

Transparency report 2017

Shaping a culture of quality

October 2017



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Part 1:

Introduction

1.1 Foreword: our purpose and our priorities



Sacha Romanovich
CEO, Grant Thornton UK LLP

This has been a year of progress for Grant Thornton. In 2016/17 we accelerated our strategy to transform our firm into a purpose-led business at the heart of shaping a vibrant economy. It drives who we work with, what we do for them, what we speak out on and how we act as a business.

Foreword

Trust and integrity in markets is a key pillar of a vibrant economy and also forms a critical part of how we act as a business. This report is an opportunity for us to share the work we do to ensure we act with trust and integrity in all we do, demonstrating our commitment to quality and the Audit Firm Governance Code. It is a chance for us to communicate to our regulators, our clients and other stakeholders what we are doing to put quality at the heart of all we do.

It is also an opportunity for us to be straightforward about the areas which need further focus and improvement. We were disappointed by the outcome of the Audit Quality Review earlier this year. It did not live up to the standards we set ourselves and highlighted that we still have work to do. We take these findings seriously and I feel confident that we are taking the necessary steps to address the recommendations from the review.

In this section I would like to set out how our purpose and our strategic priorities for the coming year are designed to help shape a culture of quality and sustainable growth in our firm.

Our purpose

Against the backdrop of market volatility, complexity and uncertainty, we have turned our business inside out in order to align everything we do to our purpose. It is foundational to all we do. The three areas in which we believe we can make the most impact and deliver our purpose are:

- building trust and integrity in the market
- unlocking sustainable growth in dynamic organisations
- creating an environment where businesses and people flourish.

Our purpose of shaping a vibrant economy acts as a call to action, challenging us each day – be that when we look outside at the external world to consider the wider context of our work, or internally to ensure that we are making progress on delivering high quality audits, measuring our quality and managing our risks.

A key aspect of this has been the reshaping of our client portfolio. We recognise that in order to shape a vibrant economy it is important that we ourselves act accordingly. Over the past two years we have replaced 20% of our profits through selective exiting of certain streams of business and investment in others which are more consistent with our purpose.

We are also transforming our client take-on process to focus on the characteristics, behaviours and values of potential clients and how they relate to our purpose-led strategy and the values which we hold as an organisation. This process seeks to assess whether a potential client has demonstrated a commitment to pursue its business activities in a responsible and capable manner that avoids unnecessarily causing harm to stakeholders. We know we add the most value working with clients who need help in this area. We want to work with a client base that will reinforce our purpose, helping to create real sustainable value for the firm and the economy.

Statutory audit remains central to our purpose. It plays a crucial part in supporting trust and integrity in markets in an environment where the public's trust has fallen. The statutory audit market continues to be challenging and the domination of larger audit firms continues to restrict broader participation and greater competition and reduces choice. Our approach to this has been to focus on our brand, our purpose and our propositions, building relationships with businesses and establishing our audit credibility through the quality of our other work and our continued focus on audit quality.

As a firm we advise over 51% of the FTSE 100, are the leading auditor to the public sector and our private sector clients employ more than 6.3 million people in the UK. We believe that we can use our reach and influence to convene people from different sectors to deliver meaningful change. Throughout this year we set out an ambitious programme of work designed to use this convening power to identify connections, insights and actions to drive value for our clients, our communities and our business. This has been the cornerstone of our stakeholder engagement programme.

Our 2017/18 priorities

2016/17 has been a year of progress and over the coming year we will continue to build upon these foundations. Our key focus areas will be:

- delivering **sustainable growth** in line with our purpose
- making **quality second nature**
- consistently living our shared enterprise **culture**.

Growth: Aligning our business growth to our purpose

Our vibrant economy programme has provided a fantastic opportunity to engage broadly with all our stakeholders, and this has informed how we continue to shape and transform our business.

Our future success and growth depends on us continually looking from the 'outside in' – listening, influencing and challenging the system. By doing this we will continue to develop insights, connections and propositions which help clients to grow and adapt in an economy that is thriving.

We know that we are at our best when our clients value our work and engage in broad relationships with us. We also know that some clients are more challenging and need more support than others. Moving forward we will continue to evaluate who we work with, exiting certain streams of business and investing in others consistent with our purpose. We will continue to decline work where we do not feel we are able to deliver quality work in line with our purpose.

We have introduced additional review processes to assess how well we are living this, which includes a quarterly review by our independent non-executives of our significant client take-on assessments.

We fully recognise that this approach may result in slower growth for our firm in the short term. However, we see evidence that our purpose-led approach is increasingly standing out in the market. Awareness and familiarity have seen significant increases year-on-year. As we continue to reshape our client base we believe this positions us well for future sustainable growth aligned to our purpose.

Quality: Making quality second nature

We serve over 20,000 clients each year across a wide range of services and know our reputation relies on the quality of the work we deliver. We have made good progress through the year, and there is still more to do.

This year we have put considerable work into the systems and controls we put in place to ensure we deliver quality work each and every time. As our firm has grown and the regulatory requirements have increased, it has been necessary for us to regularly review all of our processes and policies to make it easy for our people to deliver their best work at a high standard.

This has included launching a new Code of Conduct aligned to our purpose; introducing a centralised client take-on process to increase effectiveness and consistency; conducting a major review of our client continuance processes; restructuring our Quality, Ethics and Excellence team; and, finally, codifying who we will – and who we will not – work with in line with our purpose. We also continued our work to move the core administrative audit tasks to a central audit support team, allowing our client-facing audit teams to focus on areas of risk and judgement. We see this as an important driver of audit quality.

Later in 2017 our significant investment in our audit platform and methodology (LEAP) will be launched. Developed with Microsoft, LEAP will represent a step change in ensuring our audit process is future fit, making it easier for our people to focus on the areas of most risk and deliver great quality.

We see delivering quality as second nature and a shared responsibility of everyone in the firm. This is enabled by ensuring:

- **clarity of expectations** – every person knows exactly what their role in driving quality is in what they do and how they do it
- **competence** – every person has the right capabilities to perform their role with access to relevant information and appropriate support and development to make good judgements with context
- **commitment** – where every person in the firm makes clear commitments to the firm and each other to deliver quality in all they do
- **consequences** – every person is clear what will happen if they fall short of our standards.

Culture: Consistently living our shared enterprise culture

Quality is more than just systems. Quality is also about the environment and culture we create for our people. Quality must be second nature to all of our people. It starts at the top and is a golden thread that connects all parts of our firm.

We have set out five core beliefs that are the foundation of our shared enterprise culture that when lived allow us to consistently uphold the highest levels of trust and integrity. We believe:

- profit with a purpose leads to sustainable business
- we create sustainable value for our clients
- we are better together
- we never compromise on quality
- our CLEAR values (Collaboration, Leadership, Excellence, Agility, Respect and Responsibility) are central to this and underpin everything we do.

To ensure our core beliefs are fully embedded in our firm, supported and enabled by our systems and processes, we are undertaking a culture programme during 2017/18.

Our priority is to build on the work already in place and the investments and improvements made, ensuring that we continue to develop and promote a culture where quality is consistently delivered, valued and rewarded.

Our commitment to quality is unwavering. Our profession is critical to building trust and integrity in markets. By continuing to embed our purpose-led strategy at the heart of shaping a vibrant economy, we intend to play our part in that.

For more information on Grant Thornton's purpose please visit our website www.grantthornton.co.uk.

1.2 Report from the independent non-executives



Ed Warner

Independent Non-Executive
Chair, Grant Thornton
Partnership Oversight Board

Deena Mattar, Imogen Joss and I are the independent non-executive (INE) members of Grant Thornton's Partnership Oversight Board. The Partnership Oversight Board is the firm's ultimate strategic and governance oversight body. I have held the role of Independent Non-Executive Chair since April 2016 and Deena was appointed in May 2016. We welcome Imogen Joss who was appointed as our new INE earlier this year following the retirement of Caroline Goodall.

Our primary responsibility is to support and constructively challenge the firm's leadership teams in relation to matters which have a wider public interest dimension, in line with the overall objectives of the revised Audit Firm Governance Code (Code). Our activities are primarily focused on ensuring audit quality, securing and promoting the firm's reputation, and identifying, managing and monitoring the risks the firm faces.

We discharge our responsibilities through active involvement in the firm's principal governance bodies, regular communications and briefings with the firm's principal regulators and the partners responsible for key public interest activities (namely, the Head of Audit and Assurance and the Head of Quality, Ethics and Excellence).

More generally, we seek opportunities formally and informally to meet with partners and employees across the firm. In doing so we aim to develop a deeper understanding of the firm, its culture and its values.

Our governance involvement includes membership of the Partnership Oversight Board which meets eight times a year. The Partnership Oversight Board also includes eight members elected from within the firm, and members of the firm's Strategic Leadership Team are routinely invited to meetings. Over the course of each year the Partnership Oversight Board receives, scrutinises and constructively challenges the Strategic Leadership Team's strategic plans and supporting budgets.

We have also met with the Financial Reporting Council (FRC) in various forums over the past year, both alone and as part of larger groups of INEs drawn from across the major audit firms in the UK. We are enthusiastic contributors to the thematic work that the FRC is undertaking, believing that a well-supported regulator is vital to the health and integrity of the audit market.

Audit quality

The primary focus and attention as INEs is on the importance of audit quality to the firm and the wider public interest. We do this in a number of ways:

- **Meetings with key partners:** we meet at least quarterly with the Head of Audit and Assurance and the Head of Quality, Ethics and Excellence. These meetings, without other management present, are frank, open and intended to ensure we receive direct feedback on quality, reputational and regulatory matters
- **Reviewing results of internal and external audit inspections:** this year we paid particular attention to the findings from the FRC's Audit Quality Review (AQR) on the firm's public entity audits. We were disappointed that this found a reversal of the improvements evident in the prior year. As INEs, we have received direct feedback on audit reports from the FRC itself and have acted upon this. We have had detailed discussions with the relevant people within the firm to be sure that all issues have been identified and are being addressed appropriately

Reputation and risk

As INEs, a key focus has been on reviewing the reports from the Risk and Audit Committee. These reports are comprehensive and detailed and provide information of the Risk and Audit Committee's activities and considerations in relation to the delivery and management of quality work, the comprehensive assessment of risks and how they are managed and monitored.

This ensures that both key risks to the business and matters pertaining to quality and reputation are brought to the attention of the INEs and the Partnership Oversight Board as a whole for rigorous debate. Deena Mattar, who took over as chair of the Risk and Audit Committee from Tim Lincoln on 30 June 2017, has reported on their activities in section 1.3.

