally by Grant Thornton firms around the world to design and develop fresh audit and analytics technology with supporting methodology. In addition two core national audit quality enhancement projects have been delivered in the last twelve months with the creation of 75 new specialist roles.

Great people are at the heart of delivering high quality work; as a founder member of Access Accountancy we are committed to attracting diverse talent into the profession and giving them first rate foundations in their careers. Our professional examination results rank significantly higher than the national average and across the ICAEW, CIPFA, ICAS and AAT memberships we are proud to have seven national prize winners. This quality is reflected in our client feedback with 90% of our audit clients rating our audit work higher than 8/10 for robustness and challenge, and 100% of our audit clients agree that Grant Thornton provides "a clear explanation of the financial position on matters affecting the audit report". 81% of our clients say they are both very satisfied and highly likely to recommend us to others.

Driving quality and excellence

Our goal is simple: for Grant Thornton to be the leading firm for quality and excellence in the provision of audit services. I have made quality one of the key areas of my personal focus, given its role in trust and integrity of markets and the reputation of our firm. We have refreshed our approach to quality control and monitoring by focusing on a ‘three lines of defence’ approach.. This is summarised below:



This puts in place additional support, monitoring and accountability on our engagement teams and also incorporates feedback from the FRC’s Audit Quality Review process (AQR). We have also reviewed our Audit Quality Indicators to include more ‘lead’ indicators to address real-time issues that could impact on a team’s ability to deliver excellence in their work. We expect these to evolve over time.

Independent inspections by our various external audit regulators point to improving trends in audit quality which should be evident when the next round of external review reports are published. Accountability, support and reward are important drivers in setting the culture which enables audit partners to do their best work. All partners have specific audit quality goals and are rewarded for the delivery of high quality audit work.

In 2015, 23 partners and directors received additional awards for delivering strongly against our internal audit quality measures and 20 received reduced remuneration in this respect. As with all major audit and advisory firms much of our work is both complex and in the public interest. We invest significant time in considering excellence and quality control. This includes take on and

delivery of assignment and management of communications where projects are in the public interest. We balance the latter with respect to both due legal process as well as client confidentiality. We adopt an open approach with our regulators - as you'd expect if we find an issue with our work we self-report. If there are instances where clients feel our work has fallen short of our quality standards, we undertake a full and independent review of our work. We feel it is our responsibility to ensure that matters are resolved

with the ultimate outcome reflecting proportionality of responsibility. We also note that there are circumstances where in fulfilling our professional obligations not all interested parties will be equally satisfied with the outcome. We work to help people understand such issues as they arise.

With large and complex cases it is also true to say that with hindsight different views may be taken on judgements made at the time. Again we invest to understand and address any such issues if they arise. Equally

we believe that as part of our role in delivering trust and integrity in markets it is important that we continue to undertake difficult and often challenging work in pursuit of this goal.

Evolution of audit and assurance

How will audit evolve to best serve the public interest? This is a key discussion amongst public policy setters and we are actively involved in this debate, and serve on groups focused on shaping policy and driving quality in the profession. We set out to represent the views of our clients and stakeholders, which includes supporting the introduction of mandatory audit firm rotation by the European Commission and changes to auditor reporting requirements where many others have actively worked against these proposals. We have also been active in responding to consultations regarding replacing the

Audit Commission as well as providing the UK Government with insights from our Agents of Growth studies.

We believe that we have a role – and a responsibility - to play our part in shaping a vibrant economy where people and businesses can thrive. We know that trust and integrity in markets is key to a thriving and growing economy. Our audit services, delivering quality and excellence, go to the heart of this agenda.

We are looking forward to working with our clients, communities and people to unlock their potential for growth in the year ahead. Our clients

remain at the centre of our world: their needs drive the services we provide, the industries we serve and where we work. In the communities in which we work, we continue to improve and widen access to the firm. In 2016 our people will shape how Shared Enterprise is implemented, giving every person input to ensure the impact of proposals enables sharing of ideas, responsibilities and reward. When we are the business advisors sought out by progressive businesses then we'll know we have achieved our vision: to be the Go-to firm for growth.

Sacha Romanovitch

3. Message from the Head of Audit & Assurance

Our clients and stakeholders require us to deliver rigorous, robust and independent audits of a high quality, and to provide them with real audit choice. The key focus of our audit practice since our 2014 Transparency Report has been continuing to enhance the quality of our audits in all regards.

Key achievements in the year to 30 June 2015

We have continued the significant audit change programmes started last year, all designed to further improve our reputation for audit capability and quality:

- We are also investing significantly elsewhere:
 - delivery model – new national audit delivery model, including a 55 person strong support team of specialists
 - client take-on and continuance – new team of 20+ focused on further enhancing audit independence assessments, including regular re-assessment of our public interest entities
 - learning – increased number of structured training days for our people
 - learning methods – new eLearning delivery platform and material
 - audit methodology – key best practice enhancements
- We have also further enhanced our Quality Assurance regime:
 - Internal Quality Assurance: goes beyond the ISQC1 requirements, now incorporating quarterly, in addition to triennial, assessment of our audit Responsible Individuals (RI)
 - Engagement Quality Control Reviewer (EQCR): created codified processes to increase consistency and experience
 - RI reward: clear linkage between reward and audit quality
 - Root cause – regular firm and engagement level root cause assessments
 - External Quality Assurance: incorporated valuable feedback from external regulators.

Internal Quality Assurance

We continue to run a substantial internal audit quality review process to ensure that our people are accountable for producing high quality audits and to support them in their development. As a result of these reviews 23 audit partners and directors received enhanced reward for delivering strongly against our internal audit quality measures and 20 received a reduced reward in this respect.

External Quality Assurance

Grant Thornton is now on an annual inspection cycle by the ‘AQR’.

Our last published inspection report covered audits signed in the period from December 2013 to September 2014 and was published in February 2015. These audits will have been conducted some six to nine months prior to the signing date and therefore will not have benefited from the significant investment and change programmes detailed above. Our current AQR inspection is well advanced but will not be published until early 2016.

We are optimistic that its findings, consistent with the recent QAD inspection, will reflect important improvements evident from our internal reviews.

Our last published AQR inspection covered eight external audits (2011/13: 10 audits). Five of the audits reviewed were performed either to a ‘good’ standard with limited improvements required or required some improvements. Notwithstanding all the audit opinions expressed were appropriate, three audits were judged to require ‘significant improvements’

with shortcomings principally in relation to evidence of scepticism, quality control/supervision and the linkage of reward to quality.

As previously detailed, we are changing our systems and procedures substantially. These changes seek to address all the AQR’s findings and put Grant Thornton firmly “out in front” for audit quality, for the long term.

Redesigning the Audit

During 2014, Grant Thornton International Limited (GTIL) member firms embarked on a watershed project, approaching US \$100m investment to the design and development of a new global audit and analytics technology, and supporting audit methodology. The project is

scheduled to complete in 2016 and will ensure that achieving high quality audits is easier, we deliver deeper audit insight for our clients, and we increase the satisfaction and enthusiasm of our people. Grant Thornton in the United Kingdom is instrumental in driving the project. We see this fundamental

redesign of the Grant Thornton audit as the last key “building block” in ensuring that Grant Thornton has the leading reputation for audit quality. Establishing a culture of performing audits to the highest quality remains the top priority for the firm.

Passing the baton

The audit practice has achieved a lot and made significant investment in new ways of working, to drive the audit quality agenda. After three years of improvements across the audit practice as Head of Audit, Sacha has asked I lead similar practice developments across the firm. We are

pleased that Sue Almond has agreed to re-join Grant Thornton as Head of Audit & Assurance, with effect from 1 September 2015. Sue brings a wealth of experience from her role as External Professional Affairs and Technical Director of the ACCA, with another international accounting network, as

well as having been an audit and technical partner at Grant Thornton. Sue and I will be working closely ensuring that Grant Thornton has the leading reputation for quality.

Mark Cardiff
Head of Audit

Sue Almond
Head of Audit & Assurance

4. Delivering Audit Quality

Leadership and governance

Firm leadership

People take their lead from those in positions of responsibility indicating what is important. That is why we instill our values of Collaboration, Leadership, Excellence, Agility, Respect and Responsibility throughout the firm.

For the year to June 2015, the firm's principal leadership and governance bodies were the National Leadership Board (NLB), which ran the firm as an executive function, and the Partnership Oversight Board (POB), which provides oversight of the executive management on behalf of the members (the 'partners') and wider stakeholders. Our governance structure ensured that the NLB was held accountable for delivering the firm's goals, and that there was

sufficient and appropriate oversight of the firm's activities. Our Independent Non-Executives bring considerable expertise to the POB and the wider firm given the experience they have in similar roles for other organisations. Our firm has separate Risk & Audit (RAC), and Remuneration Committees of the POB which are responsible for monitoring the internal controls around key risks, and the remuneration of partners and the executive management respectively. The RAC is the governance body which reviews the preparation and audit of the firm's financial statements and reviews the standards of internal control, quality assurance and risk management of the firm's business including audit and advisory services.

A separate report by the RAC is set out in Appendix 4.

Throughout the year the NLB communicated regularly with the firm's partners and people on a wide range of issues including strategy implementation, current developments and the firm's values in action. This was effected by office visits, the CEO's weekly blog, online employee engagement and pulse surveys, quarterly business updates across the firm, and a formal meeting of the partner group. Further information on our leadership and governance teams and their responsibilities can be found in Appendix 2.

Audit leadership

Mark Cardiff was the firm's Head of Audit from July 2012 until 1 September 2015 and was responsible for driving audit quality. Mark has driven significant change and improvement in the Audit & Assurance practice over the last three years. From 1 September 2015, Sue Almond took over from Mark as Head of Audit & Assurance. Sue brings considerable experience from

her role as Director of External Professional Affairs at the ACCA, which developed from her role as the Technical Director there. Earlier in her career she was a Grant Thornton partner in our national technical team. Mark will be continuing his oversight of key audit change programmes and similar initiatives across the firm as he takes on the new role of Practice Development.

National Assurance Services team

The National Assurance Services team (NAS) supports the Head of Audit & Assurance in the development and enhancement of audit quality. This includes refinement of audit software and manuals provided by GTIL; training and technical guidance; advice on complex issues; carrying out reviews of the financial statements

of public interest entities prior to approval, as well as on-going monitoring of compliance with key quality and risk management controls. The NAS team also provides insights for internal and external audiences on the latest technical developments and issues in the profession.