In addition, the INEs will this year be forming a Public Interest Committee to oversee the public interest aspects of the decision making of the firm including the management of reputational risks for the firm. The detailed terms of reference for this subcommittee will be available on the Grant Thornton's website shortly.

Partner remuneration

The Profit Sharing subcommittee, which I chair, provides oversight of the distribution of profits between partners, ensuring that it is a fair and equitable process. A key priority is to ensure that a partner's reward, whether in audit or in other service lines, reflects the quality grade awarded to them and in doing so recognises that the quality of a partner's work is critical to the integrity of the firm's reputation.

Looking forward

In the coming year our role is to continue driving the purpose of the Code through our activities in promoting and protecting the public interest and supporting the firm's longer-term sustainability. We aim to further develop our open and transparent relationships with the Strategic Leadership Team, the Head of Quality, Ethics and Excellence, and the Risk and Audit Committee, with a particular emphasis on re-enforcing an appropriate risk management culture and robust ethical standards.

We will continue to monitor the firm's efforts to strengthen its audit quality, including its ongoing response to the AQR recommendations, ensuring our processes and controls improve both audit quality and also the consistency in that audit quality.

Summary

We have reviewed the firm's priorities of delivering **sustainable growth** in line with its purpose, making **quality second nature** and consistently living a shared enterprise **culture** and are confident these will lead to further progress this year.

As a purpose-led business, the firm recognises the role of building trust and integrity as being key to shaping a vibrant economy. Through our various involvements and activities, we believe we have had full visibility and access to the firm's operations and strategy during the year. We are confident that the firm both understands and is whole heartedly committed to the objectives of the Code and to its role in promoting and protecting the public interest. We also feel confident that the firm has listened to and is responding to the results of the FRC's recommendations following this year's AQR.

1.3 Report from the chair of the Risk and Audit Committee



I am delighted to have been appointed as the first independent chair of the firm's Risk and Audit Committee.

Deena Mattar

Independent Non-Executive
Chair, Grant Thornton Risk
and Audit Committee

The principal role of the Risk and Audit Committee (also referred to as the Committee) is to ensure the firm's quality and risk management framework is in place and operating effectively, and to oversee the financial reporting and external audit process. One of my key priorities as chair is in reviewing the current activities of the Committee to ensure they fully meet and reflect the objectives and requirements of the revised Audit Firm Governance Code (the Code) with specific reference to the public interest, risk and audit quality.

The Risk and Audit Committee consists of a minimum of three elected Partnership Oversight Board members and one independent non-executive member, all appointed by the chair of the Partnership Oversight Board. Appendix C and D provide a summary of the Risk and Audit Committee members in place throughout the year and their meeting attendance. In addition, the CEO is also a member of the Risk and Audit Committee.

The Committee met six times in the year ended 30 June 2017. In addition to the appointed Risk and Audit Committee members, members of the firm's leadership bodies and those with specific responsibility for quality and risk activities and financial reporting are invited to attend and where appropriate to report on specific relevant issues. Going forward, in addition to the CEO, these will include members of the Strategic Leadership Team, the firm's General Counsel, our Head of Quality, Ethics and Excellence, the Head of Audit and Assurance services and the Head of Business Risk and Quality Assurance. The firm's external auditors also attend meetings where audit and financial reporting issues are considered.

As chair, I report to each Partnership Oversight Board meeting on the Risk and Audit Committee's activities and considerations in order to enable the Partnership Oversight Board to fully understand the firm's approach to quality and risk, and where necessary, challenge and debate issues that could impact on the firm's compliance with the Code.

The Risk and Audit Committee activities in the year focused on the firm's ongoing development and implementation of a robust quality and risk management framework and the robustness of the firm's financial reporting, with a particular focus on critical accounting estimates and judgements and increasingly on how leadership is creating an open and transparent culture aligned with the Code's purpose.

The firm's risk profile

The Strategic Leadership Team is responsible for the development and ongoing assessment of the firm's risk profile and for ensuring risks are being effectively managed and appropriate internal control systems are developed and implemented.

At each meeting the Strategic Leadership Team reports on its latest assessment of the risk profile, the mitigating activities in place and on any changes which have arisen in the nature, likelihood or impact of the risks faced. This provides the Risk and Audit Committee with the opportunity to discuss the firm's risk profile based on its knowledge of the firm and the market, and where appropriate, challenge assessments made and the robustness of mitigating activities.

The Risk and Audit Committee gives particular attention and importance to the management of risks which arise as a result of the services we offer and which could conflict with the firm's purpose of shaping a vibrant economy, and specifically, building trust and integrity in markets and which could have a detrimental effect on the public interest. This is particularly the case in the delivery of audit services and ethical behaviours. We are pleased to note that during the year significant investment has been made in strengthening the firm's Quality, Ethics and Excellence teams and processes, which is a clear demonstration of the firm's commitment in this area.

Business Risk and Quality Assurance

The Business Risk and Quality Assurance team supports the Strategic Leadership Team in driving the firm's business risk methodology across the business and also includes the internal audit function, which provides assurances to the Strategic Leadership Team and the Risk and Audit Committee that risks are being managed and the firm's quality and risk management framework is in place and operating.

The Risk and Audit Committee receives all completed internal audit reports and, where appropriate, requests specific internal audits or accelerates the timing of planned internal audits.

In addition, the Risk and Audit Committee reviews quarterly reports from the Business Risk and Quality Assurance team which enables the Risk and Audit Committee to:

- review and approve the firm's quality and risk management framework underpinned by the firm's quality standards which drive the business areas to achieve best practice in quality and risk management, and provide input to the firm's business risk management
- process which involves at least an annual systematic review of each business area's risks and controls and the consolidation of these risks into the firm's whole firm risk profile
- examine and approve the internal audit programme, review progress against the plan and discuss the findings from the internal audit reports, including adequacy of management's response to any major recommendations

- consider the effectiveness of the internal audit function and ensure it is sufficiently resourced
- review work undertaken in respect of areas which are critical to the management of risk: data protection and information security, business continuity, health and safety, the firm's Core Manual and Annual Declarations.

In addition to the quarterly reports, the Risk and Audit Committee reviews the annual Business Risk and Quality Assurance report which consolidates the Business Risk and Quality Assurance activities in the year, identifies emerging themes and priorities for action moving forward and sets out plans for the forthcoming year.

The Committee also met with the Head of Business Risk and Quality Assurance without the Strategic Leadership Team members present.

Audit quality

The Risk and Audit Committee pays attention to audit quality to ensure that the firm fulfils its public interest remit in accordance with the Audit Firm Governance Code. The Committee received feedback from meetings held with the FRC in respect of its findings from the AQR and also from our internal National Assurance Services Review and International audit file reviews. I met with the Head of Audit and Assurance to discuss the reports received and consider actions being taken to address the findings. On an ongoing basis, the Risk and Audit Committee will receive presentations from the Head of Audit and Assurance and continue to monitor progress against those actions.

More details on the output of reports from the AQR and Quality Assurance Department (QAD) of the ICAEW are set out in Appendix 2.3.

Financial reporting

The Risk and Audit Committee is responsible for monitoring the integrity of the financial statements. On an annual basis it reviews and challenges a report on the material judgements and estimates in the financial statements which is prepared by the Strategic Leadership Team and reviewed by the internal technical department for compliance with appropriate accounting standards.

The key areas of risk the Risk and Audit Committee paid particular attention to were:

- **revenue recognition:** in determining the amount of revenue to be recognised on incomplete contracts, it is necessary to estimate the stage of completion, the remaining time and cost to be incurred to complete them and the consideration that will be received
- **professional negligence claims provisions:** in making provisions for professional negligence claims, management makes reference to the number of claims notified as at the end of the financial year, an estimate of the likely outflow and the time value of money
- **defined benefit pension scheme valuation:** the firm takes advice from the scheme's actuaries when estimating the assumptions used to value the obligations under the schemes. Key assumptions include those in relation to the discount rate to be applied to the liabilities as well as those in relation to mortality.

Following consideration of the matters above and discussion with both the Strategic Leadership Team and the firm's external auditors, the Risk and Audit Committee was satisfied the key judgements and estimates were appropriately addressed in the financial statements.

Ethics, culture and whistleblowing

During the year the Risk and Audit Committee met regularly with the Head of Quality, Ethics and Excellence to discuss how management were promoting and implementing a culture where quality and ethics pervade all aspects of the firm's decisions and creating an environment of openness where people consult and trust each other to make the right choices.

One of the ways in which the firm achieves this is through an independent, externally hosted whistleblowing helpline. The Risk and Audit Committee reviews a report on any whistleblowing notifications in the year; one such notification was received this year, which was investigated.

A key area of the Committee's focus in the year has been to consider how the leadership teams embed culture, values and 'tone from the top' to ensure that quality and the firm's values are embedded in everything the firm does. Risk and Audit Committee members were part of the Partnership Oversight Board meeting with our senior business leaders during the year to discuss the firm's culture.

Review of effectiveness of internal controls

The Risk and Audit Committee activities provide the context for our review and conclusions on the Strategic Leadership Team's statement in section 2.5 on the effectiveness of the firm's system of internal controls. Our review comprises discussions with various leaders, consideration of the annual Business Risk and Quality Assurance team report and review of the external auditor's conclusions on internal controls. We review the Strategic Leadership Team's assessment of the firm's systems of internal control and continue to support the Strategic Leadership Team in its commitment to strengthen our internal control systems, particularly on the development of a strong culture towards quality and risk management and improved monitoring processes.

External audit

The firm's external auditors are Mazars who have retained their appointment since the year ended 30 June 2013.

The Risk and Audit Committee meets Mazars at least twice a year: once to review, discuss and agree on the external audit plan, and once again to review the external auditors' report following completion of the audit, with particular emphasis on audit findings relating to misstatements, areas of significant risk and design effectiveness of internal controls.

The Risk and Audit Committee has a private session with the external auditors without management present, and as chair I liaise with the external auditors as necessary at other times.

Our Committee is also responsible for reviewing the performance of the external audit process and has concluded that Mazars remained effective and appropriate to discharge their responsibilities.

Future priorities

The firm has set clear priorities for 2017/18 of delivering **sustainable growth** in line with its purpose, making **quality second nature** and consistently living a shared enterprise **culture**. The Risk and Audit Committee will continue to ensure that these priorities are in line with the revised Audit Firm Governance Code in particular in the areas of:

- **audit quality:** continue to review the firm's programme of response to the AQR findings and ensure our processes and controls reflect the improvements we aim to achieve
- **culture and ethics:** oversee the firm's actions in instilling an appropriate culture, particularly in relation to its quality, ethics and excellence agenda, and ensure it is supportive of the firm's public interest role.

Part 2:

Driving quality and building trust

2.1 Quality, ethics and excellence

Quality, ethics and excellence are central to bringing our purpose to life, particularly with regards to building trust and integrity in markets.

Our quality framework provides clarity around everybody's role in driving quality and managing risk in our shared responsibility environment. It is focused on a three lines of defence approach and is underpinned by our Quality Standards – a framework which guides our leaders and people in delivering quality.

The development and embedding of a strong, pervasive and sustainable culture of quality ethics and excellence across all areas of our business is a primary focus for our firm.

To do this we need to provide clarity to our people as to what is required of them and why making a clear commitment to each other to deliver on these expectations. Ensure all our people are competent to deliver their work to a high standard, both in terms of capability and being provided with appropriate context and information to make sound judgements. It is also important that we help our people to understand the consequences of falling short of our standards – and in doing so enable all our people to share the rewards of building our business and shaping a vibrant economy.

Over the coming year, as part of our wider cultural programme, we are embarking on a firm-wide quality, ethics and excellence education and awareness programme, building upon our existing framework and reinforcing how we ensure quality is second nature in all we do.

Our quality, ethics and excellence framework is centred around three key areas:

- 1 Driving quality:
our Quality Standards**
- 2 Behaving ethically:
our Code of Conduct**
- 3 Delivering excellence:
our four foundations of
distinctive client service**

1 Driving quality: our Quality Standards

The firm's Quality Standards provide clarity to our leaders and people on delivering quality. They set out the required standards which must be met by each part of the business to drive quality, manage risks and meet legislative and regulatory requirements. Each standard is supported by a set of baseline requirements that all business areas must meet.



2 Behaving ethically: our Code of Conduct

Our Code of Conduct sets out our ethical and behavioural framework for how we bring our CLEARR values to life to guide our people's response to the decisions they are required to make each day.

Our purpose:

At the heart of our firm is our purpose, shaping a vibrant economy. We impact society through who we work with, what we do for them, what we speak out on and how we act as a business. The three areas in which we believe we can make the most impact and deliver our purpose are building trust and integrity in markets, unlocking sustainable growth in dynamic organisations and creating environments where businesses and people flourish.

Working together:

We are committed to creating an environment where we treat each other with respect and trust each other to make the right choices. We encourage and embrace the value that different perspectives bring and appreciate everyone's contribution to shaping a vibrant economy and the firm's success.

Behaving with integrity:

We play a range of roles in supporting efficiency, trust and integrity in markets. Fundamental to this is preserving our reputation as people who can act without self-interest and for the diversity and quality of our services. We expect our people to be honest, trustworthy and straightforward, doing not simply what is lawful but also what is right.

Protecting our business:

Each of us share responsibility for protecting the firm's reputation, safeguarding our people, keeping our assets safe and delivering our shared rewards.

Working with clients and others:

Our firm is built around our clients, and our success depends on their success. We thrive on creating sustainable value for clients and delivering consistently great quality in this volatile, changing world. We develop networks that share skills, insight, ideas and resources unlocking their potential for growth through new, innovative and exciting solutions.

Getting support:

Our firm's unique and innovative culture of shared enterprise means each of us needs to be clear about, and deliver on, the commitments we make to one another. Our Code of Conduct sets out the guiding principles for expected behaviours, and we have a shared responsibility to challenge each other on the commitments we have made.

3 Delivering excellence: our four foundations of distinctive client service

Our four foundations of distinctive client service identify key areas where we can create sustainable value and exceed our clients’ expectations, principally around providing an agile and responsive service, discovering client priorities and working collaboratively with teams across the business to provide pragmatic solutions. These four foundations are now being integrated into our service proposition.

Foundation	We...
Agile and responsive service	Anticipate client’s needs and hold open and timely discussions around scope, costs and project outcomes
Collaborative teams	Build long-term relationships, tailor our teams and bring in the right experts
Discovering client priorities	Hold broad business conversations and organise strategy sessions with our clients to discover what is most important for creating sustainable value
Pragmatic solutions	Share our experience and our networks, provide targeted insights, bespoke benchmarking and best practice to offer solutions that deliver sustainable value

2.2 Delivering quality audits

The fundamental purpose of audit is to underpin trust in financial information – whether it is providing confidence in the capital markets, challenging our public sector or supporting the development of small and medium-sized businesses.

Trust and confidence in UK business is critical as we enter the post-Brexit world and all stakeholders have a role to play. We are proud that our firm's purpose is so clearly aligned to building the trust that is critical to shaping a vibrant economy.

The information that users seek to rely on is expanding beyond traditional financial information and it is important that the traditional audit evolves to meet these needs.

We continue to explore the development of wider assurance services and are working with organisations such as Future Fit and BCorps.

In November 2016 we joined the Future-Fit Development Council, which consists of a select group of companies collaborating in the development of the Future-Fit Business Benchmark. The Benchmark is an open-source tool to help businesses and other dynamic organisations transform how they develop sustainable growth plans, which create long-term value for themselves and society as a whole.

Our priorities in 2018 and beyond focus on the delivery of quality assurance services that are relevant in today's business environment.

We have also invested in our data analytics capabilities in order to improve both quality and the people and client experience across all our practice. Standard routines allow fast and insightful reviews of large data sets, especially in areas such as journal testing, and enable more effective targeting of audit effort. In addition, effective capture of data sets allows tailored investigation in key areas.

Our global audit methodology and audit tool, LEAP, represents an investment of over \$100 million by Grant Thornton International Limited and is in the final stages of development and testing, with implementation planned in 2017. Our user testing to date has been positive, and we are reaping the benefits of working with Microsoft in developing capabilities such as benchmarking that will meet the needs of the fast-changing environment.

The implementation of LEAP will ensure that delivery of high quality audits is easier, that we provide deeper audit insight for our clients and that we increase job satisfaction for our people.

We are committed to enhancing the quality of our audits and delivering assurance services to offer clients quality, value and choice. This is driven across three key dimensions:

- 1 Leadership and culture**
- 2 Investment in our people**
- 3 Assignment performance and quality control**

1 Leadership and culture

Delivering audit is fundamental to the firm's purpose and to protecting the public interest. Our leadership is fully committed to and passionate about creating a culture where quality is second nature.

i) Leadership and tone at the top

Tone at the top is critical in setting the appropriate environment for the day-to-day achievement of quality. Our CEO Sacha Romanovitch has taken personal responsibility for our firm-wide quality agenda and she is wholeheartedly supported by the firm's leadership and governance teams.

However, we are acutely aware that the day-to-day experience in the office brings our quality culture to life, and our network of Practice Leaders and Office Audit Leads work with the central quality, ethics and excellence teams to embed key messages and demonstrate the behaviours we expect of our people.

Equally, we are very clear that delivery of quality is the responsibility of every individual in the firm. We embrace this through our shared enterprise model which creates and promotes an environment where people recognise our shared responsibility for delivering to the quality standards we set ourselves.

ii) Culture

How we are and what we do is at the heart of our ability to deliver consistently high quality audits. We are focused on building and embedding our shared enterprise culture where quality is second nature, and we are currently embarking on a cultural journey to consistently deliver this. We recognise there are areas where we need to change or improve. In the coming year we will focus on driving understanding and creating awareness: providing greater clarity and direction to our people as to our expectations, what is in place to support them and the consequences of falling short of our standards.

iii) Organisation of the assurance practice

Our regulatory frameworks and the commercial context are constantly evolving, and we organise our assurance practice to ensure we respond and adapt quickly and consistently throughout the business.

The Head of Audit and Assurance has overall responsibility for the quality of the firm's audit and assurance practice and collaborates with the Head of Quality Ethics and Excellence to deliver a joined-up whole firm approach to quality.

iv) Office Audit Leads

Our network of Office Audit Leads work closely with the Head of Audit and Assurance, setting the assurance strategy and priorities. They meet monthly, chaired by the Head of Audit and Assurance, to consider a range of matters including internal and external quality monitoring, feedback from our root cause analysis and development and progress of actions in place to address any areas requiring improvement.

v) National Assurance Support team

The National Assurance Support team provide technical expertise to the assurance practice on audit and financial reporting matters and support people on our audit methodology. They also manage and implement the firm's audit quality monitoring and root cause analysis programmes. They collaborate with a number of strategy groups including practice representatives in order to drive their priorities and devise actions plans.

vi) Assurance Faculty Board

The Assurance Faculty Board connects the assurance practice to the firm's Business School. The Head of Audit and Assurance, key technical leads and representatives from the practice meet quarterly with members of the Business School to steer the investment in skills within audit and assurance and set the learning agenda and curriculum for all of our people.

vii) Cross-firm collaboration

Extensive collaboration between the assurance practice and the firm's other service lines is a feature of our day-to-day work. The Head of Audit and Assurance is a member of the Business School Management Board and also engages routinely with the firm's leadership teams and governance bodies. For example, she meets quarterly with the Business Unit Leads to align priorities, attends the firm's Risk and Audit Committee meetings and also meets regularly with the INEs to discuss audit quality matters.

2 Investment in our people

We are proud of our people proposition and of our shared enterprise culture which allows all of our people to contribute to, share responsibility for and share in the success of our firm.

Key to delivering quality audits and achieving the firm's vision and purpose is having people with the right skills and doing the right work at the right time. And we are committed to inclusion and social mobility, creating a truly diverse practice which underpins a vibrant economy.

i) Recruitment

Our innovative entry-level recruitment and on-boarding processes ensure we attract the highest calibre people to our firm. We have led the way in removing academic barriers to entry, both at A-level and degree level, in doing so opening up a new pool of talent and increasing opportunities for a more diverse range of people who have great skills to offer the firm and our clients. We have evidence that hiring for potential has delivered students who perform strongly in both their day-to-day work and also in their professional examinations.

Our rigorous selection processes, including competency-based interviews for trainee and experienced hires, ensure we only recruit the best talent who care about how their work supports our purpose and maintain the high quality pool of people in our audit and assurance community.

ii) Skills and competence

Our people develop professional, ethical and technical skills through a combination of structured learning and development programmes, the coaching they receive, and on-the-job learning.