Grant Thornton International Limited

GTIL assists all Grant Thornton member firms in delivering consistent, robust, rigorous and high quality audits. This is achieved through providing a global audit methodology and software; protocols to facilitate consultation with audit specialists in other member firms; a comprehensive intranet service with up-to-date information on relevant professional standards; a worldwide restricted-

entity list (known as our Global Independence System); an International Financial Reporting Standards (IFRS) help desk; and topical alerts. GTIL does not provide any services to clients itself and more information on our international network and the audit quality processes that GTIL has in place are set out in Appendix 1.

Quality and internal control

Information on the processes and systems that we have in place to monitor risk within the business and the quality management standards by which we operate as a firm, along with details of the work of our internal audit and business risk and quality assurance team, are set out in Appendix 5.

Supporting robust audit delivery

Our global audit methodology ‘Horizon’, used by all member firms within GTIL, provides audit teams with a clear and direct link between identified financial reporting risks, internal controls that address the risks, and audit procedures. Audit teams can then judge how the current environment impacts upon an entity’s

financial reporting, how the entity responded, and how to develop an appropriate audit response. The methodology includes integrated quality control processes such as policies and procedures on an engagement quality control review.

The methodology is applied using our proprietary Voyager™ software,

manuals and policies. These are benchmarked against the International Standards on Auditing, International Standard on Quality Control, and the Code of Ethics for Professional Accountants (the IESBA Code), as well as UK law and related national requirements.

Ethics and independence

In the regulated area of audit, being and being seen to be independent and objective is a pre-requisite to providing quality audits. Our independence and objectivity in providing audit services is ensured through our business processes to check that we do not enter situations with real or perceived conflicts of interest. These include: our new client take-on procedures, acceptance of

non-audit assignments for audit clients consultation process and through considerations about contingent fee assignments. Information on these areas, including our Values, Code of Conduct, our Core Manual and our policies and procedures around ethical considerations in relation to the provision of our services is set out in Appendix 3.

Engagement acceptance and continuance

Every potential engagement undergoes a rigorous vetting process. Each audit engagement is categorised by reference to its risk, complexity and any specialised experience requirements. This categorisation is used to drive appropriate quality control procedures and, where necessary, involvement of the firm’s industry specialists.

The initial acceptance of audit engagements must be approved by a partner in a management role from outside the proposed audit team. High-profile, large or complex engagements must also be pre-

approved by the Head of Audit & Assurance, and/or the Quality & Professional Affairs Leader (or an alternate) and, in certain circumstances, consultation with GTIL is also required.

A similar process for continuance of engagements is required on an annual basis, for all our audit clients. If there are any significant changes in circumstances or other risk indicators are present, approval by a partner outside the audit team, the Head of Audit & Assurance and/or GTIL may again be required. We resigned from a number of engagements during the

year where we considered that our independence was, or might be considered to be, at risk and declined a number of others. All partners are clear that the public interest, ethical considerations and our integrity are key to our long term success and that we will not sacrifice this for short term commercial return. We have further enhanced our client take-on, continuance and independence process in the year, through the creation of a new team supported by new independence assessment software and tools which includes background, industry and regulatory checks.

Supervision, consultation and review

With our emphasis on quality and excellence, we have a strong culture of consultation, supervision and support, which is embedded throughout the audit methodology. Involvement of a second RI, our NAS team and, where necessary, the Head of Audit & Assurance, provide appropriate levels of quality control as well as support

for all audit teams. This mixture of experience and technical ability, within a culture where we are able to challenge each other, ensures quality is driven throughout the audit process.

Audit clients whose securities are publicly traded are subject to an engagement quality control review (as required by the International Standard

on Quality Control (ISQC 1)) by partners who are led and approved by the Head of Audit & Assurance.

Reviews of RIs are also in place for other complex or high-risk category clients to address certain quality and risk management matters, meaning we go further than the existing ISQC 1 requirements for quality control.

Reporting

The key deliverables of our audit are usually the Audit Plan, the formal Audit Report (and Extended Audit Report for those applying the Corporate Governance Code or who specifically request it) and the Audit Findings report. Our Audit Reports comply with auditing standards and legislation and are only signed by the RIs after appropriate review of all

work done and compliance with the firm's consultation and second RI review requirements.

The Audit Plan and Audit Findings report provides those charged with governance and management bodies of clients with the main audit approach considerations, judgements and results of our audit. The content and format is tailored to each client's needs

and includes the scope and approach of our audit, explanation of any ethical or independence matters (together with any safeguards in place), the principal audit judgements and an outline of any control weaknesses identified.

Reporting to executive management

The Head of Audit & Assurance meets at least monthly with the Quality & Professional Affairs Leader and regularly with other members of the leadership team, POB and INEs, reporting back on an ongoing basis the findings of the internal quality assurance file reviews and the planned actions. The results are also disclosed to the firm's external audit regulatory bodies. The findings for individual engagement leaders from both the

firm's reviews and external quality assurance reviews impact on their individual annual audit quality grading, which in turn influences their reward. If an engagement review reveals findings that give cause for concern, the engagement leader's work is subject to a follow-up review by another Partner and RI to ensure that agreed actions have been taken and are effective.

External quality assurance

The firm’s Audit & Assurance practice benefits from review by a number of external bodies, most notably FRC’s AQR, the Institute of Chartered Accountants in England & Wales (ICAEW’s QAD) and the US Public Company Accounting Oversight Board, (PCAOB). We take the output from these external reviews seriously and we are committed to learning

from the reviews and implementing continual improvement as well as investment to ensure that we deliver the highest audit quality. We also get insight into how the market sees us from other sources, such as the survey carried out in 2014 by an independent external body on behalf of the six largest firms operating in the large company audit market and completed

by 173 Audit Committee Chairs (ACC). The chart below provides a summary and results illustrate that the firm is performing in line with other audit firms, yet we seek to improve our ratings through the detailed programme of investment outlined in this report.

Comparison of Grant Thornton versus the overall results of the ACC survey

How would you rate the quality of the external auditor’s response to regulatory oversight?



How satisfied were you with the communication/interaction between the external auditor and the audit committee?



To what degree did the external auditor exhibit independence and objectivity?



How satisfied were you with the level of professional scepticism demonstrated by the external auditor?



How sufficient were the resources your external auditor brought to the audit engagement?



How satisfied are you with your external auditor’s assessment of materiality?



Please rate your satisfaction with your external auditor’s audit focus, approach and risk assessment



What is your view of the overall quality of your external auditor?



Overall



● Grant Thornton
● Overall mean

External factors

The quality of a client's corporate governance and the robustness of its financial reporting systems are critical to audit quality. If concerns about a client's corporate governance procedures arise through our client acceptance and continuance

procedures, we consider whether we should continue to act for that client. If, during the audit, we identify weaknesses in governance and internal control systems, we recommend possible means of improvement.

Continuing professional development

Development of broader business understanding is important to deliver quality audits. Equally our people are required to maintain their technical competence and comply with relevant regulatory and professional development requirements. People managers review this annually, along with an individual's personal development plan.

The Audit & Assurance service line benefits from annual and quarterly technical updates, as well as courses on financial reporting, company law, ethics and auditing matters, limited company and sector-specific training. We have increased the number of days of structured learning our people attend and invested in a new eLearning platform that enables our

auditors to access fresh learning material on-demand. Individuals' skills also develop through 360-degree feedback, mentoring, on-the-job coaching, and a wide range of secondment opportunities.

Section 5 provides more details on how we measure the factors which contribute to the delivery of high audit quality.



5. Measuring Audit Quality

Given the decline in trust in the business community, it is more important than ever to rebuild confidence in corporate reporting. Auditors can play a crucial role in establishing trust in financial statements. It helps to be clear on what constitutes a good quality audit – then all can work to that benchmark. Clarity by regulators of the output indicators then lets effort be directed to the essential inputs. It is clear that a shared

understanding of how to judge audit quality will increase market competition for audit and assurance services.

To address this the six largest audit firms in the UK worked together on a new approach designed to identify and measure the factors which contribute to audit quality. The consultation process included institutional investors and regulators and identified a series of metrics which measure activity across a number of important

areas. Our performance against these measures is disclosed in our Transparency Report in addition to various leading metrics that we have adopted from the Center for Audit Quality (CAQ).

Many of the measures are qualitative so we have provided further qualitative and quantitative information to help understand how we are doing and to make it easy to compare our firm with other audit firms.

People development and expertise

Substantial partner, director and manager involvement is required throughout the audit process, including coaching and mentoring; encouraging consultation; giving feedback; and providing on-the-job learning. Recent 'PULSE' surveys that we have undertaken indicate that 64% of our people considered that they took the time to empower their

colleagues and a further 24% had the tools they need to do this, and recognised a need to do it even more. Technical excellence, audit quality, critical thinking and ethical behaviours are reinforced to everyone involved in Audit & Assurance during their orientation and throughout subsequent learning programmes. Partners and our people who are

involved in the audit of certain clients can only do so following suitable accreditation (following attendance at specific learning programmes) – examples of this are clients in the financial services industry or listed entities.

External investigations

Financial Reporting Council Investigations

The FRC is the independent disciplinary body for accountants in the UK. It deals with cases of potential misconduct by accountants that raise, or appear to raise, important issues affecting the public interest in the UK.

In July 2015, we reached agreement with the FRC to conclude a disciplinary case in relation to Manchester Building Society. The

case related to errors in the Society's financial statements that arose from hedge accounting. Our audit team identified the issue and brought it to the attention of the Society and the Prudential Regulation Authority. We cooperated fully throughout the FRC's investigation and we are pleased that we have reached agreement to resolve it.

An FRC investigation is on-going into audits of financial statements of AssetCo plc. The FRC is also investigating whether the firm was independent when it conducted audits of Nichols plc and the University of Salford.

Engagement performance reviews

Internal reviews - National Audit Review (NAR) process

We run a continuous cycle of internal audit quality reviews to ensure that the audits we deliver are of a consistent high quality. The process ensures:

- each RI is subject to internal review at least every three years (with effect from June 2015, quarterly reviews are also conducted)
- RIs with files reviewed falling below expected standards are subject to further file reviews within 12 months of the initial review
- all new RIs are reviewed around the first anniversary of their first appointment as RI
- operating procedures in each office location are reviewed on a three-yearly cycle
- engagements for review are selected with a bias towards those

considered to be more complex or of higher risk

- the setting of file grades is moderated by the NAS Audit Quality Monitoring team to ensure consistency of results between different reviews and with the approach taken by external reviewers
- the Office Audit Leader is required to develop and implement a targeted action plan to address the findings of the review.

For ease of reference, we have sought to align our NAR review grades with those of the AQR. The result of our most recent NAR was 50 audits reviewed were either Good with limited improvements required or had some Improvements required (2013: 55). Audits requiring Significant

improvement were 16 (2013: 21).