The firm's Business School develops and delivers the learning programmes for the assurance practice based on input and guidance from the Assurance Faculty Board. The Assurance Faculty Board drives the development of technical training and have led on targeted skills training, such as project management, to underpin effective group audits.

Technical excellence, professional scepticism and audit quality are reinforced to everyone involved in audit from their initial orientation and throughout subsequent learning programmes. We support our people in their ethical and legal responsibilities through specific learning initiatives including ethics, personal independence, anti-money laundering and anti-bribery training.

All people in the assurance community follow structured learning pathways depending on their role and experience. Those studying for their professional exams (approximately two-thirds of our audit practice) undertake between six to eight weeks of classroom-based technical learning a year alongside their on-the-job learning.

All qualified professionals, including managers, directors and partners, are provided with training in audit, financial reporting and ethics appropriate to their role. This includes mandatory and elective central and local training, monthly live webinars, e-learning and weekly email updates.

Partners and others involved in the audit of specialist areas or sectors (eg the financial services or listed entities) can only do so following suitable accreditation (eg following completion of specific learning programmes).

iii) Global initiatives

The Head of Audit and Assurance chairs the Grant Thornton International Limited Assurance Learning and Methodology Steering Committee, and we are increasingly collaborating within the Grant Thornton International Limited global network to develop high quality training, both as part of our global investment in the design and development of new global audit and analytics technology and also in areas that are of broad global relevance.

As a result of this global initiative, we have delivered over 4,000 hours of high quality e-learning to our people in the year.

iv) Professional and career development

We want our people to be challenged and inspired, encouraged to build their skills and to seize opportunities to make a difference. We are committed to unlocking the potential for individual growth, and we work with our people to establish interesting and challenging career paths.

Our Business School is focused on developing our people to be well-rounded professionals in line with the firm's capability framework. All those working in assurance have access to a wide range of learning and development initiatives to build their technical capability, leadership skills and commercial acumen.

Additionally, everyone in the assurance practice has a People Manager to support them in developing the skills, confidence and connections they need to progress their career, building on their talents and growing their careers.

We have developed appropriate support and evaluation processes to make sure that individuals nominated for promotion are prepared for and can respond to the increased responsibility.

v) Performance evaluation

We promote an environment where high quality work is valued and rewarded. All our people undertake an annual goal and development setting process to agree priorities. Centrally cascaded audit quality and ethics goals ensure consistency in the articulation and evaluation of the firm's expectations in these areas. Annual and interim performance reviews provide valuable feedback and evaluation against these goals and feed into promotion and reward considerations.

Additionally, all individuals in audit are awarded an annual quality grading. The Head of Audit and Assurance assigns quality gradings for each Engagement Lead by reference to a number of criteria, primarily engagement performance as considered in internal and external quality monitoring, supported by other factors such as compliance with key processes and feedback from central teams. Quality gradings are taken into account in assessing overall performance and in considering promotion and reward.

The Head of Audit and Assurance and the Remuneration Committee of the Partnership Oversight Board oversee how audit quality gradings are reflected in audit partner remuneration, both positively and negatively.

3 Assignment performance and quality control

We recognise our reputation stands or falls on the quality and effectiveness of each audit assignment that we undertake. We support our people to deliver great quality work and adhere to the demanding quality standards we set ourselves by investing continuously in our underlying audit methodology, tools and resources to drive efficiency and enhance the effectiveness of our audit processes.

i) Client acceptance and continuance

Vital in protecting the firm and its reputation is ensuring we only take on and work with clients who demonstrate a commitment to pursue their business activities in a responsible and capable manner that avoids unnecessarily causing harm to stakeholders. Our centralised take-on team ensure for all new potential clients and any new assignments the firm's rigorous acceptance and continuance processes are adhered to and documented.

All new assignments require approval before the appointment is confirmed with a formal contract and before the assignment starts. This approval is by the appropriate lead partner and in certain cases by the Head of Audit and Assurance. In certain circumstances consultation with the Central Take-on Panel or Grant Thornton International Limited is required.

A key part of the client acceptance and continuance process is ensuring we have the right people involved in assignments. For certain audit assignments we specify levels of experience and completion of specific learning programmes to make sure that the individuals are competent to undertake those audits. For example, only accredited individuals can lead audits of listed entities or audits of clients in the financial services sector. In certain cases the audit lead must be appointed or approved for appointment by the Head of Audit and Assurance.

ii) Audit methodology and processes

Member firms of Grant Thornton International Limited use a common audit process and methodology, supplemented by their relevant local regulatory and legal requirements. This methodology is monitored globally to ensure a consistent audit approach and client experience internationally. Our audit approach is continuously developed and enhanced to ensure the methodology reflects and incorporates new standards,

practical experience and feedback from internal and external monitoring reviews.

Our Central Audit Support Team, based in Belfast, enhances the quality and consistency of our audits across the UK allowing client facing teams to focus on the more judgemental areas of the audit.

iii) Quality control systems

One of our fundamental quality standards is that all work is reviewed by suitably experienced individuals.

The Responsible Individual sets the tone for the exercise of professional scepticism throughout the audit and has overall responsibility for ensuring that, for each assignment, the relevant risks have been identified, appropriate audit work undertaken and correct reports issued.

Responsible Individuals on listed and certain other high risk audits are supported by an Engagement Quality Control Reviewer. For listed audits, the Engagement Quality Control Reviewer is appointed by the Head of Audit and Assurance, and in other cases the appointment is made by the Office Audit Lead or Industry Lead in consultation with the Head of Audit and Assurance. The Engagement Quality Control Reviewer is not part of the client-facing audit team and is therefore well placed to make independent and robust challenge of the audit team.

For all public interest entities, the Engagement Quality Control Reviewer is supported by our Quality and Support Team who complete an additional level of review of the audit planning and completion of the audit file. They support the exercise of professional scepticism and confirm adequate documentation of challenges in high risk or judgemental areas.

For our highest risk engagements, all financial statements and extended audit reports are subject to a pre-clearance review by our National Assurance Support team. All listed companies that are not in the highest risk category are subject to a rotational review and are, as a minimum, reviewed on a triennial basis.

Consultation is encouraged at all stages of the audit and firmly aligns to our values of collaboration and shared enterprise culture. The National Assurance Support team provides support on many accounting and audit areas, and any teams can call on experts throughout the firm as appropriate. In highly complex cases, or where there is a difference of opinion on a key matter, the National Audit Support Technical Partner

will convene a Precedents and Issues Panel, which includes the Responsible Individual, Engagement Quality Control Reviewer, Head of Audit and Assurance and two experienced, independent practitioners from a panel approved by the Head of Audit and Assurance.

Our audit systems support audit teams in ensuring all work is reviewed and tracks and reports on progress on all points raised.

We are always looking to improve, and as part of our commitment to continuous improvement, we consider feedback from internal and external quality monitoring, as well as our root cause analysis, to identify areas where we can enhance our systems of quality control.

iv) Audit reporting

We welcome the introduction of extended auditor reporting, now applicable to AIM quoted companies, which provides an opportunity for us to provide more insight and colour to our audit process. We continue to engage with our stakeholders, particularly investors, to gain feedback on how we can continue to evolve and improve our audit reports to maintain our relevance in the market.

We also appreciate that the reporting we provide to clients, including communication with audit committees and others charged with governance, is a crucial deliverable of the audit. We have undertaken work to improve the quality of such reporting, both in providing clearer linkages between the key risks, audit work and audit report, as well as building in data visualisations.

2.3 Measuring quality

In this section we explain how we measure the quality of our audits.

We understand that the only way we can continually improve is through rigorous monitoring, measurement and improvement plans. As a result, the firm benefits from a variety of internal and external monitoring reviews to assess the quality of our audits.

These reviews are important as they provide the opportunity to identify best practice, spot issues and shape our continuous improvement plans. We use root cause analysis (RCA) to help us better understand why deficiencies may have occurred and develop appropriate responses.

We measure the quality of our audits in four principal ways:

- 1 Internal monitoring**
- 2 External monitoring**
- 3 Audit quality metrics**
- 4 Audit Committee Chairs Survey**

1 Internal monitoring

We run a continuous cycle of internal audit quality reviews to ensure that the audits we deliver are of a consistently high quality and to shape our continuous improvement plans. These include:

i) National Audit Review process

Key features of our National Audit Review process are:

- each Engagement Lead is reviewed at least every three years
- Engagement Leads with files reviewed falling below expected standards are reviewed again within 12 months
- all new Engagement Leads are reviewed within a year of appointment
- engagements for review are selected with a bias towards more complex or higher risk assignments
- reviews are undertaken by experienced auditors, using standard methodology developed by GTIL and under the direction of the Audit Quality Monitoring Team to ensure integrity and consistency of the process
- the setting of file grades is moderated by the National Assurance Services Audit Quality Monitoring Team to ensure consistency between reviewers and with the approach of external reviewers
- operating procedures in each office location are reviewed on a three-yearly cycle
- the Office Audit/Assurance Leader develops and implements a targeted action plan to address the findings of the review
- on an annual basis the National Audit Review findings are summarised and reported to the Strategic Leadership Team
- themes arising from the National Audit Review are communicated to the assurance practice through training events, conferences and other technical update channels
- in the current year we have invested in a dedicated central resource to focus on reviewing audits which fall within the scope of the FRC's Audit Quality Review.

During the year 49 audits (2016: 61) were reviewed in our National Audit Review of which 44 (2016: 55) were graded either 'Good with limited improvements required' or 'Improvements required'. Five audits (2016: 6) required 'Significant improvement'.

The results of our National Audit Review are disclosed to the firm's external audit regulatory bodies, who scrutinise the review process and results during their review and ensure our processes are sufficiently robust. These results are discussed further in the audit quality metrics section below.

ii) Audit quality measures

In addition to the National Audit Review process, we perform regular focused audit quality reviews under the guidance of the National Assurance Support team. The measures are updated every year to incorporate areas of focus from internal and external monitoring. The review findings are communicated to the audit practice and directly to the individual teams so that any learning points can be addressed and taken into account in the annual quality grading process.

2 External monitoring

The firm is registered and authorised to undertake statutory audit work by the Institute of Chartered Accountants in England and Wales (ICAEW). External monitoring is undertaken by the ICAEW and other regulators and external bodies.

i) Financial Reporting Council (FRC) – Audit Quality Review (AQR)

The AQR team of the FRC undertakes an independent inspection of the quality of the firm's auditing function in relation to listed and other major public interest entities. It also reviews our audit quality policies and procedures.

The AQR's report on the findings of its 2016/17 inspection of the firm was published in June 2017 and is available on the [FRC's website](#).

The report focused on the key areas requiring action by the firm to safeguard and enhance audit quality. The findings cover matters arising from reviews of both individual audits and the firm's policies and procedures which support and promote audit quality.

We were disappointed by the outcome of this review. It did not meet the standards we set ourselves. We take these findings seriously and are taking the necessary steps to address the recommendations from the review. Specific metrics on the results of AQR reviews on the firm and our response are included below.

ii) Financial Reporting Council (FRC) – thematic reviews

The FRC also completes thematic reviews to make comparisons between the major audit firms with a view to identifying both good practice and areas of common weakness. The reviews look at firms' policies and aspects of audit or firm-wide procedures.

In 2016/17 the FRC completed their thematic reviews into:

- root cause analysis
- firms' audit quality control procedures and other audit quality initiatives
- the use of data analytics in the audit of financial statements.

These exercises are valuable in enabling us to benchmark to current practice, highlighting areas of particular strength and provide constructive discussion of where we could develop our practices. Our firm's policies and procedures have been updated to incorporate the findings arising from the most recent thematic reviews, specifically the appointment of a root cause director and the appointment of a new provider for data analytics services.

The FRC is currently conducting thematic reviews into audit firm culture and materiality and we look forward to the results of this review.

iii) Institute of Chartered Accountants in England and Wales (ICAEW) – Quality Assurance Department (QAD)

The QAD of the ICAEW is responsible for performing reviews of most audits that fall outside the scope of work of the AQR. The findings are reported privately to the firm and are not publicly available.

The most recent full review was undertaken in 2015 with a limited follow-up in 2016.

Specific metrics on the results of these reviews on the firm and our responses are included below. The next detailed audit file inspections will take place in the final quarter of 2017.

iv) Public Sector Audit Appointments Limited (PSAA)

PSAA undertakes an annual independent inspection of the quality of the firm's audit in relation to local government, police and local NHS bodies.

PSAA's report on the findings of its 2016/17 inspection was published in July 2017 and is available on the [PSAA's website](#).

The overall assessment of PSAA was that the firm is meeting the PSAA standards for overall audit quality and regulatory compliance requirements. PSAA uses a red, amber, green indicator for overall audit quality and regulatory compliance. For 2016/17, Grant Thornton's combined audit quality and regulatory compliance rating was amber (2015/16 – amber).

The firm has maintained its green performance against the regulatory compliance indicators since last year, with all but two of the 2016/17 indicators scored as green. The firm's overall weighted audit quality score is broadly consistent with last year.

The satisfaction survey results show that audited bodies are very satisfied with the performance of Grant Thornton as their auditor. There are also key profession-wide issues which need to be addressed in order to improve audit quality, which are:

- challenge of management in key areas involving judgement, such as impairment review, asset valuations and provisions
- the design and execution of audit procedures relating to revenue recognition
- systems and arrangements for ensuring compliance with ethical and independence requirements.

v) NHS improvement – Quality Assurance Department (QAD)

NHS Improvement is the body responsible for overseeing Foundation Trusts. The QAD is engaged by NHS Improvement to review audits performed on Foundation Trusts.

The QAD reports the results of its review privately to NHS Improvement and there is no public report. NHS Improvement informs the Engagement Lead and the NHS Foundation Trust of the results of the inspection. Two NHS Foundation Trusts were inspected in 2016/17 and the results were addressed in the subsequent audit.

vi) GTIL audit review

Grant Thornton International Limited completes an inspection of a selection of audits on a cyclical basis. The review is called Grant Thornton Audit Review and further detail is provided in Appendix E. Until 2015 the firm was subject to annual inspection as the results were below Grant Thornton International Limited's expectations. The 2016 review showed improvement and the firm is now inspected on a three-year cycle.

vii) Overseas regulators

In the United States of America the firm is registered with the Public Company Accounting Oversight Board (PCAOB) which inspects firms on a periodic basis. Inspections are designed and performed to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to issuer audit work.

The last inspection was completed in 2015 and the final report was published in May 2016 and is available on the [PCAOB website](#).

Specific metrics on the results of the latest PCAOB reviews on the firm and our response are included below.

In Canada the firm is registered with the Canadian Public Accountability Board (CPAB) who inspect firms on a periodic basis.

In 2016 the firm had one audit inspected by the CPAB which identified a significant finding. The firm agreed the CPAB the additional audit procedures to be completed. The result of those additional procedures was that there was no need to restate the financial statements due to material error and the final report was agreed with the CPAB in January 2017. The Firm's Participation Agreement with the CPAB was renewed 28 February 2017.

3 Audit quality metrics

Audit quality is impacted by many different factors and can be difficult to define and measure. We therefore recognise that understanding what audit quality means to the profession and our stakeholders is key if we are to better focus on ways to continually improve it.

In 2014 we worked as part of the Policy and Reputation Group (PRG) to agree a set of metrics to be included in transparency

reports. This would enable some comparison of activity in each area between firms, as well as the opportunity for firms to monitor performance over time.

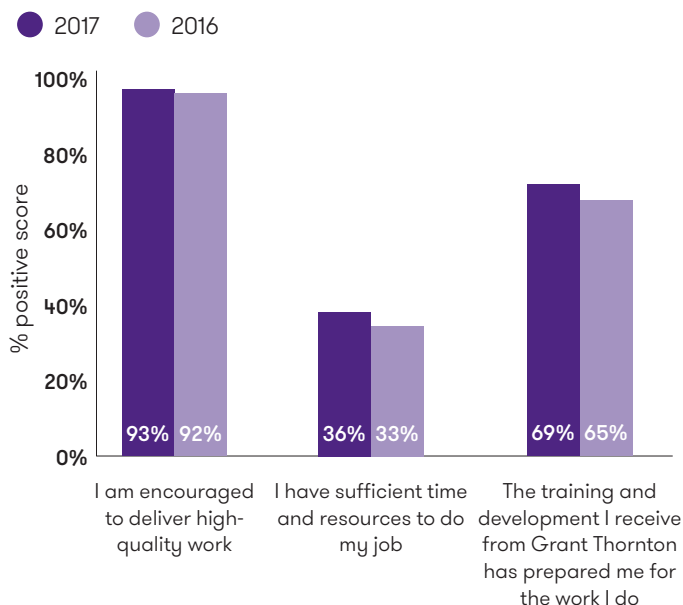
Our results for the year ended 30 June 2017, with prior year comparatives, are set out below.

Metric

Commentary

A. Metrics from partner and people surveys

We undertake regular pulse surveys of all our people. The results below are from the most recent survey, undertaken in June 2017 focused on quality.



We listen carefully to the feedback from our people and while we are pleased to note a small improvement on 2016, we recognise that there is still work to do. We are looking closely at the factors that are affecting these scores and are developing actions at a central and local level to address those issues.

Time and resource

We take the feedback around having sufficient time and resource to undertake work very seriously and the work we are doing to re-engineer how we deliver our audits sets out to address these underlying challenges. For example, we have been working to develop our Central Audit Support Team, along with other specialist teams, to make sure that we have the right people doing the right work at the right time.

Also, a key focus of our continued investment in audit technology is the improvement of our people experience. The work-life balance of our people is an important issue for us and our newly enhanced people and assignment manager roles ensure our people receive the most appropriate support at all times.

Training and development

In response to our people's concerns around training and development, we continue to work closely with the Business School and have updated our focused-learning pathways for people of all levels in audit as well as specific roles and sectors.

We are also working on further tailoring our learning programmes so that they are more relevant to the day-to-day work our people are doing. For example, we have introduced targeted training on project management in audit as well as managing group audit engagements.

Metric

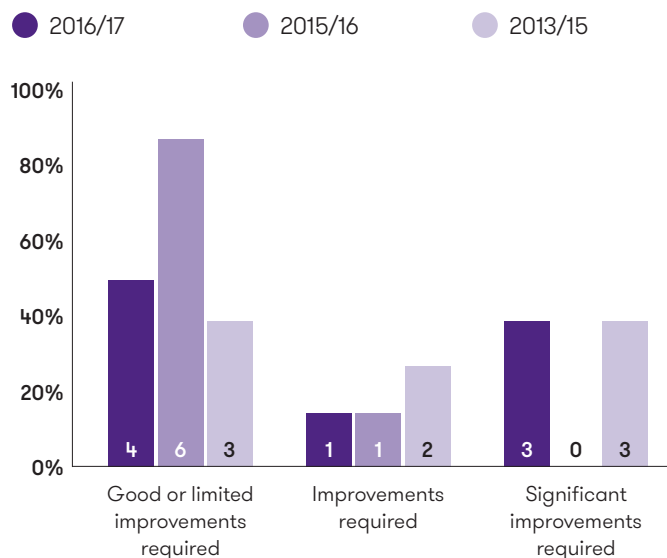
Commentary

B. Metrics on quality reviews

Results of AQR reviews on the firm

The AQR's report on the findings of its 2016/17 inspection of the firm was published in June 2017.

The chart below shows the number of audit engagements reviewed and the grades that were awarded by the AQR in its latest three reviews.



We were disappointed with the results of the 2016/17 inspection. The firm had set an expectation that all files would be graded good or limited improvements required but four files inspected in 2016/17 did not achieve this.

The AQR suggested that the firm should pay particular attention to the following areas in order to enhance audit quality and safeguard auditor independence, and we have taken prompt action to address the points raised in order to continue to improve policies, procedures and deliver consistency in the quality of our work.