This shows an improving trend, and further improvements are required to satisfy our targets for audit quality. Each year the NAR findings are summarised centrally and reported to the firm's executive management. Any themes are communicated to the audit community through training events, conferences and other technical update channels. The results are also disclosed to the firm's external audit regulatory bodies, who subject the review process and results to scrutiny during their review, in particular by ensuring that our processes are sufficiently robust.

Internal reviews - Quarterly office audit quality measures

We perform quarterly audit quality reviews based upon detailed NAS guidance. The review findings are communicated to the audit practice and directly to the individual teams so that any learning points can be addressed. Each member of the audit team has an individual quality

objective set as part of their yearly performance review, and this timely review ensures that everybody takes a personal responsibility and commitment to performing each audit to the highest standards.

Investor and stakeholder liaison

Representatives of our firm actively engage with regulators, standard setters and investors, advocating for better reporting (audit committee and auditor) and supporting regulatory change where it will improve trust and integrity in the system. Many of our people participate in boards, committees, working groups and forums across a diverse range of bodies and subjects relating to our profession and the wider market, and provide comments and feedback on the firm's view on planned developments and issues. This includes regular meetings with our regulators and with the UK

government, alongside representatives from institutional investors, the business community and the accounting profession. One of our senior audit partners, Steve Maslin, chairs the Global Auditor Investor Dialogue (GAID), a group comprising representatives from a large number of leading investor organisations, share owners and the major global auditing networks. The group's purpose is to discuss and find consensus and solutions to financial reporting and audit related issues which are impacting the profession and the capital markets.



27% of our revenue in 2015 came from Audit & Assurance services

Audit Quality Indicators

We see that there are five key aspects to ensuring that we deliver quality audits:

- leadership and tone from the top – do people feel it is important, are they clear on what is expected and are people accountable for delivery?
- knowledge, experience, capability and capacity of the team – are we selecting teams with the right levels of experience, are people being equipped with the right skills to deliver work well and importantly do they have appropriate time to be able to deliver?
- monitoring – have we got processes in place to check that we are doing what we say we will – and do we act promptly on findings?
- external review – how do we take on board learning and feedback from external regulators to continuously improve?
- stakeholder engagement – how much time do we invest in working with stakeholders to listen to their needs and help them understand what is – and what isn't – covered by our work?

This year we have refreshed our approach to the reporting and the measurement of our audit quality performance.

In an endeavor to further industry understanding we have identified some measures that encompass leading metrics (as developed by the CAQ) as well as some lagging metrics. The metrics chosen represent a fit with our own reporting data and will be piloted to ensure this is a useful approach, providing us with forward looking indicators that can help us to better manage the business and inform stakeholders. We welcome any feedback you may have on these indicators.

Leading KPIs	2015
Hours training undertaken by partners and qualified people in the Audit & Assurance area	238,000hrs
Investment in R&D across Audit & Assurance ¹	cUS\$100m
Hours invested in delivering audits	1,528,000hrs
Years at present level/Years with the firm (average)	1.85/5.77yrs
Number of RI Directors/Partners in the Audit & Assurance area	50/56
Number of RI in the Audit & Assurance area to total number of personnel in the Audit & Assurance area ²	106/1615

¹ GTIL investment

² Excluding tax, pension and other specialists involved in Audit

As we drive quality in our firm we are focusing on how to ensure that our quality measures get to the root causes of what enables our teams to deliver their best work. It is clear to us that a challenge has been the increasing demands on auditors from regulation, combined with the reporting cycles having peaks in demand. Our significant projects with the re-design of the methodology and creation of specialist teams to reengineer how we deliver our work, set out to address these specific underlying challenges.

6. Independent Non-Executives' Report

The role of the Independent Non-Executives (INEs) at Grant Thornton has many parallels with that of a non-executive in a public company, namely a mixture of shareholder representative, mentor to management and governance steward. The INEs bring value to the firm's delivery of its strategy with governance arrangements and a wealth of practical experience helping to achieve this strategy. The INEs provide an independent perspective as well as contributing challenge to boardroom

discussions. Currently there are three INEs that are part of the POB (see Appendix 8).

The INEs contribute to audit quality via participation in various internal and external reviews, policy consultations and most importantly via their involvement throughout the Profit Sharing process, which, inter alia, reviews the process to ensure quality gradings of all audit partners are appropriately taken into account in determining partner profit share.

The INEs meet both separately, and

regularly, as part of the POB, the body which holds the firm's executive leadership to account. This, together with the firm's inclusive spirit, has created a strong system through which the INEs can gain access to all relevant information necessary to pursue their public interest role under the Audit Governance Code; as well as their role in ensuring the interests of stakeholders and the long term interest of the firm are taken into account in executive decision-making.

During 2015 the INEs focused on three main activities;

1) Audit Quality Review process

Audit quality has been the principal focus of the work programme in the last 12 months. The scores of the AQR process have been, and continue to be, closely monitored. In addition the client take-on and vetting process has been improved. Although on an improving trend there is clearly more work to be done in these areas. We will be continuing to monitor the actions taken by the firm to;

- a. Improve the quality of individual audits and address the causes of any deficiencies identified by internal or external quality reviews – and to ensure they are applied effectively by individual audit teams on a timely basis
- b. Embed the proper application of professional scepticism and management challenge in the firm's audit process.
- c. Strengthen the firm's quality control procedures relating to the direction, supervision and review of individual audits, including improving the effectiveness of Engagement Quality Control Reviews
- d. Strengthen the link between high quality audit work and reward
- e. Renew the focus on the discipline of proper record keeping and evidence of sound judgements which had been found to be lacking previously.

2) CEO selection process

Collectively with the POB, the INEs crafted and delivered an effective CEO selection process which led to a smooth transition of leadership. The INEs worked alongside the POB to define, validate and execute on the process of CEO selection. The INE role was to ensure transparency and fairness, as well as providing the public and partner interest to be voiced. Candidates who put forward their strategies and vision for the firm were vetted, externally benchmarked and counselled over a long process.

3) Leadership team transition

Following on from the new leader selection process the focus then progressed to overseeing the transition from the previous CEO and executive team to the new CEO and the new executive. Here the INEs oversaw a six month handover process.

For the year ahead the greater focus of our work will remain that of ensuring the delivery of high quality audits at Grant Thornton and the robustness of the internal control process. Audit quality and oversight of the audit practice remains the top priority of the POB. A further part of our ongoing work in this area has been an exploration of the issues that impact the metrics by which the firm's performance is measured. In addition we will continue to monitor and review the quality of the non-audit practices of the firm.

The second most important area for the INEs in 2016 will be to oversee the development and implementation of Shared Enterprise. A shared enterprise

business model has been flagged to the partners, staff and the outside world, and next steps are to ensure the leadership team introduces an effective programme that satisfies the aspirations and expectations of all these interested parties.

Finally there will be some INE succession issues to be dealt with in the next 12 to 18 months. A selection process is in train and candidates are being vetted in particular for past experience in auditing or a main board finance director role. At a more parochial level, the POB chair is also due to step down before the end of the next year, so an effective succession plan for this key position needs to be ensured.

Richard Eyre

Caroline Goodall

Ed Warner

30 September 2015

Appendix 1: Our Business

Legal structure

Grant Thornton UK LLP is incorporated under the Limited Liability Partnerships Act 2000, and registered in England and Wales (registered number OC307742). In this report, Grant Thornton UK LLP is referred to variously as: the firm, the LLP, Grant Thornton, we, our and us.

Ownership

Ownership of the firm is vested in its members who are all current partners and in the year to 30 June 2015, the full time equivalent number of partners was 184 (2014: 191). The full time equivalent number of employees during the year was 4,277 (2014: 4,047) and the firm currently operates from 26 offices throughout the United Kingdom.

In addition, we have subsidiary entities operating in the Cayman Islands and British Virgin Islands that are focussed on Insolvency and Restructuring advisory services. A list of the members is available for inspection at the LLP's registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP.

Our business

Grant Thornton is a leading financial and business adviser. Our focus is on unlocking growth for dynamic organisations – those changing, growing and shaping the economy, from start-ups through to large corporates.

Our lens to serve our clients is through the issues that they face and what they need to deliver sustainable value. With a focus on understanding what is important to our clients,

we collaborate to bring the best team to work with them to address their issues. It works because we have breadth and depth of capability across both geography and specialist service lines. Our principal services are Audit & Assurance, Tax and Advisory Services, the latter including Business Risk, Corporate Finance, Business Consulting, Forensic Investigations,

Financial Services Advisory and Recovery & Reorganisation. More information about all of our services is available on our website.

We are regulated by a number of bodies in the UK and overseas, the principal ones being the ICAEW – our lead regulator, the Financial Conduct Authority and the Insolvency Practitioners Association.

Principal subsidiary undertakings

Set out below is a list of the principal subsidiary undertakings of Grant Thornton UK LLP at 30 June 2015, along with details of their principal activity.

Companies	Principal activity
Grant Thornton Business Services	Employment of personnel
Grant Thornton Specialist Services (Cayman) Limited	Insolvency and restructuring advisory services
Grant Thornton (British Virgin Islands) Limited	Insolvency and restructuring advisory services
Fulwood Insurances Limited	Insurance services
Grant Thornton Debt Solutions Limited*	Personal insolvency services
Geniac UK Limited	Management of business support functions

Limited Liability Partnership	Principal activity
Grant Thornton Services LLP	Employment of personnel
Grant Thornton Employee Benefits Consultancy LLP	Employee benefits consultancy services

* Grant Thornton Debt Solutions Limited is a joint venture in which the firm owns 50% of the called up share capital. The remaining 50% is owned by Grant Thornton Holdings Limited, a company registered in Ireland.

Our international organisation

Grant Thornton UK LLP is the UK member firm of Grant Thornton International Ltd (GTIL). GTIL is a private company limited by guarantee, incorporated in England and Wales. It is an umbrella organisation that does not provide services to clients. Services are delivered by member firms around the world using common methodologies ensuring

the clients of all member firms have a consistent experience and standard. As at 30 September 2014, GTIL had 130 independent member firms (2013: 126) with aggregate revenues of US\$4.7 billion (2013: US\$4.5 billion), and more than 40,000 personnel.

A full list of Grant Thornton member firms across the world is available on our website. The

total turnover from Grant Thornton member firms across the world resulting from the audit of annual and consolidated financial statements is US\$2.027 billion.

Member firm admissions

GTIL controls admissions to its network. Prospective member firms must meet a number of criteria in order to be considered for membership, which include:

- the prospective firm's reputation for quality and its adherence to high standards
- adoption of global policies, procedures and methodologies, including methods and quality control systems for providing services to clients, engagement protocols, and ethical and independence policies
- maintenance of a system of quality control that meets or exceeds International Standard on Quality Control (ISQC 1)
- agreement to the periodic evaluation of the system of quality control by the global quality monitoring teams

Governance and leadership

The key governance and leadership bodies of GTIL are the Board of Governors and the Global Leadership Team. Their roles and responsibilities are set out in summary below.

International Board of Governors

The Board of Governors (the Board) is the principal and overriding authority in GTIL. The Board is a group selected from Grant Thornton member firms worldwide and exercises governance on their behalf. The Board comprises the chief executive officer (CEO) of GTIL, managing partners from the largest Grant Thornton member firms and managing partners elected from Grant Thornton member firms which are not amongst the largest and independent directors. The Board aims for a reasonable

balance of representation from different geographical areas, including emerging markets.

The Board's responsibilities include:

- providing input into the strategic development of GTIL and approving the global strategic direction and policies of GTIL as established by the CEO
- overseeing the implementation of the global strategy
- overseeing membership matters, (including approving new member firms and suspending the rights of, or expelling a member firm)
- appointing and setting the remuneration of the Chair of the Board
- appointing, evaluating performance and setting the remuneration of the CEO
- approving the budget and member firm fees
- overseeing the financial health of GTIL
- overseeing global enterprise risk management
- overseeing general governance matters, such as the composition and performance of the Board.

The Global Leadership Team

The GLT drives the execution of the global strategy and is chaired by the CEO. The chart below provides an illustration of the current organisational structure of GTIL. Robert Quant joined the GLT as of 1 September 2015.



Chair of the Board

The Chair of the Board (the Chair) is a proactive role with a focus on ensuring that the Board functions as a coordinated group in support of the CEO on global strategy, including but not restricted to provision of distinctive client service by the member firms. The current Chair is Scott Barnes and his term runs to December 2017. The role of the Chair is pivotal to creating the conditions necessary for a highly effective Board, focused on our strategic global development.

Chief Executive Officer

The CEO is appointed by the Board for an initial term of up to five years, renewable once for a further period of up to three years. The CEO is responsible for the leadership of GTIL. The role of the CEO includes the development and recommendation of global strategic priorities for ratification by the Board, together with overseeing execution of these priorities. The CEO has responsibility for appointing the GLT subject to the concurrence of the Board. The GLT assists the CEO in the execution of the global strategy. The CEO works closely with the GLT in maintaining global policies and procedures, including those governing international work for the Audit & Assurance, Tax and Advisory service lines.

Global Leadership Team

It is a full time management group dedicated to leading the global organisation in the successful execution of the strategy. In addition to the service line and global development areas they lead, GLT members also have functional and regional responsibilities. A critical role of the GLT is to work with member firms in driving the execution of the GTIL global strategy. Implementation of the strategy builds on strategic frameworks, prioritised investments and growth strategies that are appropriate for the chosen markets.

Audit quality

GTIL views excellence as essential to the network's brand, with a particular focus on audit quality. To that end, global resources are provided to assist member firms in maintaining audit quality, including:

- an audit methodology, with supporting state-of-the-art software (Voyager™), that is used globally
- policies and procedures contained in audit manuals that are benchmarked against international auditing, quality control, independence and ethical standards
- protocols that enable member firms to consult with the global auditing standards team and, if necessary, with audit specialists in other member firms
- protocols that enable member firms to consult with GTIL's International Financial Reporting Standards (IFRS) helpdesk
- a comprehensive intranet service that includes up to date information for member firms on auditing, financial reporting, ethics and independence standards and guidance on applying them effectively.

Audit quality monitoring

A key component of the global strategy is to promote the delivery of consistent, high quality client service worldwide. To support this objective, a dedicated quality monitoring programme was developed to support the Audit & Assurance practices of the member firms. This global

monitoring programme uses the Sentinel software application and focuses on the six elements of ISQC1. Under this programme, member firms are provided with feedback on the design, implementation and operation of their Audit & Assurance practice quality control systems.

Grant Thornton Audit Review

Each member firm is obliged to submit to an inspection of its quality control system, referred to as the Grant Thornton Audit Review (GTAR), at least once every three years. The GTAR process is designed to monitor member firm compliance with professional standards and global audit policies and procedures. The GTAR is conducted by independent and suitably qualified partners and managers from other member firms under the overall direction of the global audit quality control leader.

GTAR inspection teams review the conduct of audit work performed by each member firm. The inspection process includes an evaluation of policies and procedures of the member firm applicable to its Audit & Assurance practice, benchmarking those policies and procedures against relevant policies and procedures of the international organisation. The inspection team reviews financial statements, audit reports and engagement work papers and

files. The inspection team also interviews partners and people on various matters.

The GTAR inspection team members assess whether a firm's system of quality control is designed, implemented and operated to provide the member firm with reasonable assurance that the member firm and its personnel comply with professional standards and applicable legal and regulatory requirements and the reports issued by the member firm are appropriate in the circumstances. These include leadership responsibilities for quality, ethics and independence, client acceptance and continuance, human resources, engagement performance and monitoring.

The inspection team, as part of evaluating engagement performance, also reviews a sample of Audit & Assurance engagements. On conclusion of each GTAR, the global organisation issues a report based on the inspection findings.

The report on a firm's quality control system will report one of the following:

- suitably designed and operating effectively (an unqualified report)
- suitable designed and operating effectively except for one or more significant deficiencies (an except for report)
- having material weaknesses in the design or operation of the quality control system (an adverse report).

When the GTAR identifies a deficiency, the member firm is expected to address the deficiency and document their action plan to address the findings within a reasonable period of time and submit appropriate documentation. When follow-up actions are required by member firms to address findings identified during the GTAR, a further visit or remote assessment is made to review progress in implementing these actions.

There are equivalent review processes for other services provided by firms in the global organisation.

Appendix 2: Leadership and Governance

For the year ended 30 June 2015 the firm's principal leadership and governance bodies were the NLB, which runs the firm as an executive function, and the POB, which provides oversight of the NLB on behalf of the members. The firm's membership agreement sets out the members' rights and obligations, the firm's governance framework and the key responsibilities for the management of our business.

Management of our business

Chief Executive Officer

The CEO has full executive authority for the management of the business.

Nominated by the POB, the appointment is confirmed by an all-partner vote. The CEO may be appointed for no more than two four-year terms. The CEO is bound by the firm's Statement of Principles, which is the firm's highest level statement of objectives, values and philosophy. This is developed by the

POB and approved by the members at least every three years.

For the year ended 30 June 2015 the CEO, was Scott Barnes, who was elected in 2008 and reelected in February 2012. The POB commenced a CEO succession process during 2013 culminating in an all partner vote in December 2014 to elect Sacha Romanovitch with effect from 1 July 2015.

Executive management

The CEO puts in place the leadership and management structure and people of their choosing, which is responsible for:

- ensuring the firm operates within the LLP's Statement of Principles
- protecting the goodwill and reputation of the firm
- developing and implementing the firm's strategy
- appointing, appraising and (where necessary) removing partners, and determining their remuneration
- ensuring the firm complies with all relevant regulatory and legal requirements
- ensuring that quality is central to our work and our approach
- driving a profitable and sustainable firm.

The NLB for the year ended 30 June 2015 consisted of the following partners: [Scott Barnes](#), CEO; [David Maxwell](#), Markets and Industries; [Sacha Romanovitch](#), People and Culture; [Robert Hannah](#), Regions Managing Partner; [Ian Smart](#), London Managing Partner; [Paul Etherington](#), Quality & Professional Affairs; and [Simon Jones](#), Chief Operating Officer. All were in post throughout the year to 30 June 2015. From 1 July 2015 Sacha Romanovitch took up post as CEO and she established a new leadership team. This is outlined in detail in our financial statements.

A number of other experienced partners and directors form part of the executive team and include amongst others;

- Head of Tax
- Head of Audit & Assurance
- Head of Advisory

Partnership Oversight Board

The POB is responsible for the protection of partners’ interests, standards of corporate governance within the firm, and the oversight of the leadership board. Its principal duties are:

- development of the firm’s Statement of Principles
- appointment (and, if required, the removal) of the CEO, subject to the vote of members
- monitoring the CEO’s stewardship of the business

- overseeing the principles and criteria for profit sharing
- oversight of risk and quality policies and procedures
- recognising that we have a public interest role that extends beyond the short-term interests of the partners.

The POB consists of eight members elected by the partners, three INEs, and three ex-officio non-voting members (being the CEO and two

others – members of the executive management team). Elected members are appointed for a period of three years, and may serve for two further consecutive terms if re-elected. An overview of the firm’s organisational and governance structure can be found on the website.

Evaluation of POB members

A formal review of the effectiveness of the POB and its chair was carried out in 2013, led by one of the INEs. This review consisted of an online confidential questionnaire to all partners and will be repeated periodically. During 2014/15 the POB held all partner meetings, lunches/dinners with partners across the whole firm to seek their feedback on issues of concern to the partners and in particular the CEO succession process. The minutes of POB meetings are circulated to all partners in the firm.

Independent Non Executives

The INEs are ‘outside members’ of Grant Thornton UK LLP as defined by the firm’s membership agreement, and as such are part of our POB with voting rights which are only exercised by the INEs when to do so would not compromise their independence. Each INE serves an initial first term of three years, and is eligible for reappointment without restriction, as determined by the elected members of the POB. The INEs bring their considerable expertise to the POB and are responsible for contributing to the overall governance of the firm, and specifically:

- the firm’s recognition of its public interest responsibilities and its attitude towards quality
- the firm’s approach to risk management and governance and issues raised under whistleblowing policies and procedures.

The INEs attend all POB meetings and are invited to attend partners’ meetings, and to meet with the CEO and the chair of the POB periodically. Our INEs contribute to audit quality through their involvement in the Profit Sharing subcommittee and

RAC which, inter alia, reviews the process to ensure quality gradings of all audit partners are appropriately taken into account in determining partner profit share. During the year the INEs have also participated in other ad hoc subcommittees as required, for example in relation to significant property transactions, reviewing a proposed business acquisition, and the CEO succession planning process.

Subcommittees

The POB has three main subcommittees that deal with key aspects of governance: the Risk & Audit Committee (RAC), the Remuneration Committee and a Profit Sharing Committee. The POB's oversight of management and the establishment of separate RAC and Remuneration committees ensure that the firm meets current best practice in respect of with appropriate corporate governance, risk management and quality standards.