These actions are as follows:

Further improvement of systems to drive compliance with the Ethical Standards

- The firm has invested further resources in the Ethics Function
- A clear sanctions policy was introduced for partners in 2015/16

More weight to be given to audit quality and ethical requirements when promoting and appraising people

- A quality report is prepared for every Engagement Lead, which includes quality and ethical matters
- A quality review is completed for people proposed for promotion to Engagement Lead

Improve the extent of management challenge in relation to areas of judgement, in particular with regard to impairment review and judgemental valuations

- The 2017 audit conference focused on challenge of management
- The Quality Standards team supports the review partner on all public interest entity audits to review the audit work on judgemental areas of the audit

Strengthen the effectiveness of audit procedures relating to revenue

- Updated guidance relating to audit of revenue was provided to the **audit practice**
- We conducted a training session for the practice on the audit of revenue

More effective communication with audit committees

- Redesign of the tools used to communicate with those charged with governance and additional training

Provide more accurate description in auditors' reports of the audit procedures performed

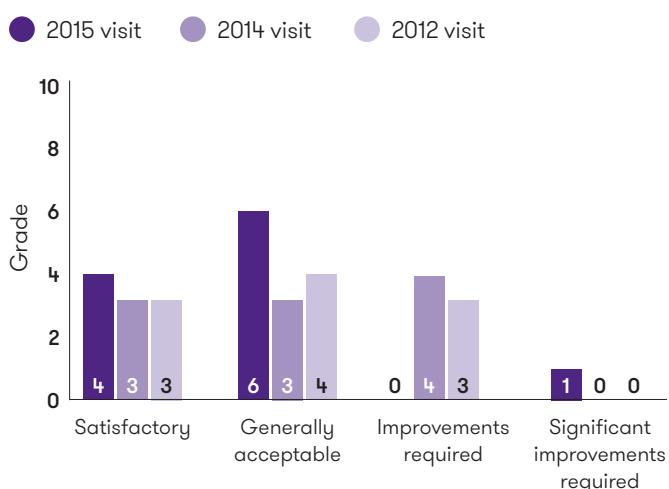
- Further training has been given on extended audit reports

Metric

Commentary

Results of QAD reviews on the firm

The chart below sets out the number of audit engagements reviewed and the grades awarded by the QAD in its latest three reviews.



In respect of the 2015 QAD visit, the QAD stated that the firm's audit work was of a generally good standard. Their principal findings included the following:

- Actions to address evidence issues identified on the previous review were not yet completed or followed up
- The technical consultation on FRS 101 eligibility did not take place
- The need for recording review of audit work on a timely basis
- Disclosure omissions in the financial statements

The key changes put in place as a result of the review were:

- Audits teams now confirm corrective actions to address issues raised in monitoring reviews
- Changes to the review process for financial statements

Results of PCAOB inspections on the firm

The PCAOB last inspected the firm in 2015. This included the review of the audit files for one direct issuer and two other engagements in which the firm played a role but was not the principal auditor, as well as the firm's related quality control procedures.

The review did not identify any audit performance issues that, in the inspection team's view, resulted in the firm failing to obtain sufficient appropriate audit evidence to support an audit opinion or to fulfil the objectives of its role in other engagements.

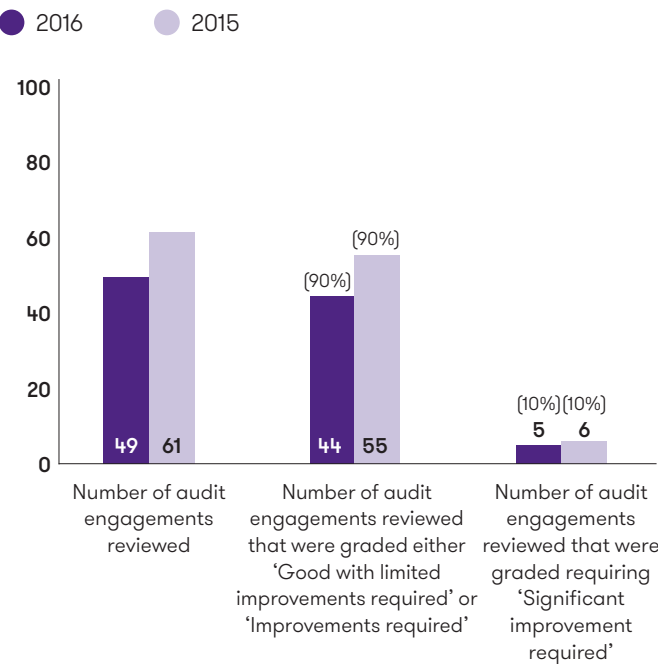
Additionally, the inspection team did not identify anything that it considered to be a quality control defect that warrants discussion in a PCAOB inspection report.

Metric

Commentary

Results of internal quality reviews

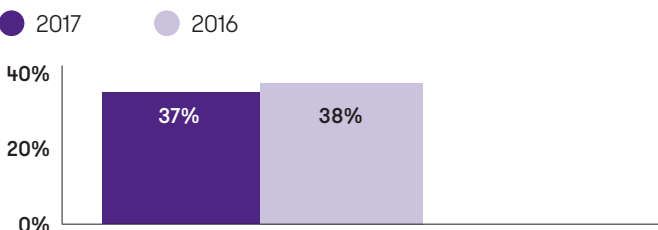
The results of our most recent National Audit Review that was carried out in autumn 2016 are set out below.



The firm had set an expectation that all files would be graded 'Good' or 'Good with limited improvements required'. The results of the 2016 inspection indicate that there are still improvements to reach that goal. We have amended the grading system for our National Audit Review to directly align to that used by the AQR and QAD to allow more direct comparison.

Percentage of Responsible Individuals subject to quality review

Percentage of Responsible Individuals subject to the firm's own audit quality reviews.



Our National Audit Review process ensures that each Engagement Lead is reviewed at least every three years.

Metric

Commentary

C. Metrics on external investigations

Number of cases in the last 12 months in which the FRC's conduct committee has found against the firm or one of its members



Number of cases in the last 12 months in which the disciplinary committee of the firm's lead recognised professional body has found against the firm or one of its members



In the year to 30 June 2017 we reached agreement with the FRC to resolve its investigation into the audits of AssetCo plc's accounts for the financial years ended 31 March 2009 and 31 March 2010 on the following terms:

- a fine on the firm of £2.275 million
- a "severe reprimand"
- a contribution of £200,000 to the FRC's costs.

We fully co-operated with the FRC throughout their investigation. The Responsible Individual for this work, who is no longer with the firm, was fined and excluded from the ICAEW for three years.

This agreement does not affect our defence of a civil claim that has been brought against the firm in relation to these financial statements. In addition to the civil claim, the FRC has initiated disciplinary proceedings against three former executives of AssetCo plc in which it alleges that (among other things) they acted dishonestly or recklessly and breached the fundamental principles of integrity and objectivity in the manner in which they prepared the financial statements, and that their conduct fell significantly short of the standards expected of members of Chartered Accountants Ireland. Both the FRC and this firm are limited in the additional detail that we can provide in respect of this matter.

We are not proud to be in this position and have undertaken a root cause exercise that highlighted specific actions, which we have taken, to address the issues. We performed the audits in question back in 2009 and 2010 and many of the findings relate to the exercise of professional scepticism. This has been an area where the profession as a whole, and we as a firm, has focused on over the last few years and, we believe, made significant improvements.

Regulatory penalty

In October 2016 the firm agreed to pay a regulatory penalty of £12,000 which was decided by the Audit Registration Committee of the ICAEW. It related to a breach of audit regulation 3.02 where we had failed to ensure that an individual did not act as audit engagement partner or engagement quality control reviewer for a combined period of more than seven years for a listed company. We implemented immediate corrective action and enhanced our systems, which the Audit Quality Review team recognised.

The FRC also has the following ongoing investigations into the audit work of the firm, which are yet to be concluded and have therefore been excluded from the 2017 metrics above:

- Globo plc and Sports Direct plc in respect of audit work on their financial statements
- Nichols plc and the University of Salford in respect of whether the firm was independent when it conducted their audits

Metric

Commentary

D. Metrics on investment

Investments made in the assurance practice and staff

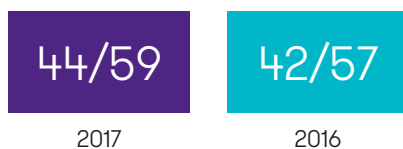
Average number of hours training per person (partners and qualified people) in audit



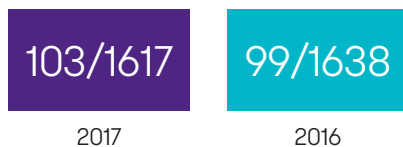
Average training hours fluctuates year on year depending on the level of mandated training provided to our people on key ethical and regulatory changes and requirements.

Further information on the learning programmes provided to our qualified professionals is included in Section 2.2.

Number of Responsible Individual directors/partners in audit at 30 June



Number of Responsible Individuals in audit to total number of people in audit at 30 June



Investment in research and development in assurance

During the year we have invested significantly in our systems to support our assurance practice and clients.

Section 2.2 describes the US\$100 million investment programme by GTIL member firms in the design and development of new global audit and analytics technology and supporting audit methodology in conjunction with Microsoft. We are also investing significantly in the development of our data analytics capabilities and growing our Central Audit Support Team.

Additionally, a key element of the firm-wide investment in quality, ethics and excellence has been focused on effective implementation of the new Ethical Standard and in redesigning our support systems in areas such as audit independence assessments and auditor rotation. Detail on this can be found in Appendix B.

Metric

Commentary

E. Metrics on investor liaison

Representatives of our firm actively engage with regulators, standard setters and investors, shaping and influencing the drive for better reporting (audit committee and auditor) and supporting regulatory change where it is necessary. Many of our partners and employees participate in various 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.

In November 2016 the Grant Thornton Governance Institute published its annual corporate governance review looking at trends in compliance and disclosure of the FTSE 350. This forms an important element of our external engagement and dialogue with investors.

Additionally, we participated in a number of events organised by the FRC and PRG as part of an ongoing investor dialogue programme, and in the past year key Grant Thornton personnel have attended stakeholder meetings and working groups with the IAASB¹, FRC, CRAG², GAID³, PRG and ECG⁴.

Audit Committee Chair Survey

The FRC completed its annual Audit Committee Chair Survey in May 2017 with 330 respondents. The results continue to reflect a strong level of satisfaction with the interactions with their external auditor.

While not publicly disclosable, we were pleased with the results for Grant Thornton and continue to strive to make sure that our interactions with audit committees are strong. We recognise that there are learnings from the output of this survey and invest in our technology, training and support materials to help us continually improve.

¹ International Auditing and Assurance Standards Board (IAASB)





² Company Reporting and Audit Group (CRAG)

³ Global Auditor Investor Dialogue (GAID)

⁴ European Contact Group (ECG)

2.4 Risks

The Strategic Leadership Team has identified the risks that could most significantly threaten the firm's ability to achieve its strategy.