Risk & Audit Committee

The RAC is responsible for ensuring that the firm's quality and risk management framework is appropriate and operating effectively. Its specific duties include:

- overseeing policies and procedures on quality and risk management (including ethics and independence)
- monitoring and reviewing the effectiveness of the firm's internal audit function and the timeliness and effectiveness of management's corrective actions
- overseeing management's response

to any major external or internal audit recommendations

- monitoring the firm's relationship with its external auditors and external regulators.

The RAC consists of four elected members of the POB (including the POB chair), the CEO and at least one INE. The head of business risk and quality assurance, the national director of finance and the NLB member responsible for quality & professional standards are invited to attend as appropriate. Representatives of

the firm's external auditors, Mazars (UK) LLP, are also invited to attend.

The RAC met six times last year, and three of these meetings were attended, in part, by the external auditors. A separate report by the RAC will also be included in our Strategic review as part of our Integrated reporting.

Remuneration Committee

The Remuneration Committee is responsible for setting the remuneration framework of the CEO and the executive management, dependent upon the achievement of predetermined criteria and goals. The committee, which consists of three elected POB members including the POB chair and at least one INE, met twice last year.

Profit sharing subcommittee

This committee was established to provide an opportunity for quality control to ensure that the principles and processes agreed at the outset are followed as well as including a more in-depth review of the profit sharing process, to witness the output of the profit sharing process and to consider outliers. The agreed performance goals of the incoming CEO make explicit reference to 'Quality & Excellence' with a particular focus on Public Interest Entity audit quality.

Meeting Attendance: Year to June 2015

		Meetings			
		National Leadership Board	Partnership Oversight Board	Risk & Audit Committee	Remuneration Committee
Number of meetings in year		13	6	6	3
National leadership board					
Scott Barnes (CEO)	1 January 2009	12	6	5	3
David Maxwell	1 January 2009	12			
Sacha Romanovitch	1 January 2009	12	4	2	
Ian Smart	1 January 2009	12			
Paul Etherington	1 December 2011	12	5	6	
Robert Hannah	1 December 2011	12	3		
Simon Jones	1 December 2011	12	6	4	
Partnership Oversight Board					
Steve Maslin (Chair)	1 July 2007		6	6	3
Paul Flatley	1 July 2009		6	6	
Tim Lincoln	1 October 2006 ⁴		3	6	
Simon Lowe	1 July 2012		6	6	
Mo Merali	1 July 2009		6		3
Nick Wood	1 July 2009		5		3
Steve Mills	1 July 2014		6		
Tracey James	1 September 2014		5		
Partnership Oversight Board					
Richard Eyre	15 September 2010		5		
Caroline Goodall	15 September 2010		5	6	
Ed Warner	15 September 2010		6		3

⁴ To fill a casual vacancy

● Attendance by invitation

● Management attendees; non-voting members

Partner remuneration

In accordance with the firm's membership agreement and subject to the approval of the POB, the CEO determines the total amount of the firm's annual audited profits to be allocated and distributed to partners (the profit pool). Profits are primarily distributed in accordance with members' profit sharing units, which are allocated depending on role, assessed ability and performance. In addition, a significant percentage of the profit pool is allocated based on a balanced assessment of behavioural and operational metrics. This links performance to the firm's strategy and achievement of its long-term

goals. Partners are assessed individually against criteria which include:

- **operations and results:** demonstrating quality, delivering technical excellence and strong financial results
- **markets:** enhancement of the firm's profile and reputation and demonstrable industry focus
- **people:** leadership in the development of colleagues
- **clients:** provision of exceptional client service and relationship management.

Behavioural patterns inconsistent with the firm's values and the

expected standards of behaviour set out in the Code of Conduct result in reduction of profit shares.

The remuneration framework of the CEO is determined by the Remuneration Committee, which is a subcommittee of POB, which also approves the CEO's allocation of profit sharing units to other partners on the National Leadership Board. The Remuneration Committee is also responsible for setting the basis and criteria against which the CEO is measured, including the setting of targets and assessment of actual achievements.

Remuneration of audit personnel

Audit partners and directors are quality graded by reference to the complexity, risk and quality of the work for which they are responsible, and taking into account a number of other criteria including the results of the NAS team monitoring reviews (both quarterly office audit quality measures and the National Audit Review process), the GTIL global audit review team, and by our regulators, attendance at all required audit technical update sessions and

any technical roles that they perform on behalf of the firm. The quality grade which is awarded as a result of these assessments contributes towards the level of remuneration received by each audit partner and director. Audit partners (and audit personnel) are not remunerated by reference to sales of non-audit services to their audit clients.

Appendix 3: Ethics and Independence

The firm is subject to ethical and independence standards set by the FRC (formerly the Auditing Practices Board (APB)), the ICAEW, and the International Federation of Accountants (IFAC). We recognise the impact of our individual and collective behaviours on our reputation. So we help our people to understand their ethical responsibilities by providing clear policies and procedures, efficient and intuitive systems, a strong culture of support and consultation, regular training and awareness programmes.

Leadership

The firm's 'Ethics Partner', Peter Rowley, provides guidance and support on the application of UK and international ethical standards. He is supported by the firm's ethics team which provides advice on ethical issues and concerns and enables our people to obtain advice on sensitive, high-risk or complex issues on a confidential basis.

Policies and procedures

The firm's Core Manual summarises our key policies and procedures in a concise and easy to understand way. It provides guidance on the fundamental principles of the Code of Ethics of the ICAEW, which require all our people to:

- behave at all times with integrity
- maintain objectivity
- work with due care and competence
- respect confidentiality
- behave professionally
- avoid conflicts of interest.

More detailed guidance and training is available on our Professional Ethics Database, which is available to all partners and employees on the intranet.

Our CLEARR values

We know that the best businesses pay attention to both what they do and how they do it. Our culture, is built around our CLEARR values:

Collaboration - Ask for help, give help - We work together well

Leadership - Have courage and inspire others - We challenge each other to be the best we can be

Excellence - Find a better way every time - We never get complacent

Agility - Think broadly, act quickly - We thrive in change

Respect - Listen and understand, be forthright - We create honest relationships

Responsibility - Use influence wisely - We own our actions

Code of conduct

Our Code of Conduct provides a clear set of standards for our business, and creates an ethical and behavioural framework for how we apply our values to guide our people's response to the decisions they make each day. Based on the foundations of our core values, it covers:

- Working together. We treat everybody with respect and dignity, building relationships based on confidence and trust. We nurture and value each other's contribution to the firm's success.

- Working with clients and others. Our success is driven from our total commitment to excellence, delivering the highest quality of service and care to our clients. We thrive on working together, drawing on each other's skills, knowledge and expertise, seeking innovative and exciting solutions to meet our clients' needs.
- Protecting our business. We each have a responsibility to protect the firm's reputation, safeguard our valued human capital and keep safe

the physical and electronic assets which we use every day.

- Impacting society. Our biggest impact on society comes from the services we offer and our contribution to the stability of financial markets. We recognise our activities impact beyond the firm and we aim to be a responsible corporate citizen.
- Behaving with integrity. We expect our people to be honest, trustworthy and straightforward, doing not simply what is lawful but also what is right.

Training and awareness

On joining the firm, all partners and employees are provided with the Code of Conduct and experience our orientation programme including online training on key policies such as anti-money laundering, confidentiality and information security, and The Bribery Act. Our ethical approach is embedded across all learning and communication programmes. In addition, on an annual basis everybody is required to confirm their understanding of, and compliance with, relevant ethical requirements and key policies as summarised in the Core Manual and the guiding principles set out in the Code of Conduct.

Identifying conflicts of interest

This year we have instigated a new approach to identifying conflicts of interest. Historically the firm has used an electronic Notice Board listing all potential new client engagements and required relevant personnel to confirm whether or not they knew of any existing or prior relationships. This process was supplemented by a search of the client database. During the year the firm developed and implemented a new search tool to interrogate a suite of databases where potential relationships could be identified. Individuals are now asked about relationships where the database search identifies a possible match. In support of this new approach, new databases were created to ensure that all relevant

relationships could be identified.

Where the potential client or any of its related entities has international operations, enquiries are made of the GTIL member firms in the relevant jurisdictions using the GTIL: International Relationship checking process. The international network maintain databases of restricted entities and other relationships that could create a conflict. The international network maintain an electronic Global Independence System to match the investment holdings of all relevant personnel with restricted entities to avoid personal investments impairing audit independence.

When the prospective client is already an audit client of a member

firm of GTIL, consultation is required with the relevant audit engagement leader to ensure that a proposed non-audit service is permitted, that any perceived threats to independence created by the proposed non-audit service can be adequately safeguarded and (where required) the circumstances will be communicated to the audit client's audit committee.

Dealing with conflicts

If a potential conflict is identified, appropriate procedures are put in place to obtain the informed consent of the interested parties, to protect confidential information and to ensure potential conflicts are, and are seen to be, effectively managed. In exceptional circumstances the relevant head of service line and the firm's Ethics Partner must be consulted.

New client take-on process

During the year the firm invested in enhancing its take-on processes, building on the established Audit & Assurance mechanisms. We have created a central team to handle client take-on and continuance and the administration of take-on is being transferred into this team over a period of time. The team currently undertake client verification for Anti Money Laundering purposes for all new clients and conducts family tree research and database searches underpinning our relationship checking processes. The firm is also developing a new business process management tool to create a common platform for running the process. This is currently being piloted in part of the Advisory practice and will be rolled out across the firm over the next 18 months.

Non-audit services to audit clients

Before providing a non-audit service to any audit client of the firm, the relevant RI's approval must be obtained. This approval is only given after careful consideration of any possible threats to the firm's independence, the adequacy of any plan to mitigate such threats and consultation with the Ethics Partner and a client's audit committee (or equivalent) in accordance with the client's own policy.

Contingent fees

Where a proposed non-audit service to, or in respect of, an audit client will include any element of contingent fee, the formal approval of the firm's Ethics Partner is required.

Financial interests

Partners, other RIs and members of their immediate families, are prohibited from having any direct or material indirect financial interest in an audit client or the parent company of any audit client of Grant Thornton UK LLP, or in any publicly traded audit client (or publicly traded parent of an audit client) of a member firm of GTIL. Full details of the firm's audit

clients with publicly-traded securities, and those of other member firms of GTIL, are maintained on the intranet. Further, partners and employees may not have a material financial interest in any client to which they provide a professional service. Partners, directors, associate directors and managers involved in client service are required to record their financial

interests (and those of their immediate family members) in the firm's automated tracking system known as the Global Independence System (GIS). Financial interests of the firm and its affiliated entities are also recorded in the GIS, as these could have an impact on the independence of the firm or other member firms of GTIL.