 Markets	 Clients	 People	 Operations
Be the vibrant firm at the heart of growth	Seize opportunities in a connected world	Build an innovation culture that creates value	Make it easy and rewarding to deliver superior and sustainable results
Strategic risks <ul style="list-style-type: none"> Taking a high profile stance on economic and ethical business issues Working with clients not aligned to our vision and purpose Establishing and reinforcing our desired market position Anticipating and preparing for the impact of Brexit on the UK economy Operational risks <ul style="list-style-type: none"> Responding to and managing the changing business and regulatory environment 	Strategic risks <ul style="list-style-type: none"> Keeping our clients at the heart of our business Identifying, integrating and managing strategic investments (including partnerships) Increased global working Operational risks <ul style="list-style-type: none"> Major contracts lost/ not replaced 	Strategic risks <ul style="list-style-type: none"> Delivering the core principles of the shared enterprise business model Capability of leadership to manage and implement change Operational risks <ul style="list-style-type: none"> Attracting, developing and retaining high quality people 	Strategic risks <ul style="list-style-type: none"> Investing in and maintaining secure leading edge systems (including technology) to drive and support change Operational risks <ul style="list-style-type: none"> Major or multiple breach of legislation or regulation Giving wrong opinions or poor advice Protecting confidential and personal data Sustaining our business in a major unplanned incident/ event

The top 10 principal risks and our key mitigating activities at 30 June 2017 are set out below.

Risk	Key mitigating activities
1 Major or multiple breach of legislation or regulation	<ul style="list-style-type: none"> Quality standards incorporate and provide clear direction on legal and regulatory requirements Ethics team provide training, support and guidance on ethical issues Centralised global independence systems and monitoring Centralised client take-on team undertake rigorous relationship checking processes and AML procedures Whistleblowing hotline in place Annual self-certification by all our people as to their understanding of and responsibilities for key ethical, regulatory and quality procedures
2 Protecting confidential and personal data	<ul style="list-style-type: none"> Robust information security framework covering individuals, IT systems and infrastructure Ongoing information security training and awareness programme Breach management team manage and respond to information security incidents ISO 27001 accreditation attained for Information systems team with full compliance across business in development. General Data Protection Regulation implementation programme in place

Risk	Key mitigating activities
3 Investing in and maintaining secure leading edge systems (including technology) to drive and support change	<ul style="list-style-type: none"> Executive commitment to ongoing investment to deliver excellence Collaborative approach with GTIL and major GTIL member firms to ongoing IS infrastructure development and strategy Project management resource within Enterprise and Information Systems to implement/drive system and behavioural change programmes Projects submitted to Strategic and Operational Projects board for approval/awareness Clear road maps and delivery priorities for development of software as a service (SaaS) based products
4 Increased global working	<ul style="list-style-type: none"> Member of GTIL network with shared vision and strategy and strong member firm collaboration Significant UK involvement and influence in GTIL strategy and governance Current International Oversight Group provides input into the firm's international strategy Stringent consultation requirements for overseas client acceptance and engagement processes Robust GTIL risk policies and protocols (including cross-border engagements) and rigorous global quality assurance programme Direct equity investment in other jurisdictions
5 Working with clients not aligned to our vision and purpose	<ul style="list-style-type: none"> Targeted business development programmes in place and monitored Rigorous client acceptance procedures and consultation/approval requirements Ongoing commercial leverage reviews Regular strategic review of client-base whistleblowing helpline
6 Major contracts lost not replaced	<ul style="list-style-type: none"> Leadership consideration and approval of ethical, resource and skills issues prior to acceptance Diamond account framework in place including account business planning, annual risk reviews and client satisfaction programme Delivery of significant contractual obligations independently monitored Diamond account steering group provides governance and oversight
7 Taking a high profile stance on economic and ethical business issues	<ul style="list-style-type: none"> Vision and purpose cascaded throughout the firm driving understanding and engagement Vibrant Economy Steering group drives development of deep and wide relationships with key stakeholders Vibrant economy agenda seeks to understand clients' needs and influence public interest issues Stringent client acceptance procedures and regular strategic client-base review Designated trained media speakers and ongoing media/press monitoring
8 Delivering the core principles of the shared enterprise business model	<ul style="list-style-type: none"> Cultural focus on sharing responsibility for driving quality and delivering excellent client service Code of Conduct communicates the values and commitments underlying the principle of sharing responsibility Dedicated Shared Enterprise Lead responsible for implementing and governing the three core principles of shared enterprise: ideas, responsibility and reward Network of Shared Enterprise Advocates, partner role models and vibrant inquiry initiatives to pervade the principles of shared enterprise throughout the firm Enterprise team to support, nurture and commercialise the best ideas selected by the investment panel
9 Identifying, integrating and managing strategic investments (including partnerships)	<ul style="list-style-type: none"> Enterprise team identify and prioritise great ideas and drive their commercialisation and implementation Investment panel evaluates all key internal and external investment opportunities Thorough financial, ethical and regulatory due diligence processes (including risk evaluation) for all investment Investments 'incubated' within Enterprise team to support and monitor orientation and quality standards development, with follow-up internal audit reviews
10 Attracting, developing and retaining high quality people	<ul style="list-style-type: none"> Our shared enterprise model creates an environment where people feel motivated, empowered, responsible and rewarded Considerable investment in technical, leadership and commercial learning, including coaching programmes to support the development of our people in line with our capability framework Established internal mobility programmes and proactive approach to succession planning Diversity and inclusion agenda central to strategy and Vibrant Economy agenda Regular benchmarking/pulse checks to ensure competitive reward and measure engagement

2.5 Statement on the firm's internal quality control systems

The Strategic Leadership Team has ultimate responsibility for the firm's quality management systems and the establishment of appropriate internal control systems.

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, to eliminate the risk of material misstatement of our financial statements.

The Strategic Leadership Team has carried out a review of the effectiveness of internal quality control systems in line with the requirements of the section C2 of the UK Corporate Governance Code 2014, 'Risk Management and Internal Control'. The review has taken into account:

- the findings from regulatory inspections
- reports from the firm's external auditors
- reports from Grant Thornton International Limited (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.

Based on the review and feedback from our regulators, the Strategic Leadership Team recognise that there are opportunities to strengthen specific elements of our control systems. They are committed to implementing recommendations made and specifically to the continued focus on the development of a strong, sustainable culture of quality, ethics and excellence and improved monitoring processes and reporting.

However, they remain of the view that no failings or weaknesses identified are of such significance that they undermine the effectiveness of our internal control systems or our ability to identify and rectify any controls' weaknesses.

On this basis, the Strategic Leadership Team is satisfied that the firm's internal quality control systems are robust and operating effectively.

Part 3:

Structure and governance

3.1 Leadership and governance

The firm's principal leadership and governance bodies are the Strategic Leadership Team and the Partnership Oversight Board. The Strategic Leadership Team develops and implements the firm's strategy and is responsible for day-to-day management. The Partnership Oversight Board provides oversight to the Strategic Leadership Team on behalf of the members of the LLP (the 'partners'). Together they aim to achieve the highest standards of governance and collaborate to serve the best interests of all the firm's stakeholders.

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

i) Chief Executive Officer

The Chief Executive Officer (CEO) has full executive authority for the management of the business. The CEO is nominated by the Partnership Oversight Board with the appointment confirmed by an all-partner vote, and may be appointed for no more than two four-year terms. Sacha Romanovitch was appointed CEO for a first term on 1 July 2015.

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 Partnership Oversight Board and approved by the partners at least every three years. The Statement of Principles was formally approved by all partners in December 2016.

ii) Strategic Leadership Team

The CEO appoints the Strategic Leadership Team, which is responsible for:

- ensuring the firm operates within the firm's Statement of Principles
- protecting the goodwill and reputation of the firm
- developing and implementing the firm's strategy
- ensuring the firm complies with all relevant regulatory and legal requirements
- ensuring the firm participates in the wider economic environment as a responsible employer and contributor to growth
- putting quality at the heart of everything we do
- promoting collaboration and agility to enable the best ideas and approaches to be adopted
- designing our structure to further empower our people and reduce cultural hierarchy
- driving a profitable and sustainable firm

At 30 June 2017 the Strategic Leadership Team consisted of the following partners: Sacha Romanovitch, CEO; Mark Byers, Strategic Client Relationships Partner; Karl Eddy, Enterprise Partner; Robert Hannah, Operations Partner; Stephanie Hasenbos-Case, Client and People Experience Partner; and Simon Jones, Finance and Infrastructure Partner. All were in post throughout the year to 30 June 2017 except for Stephanie who was formally appointed on 13 March 2017.

In addition, Norman Pickavance was Brand and Culture Leader for the period to 31 October 2016.

The members of the Strategic Leadership Team are appointed and removed by the CEO and subject to ongoing performance evaluation by the CEO and the Remuneration Committee, a subcommittee of the Partnership Oversight Board.

iii) Partnership Oversight Board

The Partnership Oversight Board is responsible for the protection of members' interests, standards of corporate governance within the firm and the oversight of the Strategic Leadership Team. 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
- establishing the CEO's remuneration framework
- approving the firm's leadership structure, and the terms and conditions relating to any management roles proposed by CEO
- monitoring the CEO's stewardship of the business
- overseeing the principles and criteria for profit sharing and presiding over appeals in relation to profit share
- oversight of risk and quality policies and procedures
- approving the maximum borrowing limits of the LLP
- reviewing and approval of the amount of financial compensation payable to an outgoing partner in excess of £300,000 and those who hold a senior management role
- recognising that we have a public interest role that extends beyond the short-term interests of the partners.

The Partnership Oversight Board consists of eight members elected by the partners, three independent non-executive members (INEs), and three ex officio non-voting members (being the CEO and two others members of the Strategic Leadership Team). Elected members are appointed for a period of three years, and may serve for one further consecutive term if re-elected.

The membership agreement includes a non-exhaustive list of indicators requiring consultation with the Partnership Oversight Board, namely, capital expenditure or investment of £2.5 million or more; the opening or closing of an office or service that would change revenue by 10% or more; new or amended borrowing where the total borrowing would exceed £100 million.

Brief biographies of the Partnership Oversight Board members at 30 September 2017, including their appointment dates, and meeting attendance records during the year are set out in Appendices C and D.

The chairman of the Partnership Oversight Board for the year ended 30 June 2017 was Ed Warner, who was appointed as chairman on 1 April 2016 for a three-year period. Ed is responsible for chairing Partnership Oversight Board meetings and for providing guidance to the CEO on actual and potential matters of concern to the members.

During the year the INEs together with the Strategic Leadership Team reviewed the effectiveness of the Partnership Oversight Board. In addition, informal dinners with Partnership Oversight Board members provided senior business leaders the opportunity to give feedback on the Partnership Oversight Board and its activities.

iv) Independent non-executives

The firm has three INEs with a wide range of experience and skills, including experience of professional partnerships, corporates and the investor community covering a wide range of sectors including professional services, financial, technology, retail, charity and media.