Other ethical considerations

Rotation of senior audit team members

Depending on their role, senior team members responsible for audits of listed companies and certain other public interest clients are required to rotate off the engagement after specified periods of time. The circumstances requiring rotation are identified when individuals are first assigned to a client, and are recorded on the firm's central record of public interest clients. The firm's policy concerning the rotation of key audit partners and people requires that:

- An audit lead may serve as the RI on the audit of a listed company for a period of five years. In certain circumstances, and subject to the approval of the firm's Ethics Partner and the disclosure by the company to its shareholders, the period may be extended to a maximum period of seven years. In these circumstances, the review by the independent review partner will be enhanced to safeguard the independence of the audit. At the end of their period of service, the RI must then rotate away from the engagement for a minimum of five years.
- A partner may serve as independent review partner ('Engagement Quality Control Reviewer') on the audit of a listed company for a maximum period of seven years. They must then rotate away from the engagement for a minimum of five years. The firm's policy is that they must not normally have any client-facing role during that period.
- Where a partner serves on the audit of a listed company in a combination of roles as audit partner, independent review partner and/or a 'key partner involved in the audit', the total period (either continuously or in aggregate) may not exceed seven years, followed by a minimum period of five years within which they may have no involvement in the audit.
- Periods of service as audit partner before a client became listed are included in the total. However, if the client becomes listed when the partner has already served for four or more years, they may serve for a maximum of another two years.
- 'Key partners involved in the audit', which can include the partners responsible for significant affiliates of the listed company, can act for seven years in aggregate and then must rotate off the engagement for at least two years.
- Other partners and people who serve in a senior position on the audit of a listed company should not act for more than seven years in that role unless safeguards are put in place. The normal safeguard is rotation off the engagement, but a change of role within the engagement team or an independent review of the individual's work are other available safeguards.

Supplier relationships

Our independence requirements extend to our relationships with suppliers. Checks are carried out before we enter into a supplier contract, to establish whether they are an audit client, and if they are, special consideration is given to whether a threat to independence might arise. Where applicable the firm's Ethics Partner must be consulted.

Hospitality and gifts

Prior approval by their office Practice Leader is required where a partner or employee wishes to accept or give any gift or benefit in kind, including hospitality, in excess of the firm's guidance limit (currently £500 in respect of hospitality and £100 in respect of gifts), or which might, or might be seen to, prejudice our integrity and objectivity in relation to our clients. The firm maintains a register recording all requests for approval of gifts and/or benefits in kind received or given.

Monitoring

We monitor our people's compliance with ethical and independence requirements through:

- all of our people are required annually to confirm in the firm's Annual Declarations process that they understand and have complied with the firm's policies relating to independence, confidentiality, market abuse, gifts and hospitality, and whistleblowing
- quality control and quality assurance reviews of assignment files across all service lines check compliance with internal controls and specifically engagement acceptance procedures and independence policies
- the GIS accounts of 10% of partners and 5% of managers are reviewed annually against evidence to support their recorded financial interests
- the firm's internal audit function reviews compliance with key internal controls across every service line on a three-yearly basis and reports to the executive and the POB through the RAC
- we encourage our people to consult with others when faced with a difficult decision or to speak up on areas of concern. If for whatever reason they feel unable to do so, we provide an externally hosted, confidential whistleblowing hotline. Any hotline activity is escalated through the management and oversight structures as appropriate.

Complaints and claims

We have robust procedures in place for dealing with complaints. A register of all complaints and possible claims is maintained by the firm's Legal department, under the direction of the Head of Quality & Professional Affairs, which investigates all complaints and ensures all potential claims are handled appropriately.

Client feedback

A key aspect of delivering quality client services is effective monitoring and management of our client relationships. We actively seek feedback from our clients, using face-to-face meetings and online and telephone surveys through third-party suppliers, in order to assess our performance and improve client service. Specifically we meet regularly with our public interest audit clients and seek feedback on audit quality from both audit committees and management. A number of these meetings are carried out by senior management and partners independent of the client engagement team, including the CEO.

Appendix 4: Risk & Audit Committee Report

The RAC is the governance body which reviews the preparation and audit of the firm's financial statements and reviews the standards of internal control, quality assurance and risk management of the firm's business. It is a standing sub-committee of the POB. The members of the RAC are all drawn from the POB and appointed by the Chair of the POB. Given the nature of the services that our firm provides, and the competitive marketplace in which we operate, the quality of our services, particularly in audit, is of key importance to the RAC.

Terms of reference

Executive management led by the NLB was responsible for setting the firm's attitude to quality and risk. The RAC's primary responsibility is to act as an oversight of the firm's risk management and internal audit functions and to review the external audit process. The terms of reference of the RAC, which are regularly reviewed and updated to reflect the challenging and changing environment in which we operate, are available on our website.

Meetings

The RAC typically meets five to six times a year and reports directly to the POB on its activities.

Minutes of the RAC meetings are made available to all partners and national directors. In addition to the RAC members, also in attendance for at least one committee meeting per year, as appropriate, were:

Scott Barnes – CEO (visitor to the RAC and ex-officio member of the POB)

Margaret Bowler - Head of Business Risk and Quality Assurance

Owen Brookman – General Counsel

Paul Etherington – Quality and Professional Affairs Leader (ex-officio member of the POB)

Malcolm Northover – National Director of Finance

Roy Welsby – Quality & Professional Standards partner and Money Laundering Reporting Officer

Our activities and areas of focus during the year to 30 June 2015 are set out below:

Audit quality

Audit quality is of paramount importance to the firm and to the RAC. In order to ensure that the firm is appropriately responding to the output from all internal and external regulatory reviews, during the financial year to 30 June 2015 the RAC has received and considered reports from the ICAEW following their practice assurance visit and from our internal NAS team in respect of its National audit file reviews. The RAC also receives updates following

FRC Audit Quality Review team (AQR) reports and international audit file reviews.

We have discussed the results of these reviews with management as appropriate to ensure quality remains a priority management objective, and continue to monitor this area to ensure progress is made in areas of concern or where weaknesses are identified.

In addition to the above quality assurance reviews, the POB gives

consideration as to how management ensure that audit quality gradings are reflected in audit Partner/Director remuneration both positively and negatively.

Review of effectiveness of internal controls

The RAC activities during the year provide the context for our review of management’s statement on the effectiveness of the firm’s system of internal controls. The review comprises discussions with management at each of our meetings throughout the year, consideration of

the Annual Business Risk and Quality Assurance plan (available in September each year) and review of the external auditor’s conclusions on internal controls, following their audit of the Firm’s financial statements, with the response from management.

Business Risk Management and Internal Audit

The NLB has been responsible for the identification of gross risk, mitigation of such risks and for the ongoing review and implementation of responses to the firm wide risk register. The NLB has also been responsible for ensuring appropriate communication and monitoring of the firm’s key risks and, in this regard, quality and risk sessions are incorporated into partner conferences, firm wide graduate orientation programmes and service line conferences, including audit. In addition each service line (Audit & Assurance, Tax and Advisory) now has a Head of Quality and Risk Management supporting the service line leaders.

A report on the NLB’s activities in this area (the Business Risk and Quality Assurance (BRQA) report) is provided to the committee on a regular basis and, in particular, when changes arise in the nature, likelihood or impact of the identified risks. The 2014 annual BRQA report was provided to the RAC during the year to brief us on the progress of the firm’s business risk management (BRM) process and to obtain and record the approval of the RAC on the firm’s risk profile and assessment of the

adequacy of the control environment.

The BRQA review throughout the year focused on:

- consolidation and agreement of the revised quality and risk framework
- consultation with new service area leaders to develop quality and a risk approach specific to each new service area
- BRM reviews of potentially high risk areas (eg new service offerings)
- follow up internal audit reviews of areas previously assessed with ‘limited’ assurances, and
- the annual review of individual business area risks.

In addition to the above, a BRQA and Internal Audit report is circulated ahead of each RAC meeting, which typically covers:

- the latest firm wide risk register, including any consideration by the NLB of new risks or movement in significance of a risk
- reviews of particular service areas undertaken by the BRQA team
- the programme of internal audits, results and follow up of recommendations
- any incidents/breaches, for example in health and safety, whistle

blowing, business continuity or information security

- updates on processes and compliance with the Bribery Act, Anti money laundering, independence checks, CPD returns, Annual Declarations, and
- plans for training all partners and employees on matters such as the Data Protection Act and Bribery Act.

Further, during the year the General Counsel reported to the RAC on the status of key reputational matters and provided a regular update on the professional indemnity renewal process and the outcome.

Where appropriate individual service line leaders, department heads or members of management are requested to attend RAC meetings to present on certain matters. The Committee also had a meeting with the Head of BRQA without the other NLB members present. The RAC has been satisfied with management’s internal controls in respect of business risk management.

Ethics, culture and whistle-blowing

The RAC receives updates on how management are embedding the right attitude to ethics and whistle-blowing across the firm, and is party to a report commissioned from an external independent provider by the firms' Head of Ethics on whistle-blowing notifications. There have been no such notifications in the year to 30 June 2015.

Further, our committee has given consideration as to how management embed culture, values and 'tone from the top' to ensure that quality and the firm's values are embedded in everything the firm does. These are reflected in the remuneration criteria

(overseen, in the case of partners' remuneration by the Profit Sharing sub-committee of the POB) and in firm wide processes and systems.

The RAC has seen an improvement in the areas of completion of performance review forms in respect of people, CPD compliance returns and Annual Declarations. The RAC is pleased to note also that management has implemented a policy of zero tolerance in these areas, with implications for partner remuneration where appropriate compliance levels are not reached.

Conclusion

Based upon the oversight activities set out above, the wide ranging inputs and direct access to management, our internal audit function, and those involved with key risk areas in the firm, the RAC is pleased to report that, in its view, the firm's risk management, quality control and internal audit functions are appropriate and working as expected.

Tim Lincoln

Chairman on behalf of the Committee

Appendix 5: Quality and Internal Control

Our reputation is built on the quality of every interaction with the firm. Quality and excellence drive our commitment to compliance with regulation and legislation – and enable sustainable growth of our business.

Firm Leadership and tone at the top

Ultimately, quality and standards are driven by the ‘tone at the top’ and our ability to attract and retain talent who take a personal responsibility to deliver work of a high standard. We know that it is key that we understand our clients, their needs and their business, and that we develop deep relationships where there is respect and confidence for robust challenge. We also must be mindful of the risk of any actions that could impair our objectivity or independence and to the effective management of any risks arising.

Quality is also about the environment we create for our people. We want our people to be challenged and inspired, encouraged to build their skills and to question the status quo, and to seize opportunities to make a difference. That is why we foster an environment where quality is valued and rewarded.

Engagement Team – Knowledge, Experience and Workload

In the year to 30 June 2015 238,000 hours of training were completed by our people involved in the Audit & Assurance business as against 1,528,000 hours invested in the delivery of audit and assurance services. This investment in their development sits alongside processes and infrastructure that drive efficiency and quality and clear direction and support to them in the pursuit of excellence. The policies and procedures which drive our internal quality control systems are embedded

in every part of our business and are communicated widely. Consultation is a key part of audit control and to ensure appreciation and understanding of our quality control systems we undertake regular ‘PULSE’ surveys and monitor feedback.

Managing and resourcing an audit and assurance business can be challenging throughout the year. Many clients require these services at the same time and our engagement teams have to excel in

periods of heavy workloads during December and August reporting cycles. Ensuring an adequate work-life balance during these periods can be challenging on an individual level and we mitigate this through support available from firm-wide specialists. Each member of the team has a people manager assigned to them to support them in their personal development, including any wellbeing issues.

Monitoring

We monitor our performance in terms of audit quality via both internal and external means. Internally, quality monitoring is an embedded part of our firm’s continuous improvement programme and latest results have shown an improving trend although further improvements are required to satisfy our targets for audit quality. Our internal assessments have been aligned with those that are carried out externally to facilitate our own

monitoring and we have also introduced quarterly reviews to provide more responsive monitoring, feedback and lesson learning.

External monitoring of our audits delivered is regularly conducted by the Audit Quality Review team of the FRC, the Quality Assurance Department of the ICAEW and the PCAOB. Findings from all of these monitoring reviews are on an

improving trend and we are committed to working with the regulators to address issues, formulate plans and take action where appropriate.

Auditor reporting and Investor liaison

We engage regularly with institutional shareholders both in our own right, and through our membership of the Policy & Reputation Group of the six largest audit firms, in order to better understand their expectations of our work and role in the business community. The INEs also liaise direct with shareholder representatives.

Audit Quality indicators

As noted earlier we are working with a set of both lead and lag indicators which allow us to measure our progress and also inform day to day management decisions in our Audit & Assurance practice.

Leadership responsibilities for quality

The National Leadership Board (NLB) has ultimate responsibility for the delivery of quality services across the whole business, the management of risk and the development of appropriate internal control systems. Paul Etherington is responsible for

Quality & Professional Affairs, and has specific responsibility for ensuring our strategic development is driven and underpinned by strong and effective quality and risk management strategies.

Throughout the past year Paul was supported by Roy Welsby, as the leader of the national QPS team, and the then three service line leaders for Audit, Tax and Advisory; respectively Mark Cardiff, Jonathan Riley and Mark Byers.

National Quality & Professional Standards (QPS) team

The national QPS team incorporates the BRQA, anti-money laundering, ethics and investment business compliance teams. The role of each team is to develop policies and procedures to ensure that the firm complies with relevant regulatory, professional and legal requirements, and to create an environment where our people understand those policies and their individual responsibility for compliance and quality.

Business Risk & Quality Assurance (BRQA)

The BRQA team is responsible for:

- driving the annual risk review across all business areas
- developing the firm's quality management standards to be used across the business
- providing assurances to the NLB through its internal audit function that the quality management standards are in place and risks are managed.

The head of BRQA has direct access to the NLB and meets regularly with Paul Etherington to consider the firm's quality and internal control environment. The head of BRQA also reports directly to the RAC.

Service leaders

The leader of each service area (and business support function) has responsibility for quality and risk management matters within their service area and specifically for developing policies and procedures which comply with the firm's quality and risk management framework and the requirements of the wider QPS team. Each client service offered falls under one of the three service areas, and has a dedicated quality and risk management team to support the client service teams in the delivery of quality services for clients.

Individual responsibilities

The ultimate responsibility for delivering quality lies with each client engagement team, specifically the engagement leader. Our culture, values and collaborative approach mean that each person recognises their individual responsibility to understand the firm's key policies and procedures, and take personal responsibility for delivering quality at all times.

Quality management standards (QMS)

The firm's QMS set out the minimum standards which must be met by each part of the business to drive quality, manage risks and meet legislative and regulatory requirements. They reflect the standards set by our regulators, including the Institute of Chartered Accountants in England and Wales (ICAEW), and the Auditing Practices Board (APB), and comply with the International Standard on Quality Control (ISQC1). The QMS apply to all areas of the business and cover the following; leadership, risk management, client acceptance and continuance, engagement performance, assignment quality control, skills and competence, quality assurance and monitoring.

Internal audit

The on-going monitoring of our quality control systems is an integral part of the firm's quality and risk management framework. The BRQA team carries out an internal audit of each area of the business over a three-year cycle, and reports to the NLB on the assurance gained that business areas are complying with the QMS and implementing key internal controls. This includes reporting performance against key performance indicators reflecting the firm's internal controls such as: completed performance reviews; personal development plans; essential training; engagement take-on procedures; and client satisfaction reviews.

Statement on the firm's internal quality control systems

The Audit Firm Governance Code requires the firm to review the effectiveness of its systems of internal control, covering all material financial, operational and compliance controls and risk management systems, on at least an annual basis. The executive team has ultimate responsibility for the firm's quality management systems and the establishment of appropriate internal control systems across the firm.

The executive team has carried out a review of the effectiveness of the internal quality control systems during the year in line with the requirements of the Internal Control: Revised Guidance for Directors on the

Combined Code (formerly known as the Turnbull Guidance) and reported its considerations to the RAC. It has taken into account:

- any known shortcomings in systems and controls
- the findings from regulatory inspections and the internal equivalents
- reports from the firm's external auditors
- reports from GTIL on the firm's quality control systems
- the findings of the firm's internal audit function on the operation of quality management systems and the management of risk across the firm.

The internal quality control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, or in the case of financial controls, the risk of material misstatement of our financial statements. Accordingly, they provide only reasonable and not absolute assurance against such failure or material misstatement.

The review by the executive team has not identified any failings or weaknesses that it considers to be significant, and therefore no further action is necessary.

On the basis of the review, the NLB and successor leadership team is satisfied that the firm's internal quality control systems are operating effectively. In addition, the Leadership Team confirms that an internal review of our internal independence processes has been carried out in the year.

Appendix 6: Financials

The following information has been extracted from Grant Thornton's annual audited financial statements and financial records for the years to 30 June 2015 and 2014.

Turnover by service line

	2015		2014	
	£ million	%	£ million	%
External Audit	141.9	27	135.2	26
Taxation and Financial Planning	96.4	19	91.3	18
Advisory				
Corporate Finance	50.8	10	35.8	7
Forensic and Investigation Services	16.6	3	13.8	3
Recovery and Reorganisation	89.0	17	116.8	23
Other (including Business Risk, Financial Services Advisory, and Government & Infrastructure Services Advisory)	125.9	24	119.4	23
Total	520.6	100	512.3	100

Relative importance of statutory audit work

An analysis of turnover for the years ended 30 June 2015 and 2014 showing the relative importance of statutory audit work and the levels of non-audit services provided to audit and non-audit clients is as follows:

	2015		2014	
	£ million	%	£ million	%
Statutory audit	131.4	25	125.1	24
Non-audit work to audit clients	48.3	9	48.5	10
<i>Sub-total audit clients</i>	179.7	34	173.6	34
Non-audit work to non-audit clients	340.9	66	338.7	66
Total	520.6	100	512.3	100

Voluntary Code of Practice on Disclosure of Audit Profitability

The Consultative Committee of Accountancy Bodies issued the Voluntary Code of Practice on Disclosure of Audit Profitability in March 2009. This sets out the recommended disclosures in respect of the profitability of statutory audits and directly related services (the reportable segment). The turnover and operating profit of the firm's statutory audit reportable segment calculated in accordance with the Voluntary Code are:

	2015	2014
	£ million	£ million
Turnover	131.4	125.1
Operating profit	12.9	12.9

Audit services for this purpose includes any audit required by UK statute and required to be carried out in accordance with the International Standards on Auditing (UK and Ireland) along with other work that 'fits naturally' with the auditor's statutory responsibilities. Operating profit has been calculated after charging direct costs (eg employment costs) on an actual basis and allocating other overheads (eg property costs, IT costs) pro rata based on headcount or fees/turnover attributable to the reportable segment. Members' remuneration has not been charged in arriving at the operating profit, which is consistent with its treatment in our statutory financial statements.

Appendix 7: List of Public Interest Entities

Public Interest Entities 30 June 2015

This list has been prepared in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 ('the Instrument'), made by the Professional Oversight Board of the Financial Reporting Council on 3 April 2008.

The Instrument defines a public interest entity as an issuer whose transferable securities are admitted to trading on a regulated market; and the audit of which is a statutory audit within the meaning of section 1210 of the Companies Act 2006. To this end, each of three conditions must be met:

- 1 the entity is incorporated/established in the United Kingdom
- 2 Grant Thornton UK LLP signed a statutory audit report (within the meaning of section 1210 of the Companies Act 2006) on the entity's annual accounts during the year ended 30 June 2015
- 3 on the date that the audit report was signed, the entity had transferable securities (equity or debt) in issue admitted to trading on one or more regulated markets

The fifty-seven companies meeting all of the above conditions are as follows:

- | | | |
|---|---|--|
| 1 Aberdeen Japan Investment Trust Plc | 14 Edge Performance VCT Plc | 29 Ingenious Entertainment VCT 2 Plc |
| 2 Acorn Minerals Plc | 15 Establishment Investment Trust Plc (The) | 30 Inland ZDP Plc |
| 3 Allianz Technology Trust Plc | 16 Fidelity Asian Values Plc | 31 Interserve Plc |
| 4 Associated British Engineering Plc | 17 Fidelity China Special Situations Plc | 32 Invesco Asia Trust Plc |
| 5 Aurora Investment Trust Plc | 18 Fidelity European Values Plc | 33 Invesco Income Growth Trust Plc |
| 6 Avocet Mining Plc | 19 Fidelity Japanese Values Plc | 34 Invesco Perpetual UK Smaller Companies Investment Trust Plc |
| 7 Bankers Investment Trust Plc (The) | 20 Fidelity Special Values Plc | 35 Investec Structured Products Calculus VCT Plc |
| 8 British & American Investment Trust Plc | 21 Fuller, Smith & Turner Plc | 36 JP Morgan US Smaller Companies Trust Plc |
| 9 British Smaller Companies VCT 2 Plc | 22 Hansa Trust Plc | 37 JPMorgan Japan Smaller Companies Trust Plc |
| 10 Caffyns Plc | 23 Helical Bar Plc | 38 Lindsell Train Investment Trust Plc (The) |
| 11 Candover Investments Plc | 24 Henderson High Income Trust Plc | 39 Mears Group Plc |
| 12 DRS Data & Research Services Plc | 25 Henderson International Income Trust Plc | 40 Miton Worldwide Growth Investment Trust Plc |
| 13 East Finance Plc/East Thames Housing Group | 26 Henderson Value Trust Plc | |
| | 27 Highcroft Investment Trust Plc | |
| | 28 Ingenious Entertainment VCT 1 Plc | |

- 41 Neptune-Calculus Income and Growth VCT Plc
- 42 Octopus Apollo VCT Plc
- 43 Pantheon International Participations Plc
- 44 Peabody Capital Plc/Peabody Housing Trust
- 45 ProVen Planned Exit VCT Plc
- 46 Record Plc
- 47 Simons & Co Limited
- 48 Sports Direct International Plc
- 49 Standard Life Equity Income Trust Plc
- 50 Swan Housing Capital Plc/Swan Housing Association
- 51 Together Housing Finance Plc/Together Housing Group

- 52 TP10 VCT Plc
- 53 TP5 VCT Plc
- 54 TP70 2010 VCT Plc
- 55 Triple Point Income VCT Plc
- 56 Triple Point VCT 2011 Plc
- 57 Value and Income Trust Plc

It should be noted that Grant Thornton UK LLP has one on-going audit client who was not included purely due to the fact that the accounts were not signed within the financial year (part of condition 2 above), namely Pembroke VCT Plc.

Other entities with transferable securities

In addition, a list of our audit clients with transferable securities which were traded on AIM or ISDX and other non-regulated markets in respect of which an audit report was signed on behalf of Grant Thornton UK LLP in the year ended 30 June 2015, can be found here.

1 1st Credit (Funding) Limited	31 Conviviality Retail Plc	62 iomart Group Plc
2 Accumuli Plc	32 CPBM Finance Limited	63 IPPlus Plc
3 Adnams Plc	33 Croma Group Plc	64 IPSA Group Plc
4 ADVFN Plc	34 CVS Group Plc	65 IXICO Plc
5 Allergy Therapeutics Plc	35 DDD Group Plc	66 Jaywing Plc
6 Alliance Pharma Plc	36 Dillistone Group Plc	67 Journey Group Plc
7 Allocate Software Plc	37 DODS Group Plc	68 Judges Scientific Plc
8 Amerisur Resources Plc	38 Ediston Property Investment Company Plc	69 Kea Petroleum Plc
9 Amino Technologies Plc	39 Eleco Plc	70 Kee Safety Group Limited
10 AorTech International Plc	40 Enteq Upstream Plc	71 LiDCO Group Plc
11 Augean Plc	41 Eurasia Mining Plc	72 Lombard Risk Management Plc
12 Avingtrans Plc	42 Flowtech Fluidpower Plc	73 LPA Group Plc
13 Away Resorts Limited	43 Formation Group Plc	74 Marston Topco Limited
14 Bango Plc	44 Frontier Developments Plc	75 Marvel Newco Limited
15 Bank Saderat Plc	45 Gama Aviation Plc	76 Medica Reporting Services Limited
16 Bank Sepah International Plc	46 Gamma Communications Plc	77 Melli Bank Plc
17 Belvoir Lettings Plc	47 Getech Group Plc	78 Mobile Streams Plc
18 Bglobal Plc	48 Globo Plc	79 Mobile Tornado Group Plc
19 Billington Holdings Plc	49 Gol Investment Limited	80 MoPowered Group Plc
20 Biome Technologies Plc	50 Green Compliance Plc	81 MRB Residential Limited
21 Bluerock Diamonds	51 Handbag Acquisitions Limited	82 MXC Capital Plc
22 Brady Plc	52 Holders Technology Plc	83 Netcall Plc
23 BrainJuicer Group Plc	53 Horizon 2918 Limited	84 Northamber Plc
24 Braveheart Investment Group Plc	54 Hydrodec Group Plc	85 On-Line Plc
25 Cambridge Cognition Holdings Plc	55 Hydrogen Group Plc	86 Outsourcery Plc
26 Caretech Holdings Plc	56 IBEX Global Solutions Plc	87 Oxford Pharmascience Group Plc
27 Chamberlin Plc	57 Iceland Bondco Plc	88 Papua Mining Plc
28 Clinical Computing Plc	58 IDOX Plc	89 Patagonia Gold Plc
29 Clipstone Logistic REIT Plc	59 Immedia Group Plc	90 Patisserie Holdings Plc
30 Concurrent Technologies Plc	60 Inland Homes Plc	91 Peabody Capital Plc
	61 Inspired Energy Plc	92 Peel Hotels Plc
		93 Penna Consulting Plc

94 Premier Hytemp Topco Limited	122 Ten Alps Plc
95 Pressure Technologies Plc	123 Tiziana Life Sciences Plc
96 Proglity Plc	124 Tricorn Group Plc
97 Progressive Digital Media Group Plc	125 Tri-Star Resources Plc
98 Proxima Plc	126 Tristel Plc
99 Publishing Technology Plc	127 Tronox Sands Investment Funding Limited
100 Quartix Holdings Plc	128 Ubisense Group Plc
101 Real Estate Investors Plc	129 ULS Technology Plc
102 Red Leopard Holdings Plc	130 University of Greenwich
103 Red Rock Resources Plc	131 UPP Bond 1 Issuer Plc
104 Rex Bionics Plc	132 Vela Technologies Plc
105 Rightster Group Plc	133 Venture Life Plc
106 Rotala Plc	134 Vianet Group Plc
107 Roxi Petroleum Plc	135 Volvere Plc
108 S4B (Holdings) Limited	136 Weatherly International Plc
109 Safeland Plc	137 World Trade Systems Plc
110 Safestay Plc	138 ZincOx Resources Plc
111 Sagentia Group Plc	139 Zoo Digital Plc
112 Sahara Grovenor House Hospitality Limited	
113 Sanderson Group Plc	
114 Scientific Digital Imaging Plc	
115 Sirius Petroleum Plc	
116 Sphere Medical Plc	
117 Staffline Group Plc	
118 Starvest Plc	
119 Swallowfield Plc	
120 Symphony Environmental Technologies Plc	
121 Tandem Group Plc	

It should be noted that Grant Thornton UK LLP have six on-going audit clients who were not included purely due to the fact that the accounts were not signed within the financial year (part of condition 2 above), namely Dale Erskine Power Solutions Limited, Hunter Bay Minerals Plc, Imaginatik Plc, Mar City Plc, Mining Investment Resources Plc, Willoughby (873) Limited.

Appendix 8: Partnership Oversight Board members (1 July 2014 to 30 June 2015)

Steve Maslin (Chairman)

Steve is a senior Audit partner. He served as Head of Assurance Services for seven years until June 2006 having previously supervised client services as managing partner of two London satellite offices between 1992 and 1999. He represents Grant Thornton International Limited on the Global Public Policy Committee, which acts as the interface between the six largest international audit networks and government, regulators and other stakeholders on public interest matters that affect the profession, and was elected by the global CEOs to chair the group from 1 July 2012.

Paul Flatley

Paul is Head of Financial Services Assurance. A specialist audit partner with over 20 years' experience, he has worked with high growth businesses across the financial services industry, including clients listed on AIM and on the London Stock Exchange. He is a member of the Partner and Director Selection Panel and currently the firm's representative on the CBI Companies Committee.

Tim Lincoln

Tim has been an audit partner for 11 years and is based in our Bristol office. He has previously worked in Belfast, London, Thames Valley and Leeds offices as well as having been seconded to the French GTIL member firm in Paris. He is currently the chairman of the firm's Risk & Audit Committee.

Simon Lowe

Simon has been an audit partner for 23 years, working with large private and publically listed companies both in an external and internal audit capacity. He founded and, until 2011, led the Business Risk Service practice specialising in risk, control and internal audit. He is a governance specialist, the author of Grant Thornton's FTSE 350 Corporate Governance Review, and was a member of the FRC's steering group responsible for the Code guidance for Effective Boards. He is a member of the London CBI Council.

Mo Merali

Mo is a transaction advisory partner and is Head of Private Equity. He has significant experience of leading private equity transactions, IPOs and complex cross-border transactions. Mo focuses on buy-side and fund-raising transactions for private equity houses, banks and corporates, and has advised in a wide range of industries, including media, healthcare technology and financial services.

Nick Wood

Nick has specialised in insolvency for over 20 years. He has experience in investigating fraud and tracing and recovering misappropriated assets from a number of jurisdictions. He acts for various government departments and financial institutions. He is chairman of the Investigation Committee at the Insolvency Practitioners Association.

Steve Mills

(since 1 July 2014)

Steve has been a partner for 13 years and is the Practice Leader for the firm's Southampton office. He has extensive experience in working with a varied portfolio of dynamic businesses, leading the delivery of a range of advisory services and solutions that build on the particular culture, values and ethos of the business to help it deliver stakeholders' goals and ambitions.

Tracey James

(since 16 September 2014)

Tracey is a listed company audit specialist acting across a number of industry sectors including biotechnology, information technology, property and construction and renewable energy. Tracey is also the lead partner on a number of the firm's fast growing and aspirational clients and, prior to her appointment as an audit partner, worked as a Finance Director for a medical supplies company.

Richard Eyre

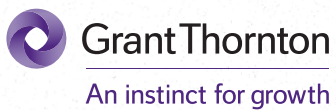
Richard has extensive experience in media and advertising having been chief executive at Pearson Television, ITV and Capital Radio. He is currently chairman of the Internet Advertising Bureau, Rapid Mobile and Next 15 plc, an AIM listed group of communications agencies.

Caroline Goodall

Caroline is a corporate lawyer, who has held a number of senior executive and oversight positions at the international law firm Herbert Smith Freehills LLP. She is currently a non-executive director of FTSE 100 retailer Next plc and of FTSE 250 listed private equity investor, SVG Capital plc, as well as a trustee of the National Trust.

Ed Warner

Ed is an investment banker, who has a wealth of experience from his years as CEO at the IFX group and of Old Mutual Financial Services (UK). He is the chairman of UK Athletics and of derivatives exchange LMAX, and is a non-executive director and chairman at institutional stock broker and investment bank Panmure Gordon and non-executive director at global shipping company Clarkson.



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