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 Partnership Oversight Board 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 Partnership Oversight Board.

On 30 June 2017 Caroline Goodall retired as an INE having served almost seven years. Imogen Joss was appointed an INE on 1 July 2017 following an open recruitment and selection process using an external headhunter.

The INEs bring their considerable expertise to the Partnership Oversight Board 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
- issues raised under whistleblowing policies and procedures
- oversight of the firm's policies and procedures.

The INEs attend all Partnership Oversight Board meetings and are invited to attend partners' meetings, and to meet with the CEO and the chair of the Partnership Oversight Board periodically. Our INEs also meet with key representatives from the institutional investor community and regulators from time to time.

In addition to their representation on the Partnership Oversight Board, Caroline Goodall was also a member of the Risk and Audit Committee and Profit Sharing subcommittees, Ed Warner is Chair of the Profit Sharing subcommittee and a member of the Remuneration Committee, and Deena Mattar is Chair of the Risk and Audit Committee and a member of the Profit Sharing subcommittee. Imogen Joss will join the Remuneration Committee.

Our INEs contribute to audit quality through their involvement in the Profit Sharing subcommittee and Risk and Audit Committee which 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 and pension scheme matters.

The remuneration of the INEs is reviewed annually by the Remuneration Committee without any INE present. The INEs currently receive £60,000 per annum with the chair of the Partnership Oversight Board receiving an additional £60,000 per annum.

The Partnership Oversight Board is a 'supervisory board' as envisaged by the Auditing Practices Board (APB) Ethical Standards for Auditors and, therefore, non-executive members of the Partnership Oversight Board are not members of the firm or its 'chain of command'. As a result, personal relationships and business or financial interests of the INEs do not bear directly on the firm's independence as auditors. However, the firm is mindful of the impact of public perception, so we require the INEs to comply with the independence requirements of partners, and specifically:

- On a quarterly basis the INEs confirm to the chair of the Partnership Oversight Board that they have no financial interest or directorships with any of the firm's audit clients listed in the firm's prohibited investments list
- On an annual basis they confirm in the firm's Annual Declaration process that they understand and have complied with the firm's key ethical policies including independence, confidentiality, market abuse, gifts and hospitality, and whistleblowing.

In the event that there was a fundamental disagreement between an INE and either the Partnership Oversight Board or the Strategic Leadership Team that could not be resolved following discussions with the chair of the Partnership Oversight Board and the CEO, and as a result the INE resigned from the firm, the fact that there had been such a disagreement would be disclosed in this transparency report. No such disagreement has occurred to date.

v) Subcommittees

The Partnership Oversight Board has two main subcommittees that deal with key aspects of governance: the Risk and Audit Committee and the Remuneration Committee. The Partnership Oversight Board's oversight of management and the establishment of separate Risk and Audit and Remuneration committees ensure that the firm complies with appropriate corporate governance, risk management and quality standards.

Risk and Audit Committee

The Risk and Audit Committee 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.

During the period the Risk and Audit Committee consisted of three elected members of the Partnership Oversight Board, the CEO and at least one INE. From 1 July 2017 Deena Mattar, one of the INEs took over as chair of the Risk and Audit Committee. The Head of Business Risk and Quality Assurance, the National Director of Finance and the Strategic Leadership Team member responsible for quality, ethics and excellence are invited to attend as appropriate. In addition, representatives of the firm's external auditors, Mazars (UK) LLP, are invited to attend.

The Risk and Audit Committee met six times last year, and two of these meetings were attended, in part, by the external auditors.

Remuneration Committee

The Remuneration Committee is responsible for setting the remuneration framework of the CEO and the Strategic Leadership Team, dependent upon the achievement of predetermined criteria and goals. The committee, which consists of three elected Partnership Oversight Board members and at least one INE, met four times last year. Further information on the remuneration of audit partners and directors is included in Appendix G.

Public Interest Committee

The INEs will this year be forming a Public Interest Committee to oversee the public interest aspects of the decision making of the firm including the management of reputational risks for the firm. In addition, the Public Interest Committee will be responsible for engaging, together with senior management of the firm, in dialogue with the FRC and external stakeholders – in particular, representatives of shareholders in public interest entities (PIEs) audited by the firm.

3.2 Legal structure and ownership

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

The firm is entirely owned by its members (normally referred to as partners). During the year to 30 June 2017 the average number of members was 185 (2016: 179). 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. From 31 October 2017 the LLP's registered office will be 30 Finsbury Square, London, EC2A 1AG.

Our business

Grant Thornton is a leading financial and business advisory firm focused on working with dynamic organisations. We are structured along geographical, industry and service lines enabling us to offer our clients a great depth of expertise delivered in a distinctive and personal way. Our principal services are audit, tax and advisory services. A full list of our services can be found on our website.

During the year to 30 June 2017 the average number of employees was 4,404 (2016: 4,450), and they operated from 27 offices (2016: 26) throughout the United Kingdom. In addition, we have branch offices in the British Virgin Islands and the Cayman Islands, which are necessary for our forensic and investigatory work. Our website has a current list of our office addresses.

Principal subsidiary undertakings

Set out below is a list of the principal subsidiary undertakings of Grant Thornton UK LLP at 30 June 2017, 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 services
Grant Thornton (British Virgin Islands) Limited	Insolvency and restructuring services
Fulwood Insurances Limited	Insurance services
Grant Thornton Debt Solutions Limited*	Personal insolvency services
Geniac UK Limited	Management of business support functions

Limited liability partnerships	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

Appendices

A Audit Firm Governance Code

In July 2016 the FRC published a revised version of the Audit Firm Governance Code which is applicable for financial years beginning on or after 1 September 2016.

Although the revised code will formally be applicable to us for the year ending 30 June 2018, we have applied the principles and provisions of the revised Code in this report. We have found the implementation of the Code to be invaluable in strengthening our governance processes, particularly in relation to its public interest aspects. We have set out below how we are complying with each of the principles and provisions of the revised Code, including the references to the required disclosures in this report and/or on our website.

Provision of the revised Code

How Grant Thornton UK LLP complies with the Code

A Leadership	
A.1 Owner accountability principle The management of a firm should be accountable to the firm's owners and no individual should have unfettered powers of decision.	See section 3.1 and Leadership and Governance pages on our website
A.1.1 The firm should establish a board or equivalent governance structure, with matters specifically reserved for its decision, to oversee the activities of the management team.	See section 3.1 and Leadership and Governance pages on our website
A.1.2 The firm should state in its transparency report how its governance structures and management operate, their duties and the types of decisions they take. In doing so the firm should explain how its governance structure provides oversight of both the audit practice and the firm as a whole with a focus on ensuring the Code's purpose is achieved. If the management and/or governance of the firm rests at an international level, it should specifically set out how management and oversight of audit is undertaken and the Code's purpose achieved in the UK.	See sections 3.1 and 1.2
A.1.3 The firm should state in its transparency report the names and job titles of all members of the firm's governance structures and its management, how they are elected or appointed and their terms, length of service, meeting attendance in the year, and relevant biographical details.	See section 3.1
A.1.4 The members of a firm's governance structures and management should be subject to formal, rigorous and ongoing performance evaluation and, at regular intervals, members should be subject to re-election or re-selection.	See Appendix G
A.2 Management principle A firm should have effective management which has responsibility and clear authority for running the firm.	See section 3.1 and Leadership and Governance pages on our website
A.2.1 Management should have terms of reference that include clear authority over the whole firm including its non-audit businesses and these should be disclosed on the firm's website.	See section 3.1 and Leadership and Governance pages on our website
B Values	
B.1 Professionalism principle A firm should perform quality work by exercising judgement and upholding values of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour in a way that properly takes the public interest into consideration and meets auditing and ethical standards.	See section 2.2 and our Code of Conduct on our website
B.1.1 The firm's governance structures and management should establish and promote throughout the firm an appropriate culture, supportive of the firm's public interest role and long term sustainability. This should be achieved in particular through the right tone from the top, through the firm's policies and practices and by management publicly committing themselves and the whole firm to quality work, the public interest and professional judgement and values.	See section 2.2 and our Code of Conduct on our website

Provision of the revised Code

How Grant Thornton UK LLP complies with the Code

B.1.2 Firms should introduce KPIs on the performance of their governance system, and report on performance against these in their transparency reports.	See Appendix D for KPI on attendance
B.1.3 The firm should have a code of conduct which it discloses on its website and requires everyone in the firm to apply. The Board and independent non-executives should oversee compliance with it.	See section 2.1 and our Code of Conduct on our website
B.2 Governance principle A firm should publicly commit itself to this Audit Firm Governance Code.	We are committed to the Audit Firm Governance Code and continue to incorporate the principles and provisions of the Code
B.2.1 The firm should incorporate the principles of this Audit Firm Governance Code into an internal code of conduct.	See section 2.1 and our Code of Conduct on our website
B.3 Openness principle A firm should maintain a culture of openness which encourages people to consult and share problems, knowledge and experience in order to achieve quality work in a way that properly takes the public interest into consideration.	See section 2.1
C Independent non-executives	
C.1 Involvement of independent non-executives principle A firm should appoint independent non-executives to the governance structure who through their involvement collectively enhance the firm's performance in meeting the purpose of the Code.	See sections 1.2 and 3.1
C.1.1 Independent non-executives should number at least three and be in the majority on a body that oversees public interest matters; and/or be members of other relevant governance structures within the firm. They should also meet as a separate group to discuss matters relating to their remit. They should have full visibility of the entirety of the business but should pay particular attention to and report on risks to audit quality and how they are addressed. If a firm considers that having three INEs is inappropriate given its size or number of public company clients, it should explain this in its transparency report and ensure a minimum of two at all times. Where the firm adopts an international approach to its management it should have at least three INEs with specific responsibility and relevant experience to focus on the UK business and to take part in governance arrangements for this market; or explain why it regards a smaller number to be more appropriate, in which event there should be a minimum of two.	See sections 1.2 and 3.1 Our INEs are members of the Partnership Oversight Board. The Partnership Oversight Board and its main subcommittees are all chaired by INEs
C.1.2 The firm should disclose on its website and in its transparency report information about the appointment, retirement and resignation of independent non-executives; their remuneration; their duties and the arrangements by which they discharge those duties; and the obligations of the firm to support them. The firm should report on why it has chosen to position its independent non-executives in the way it has (for example, as members of the main Board or on a public interest committee). The firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes independent non-executives.	See section 1.2, 3.1 and Appendix C Further details are on our Leadership and Governance pages on our website
C.1.3 The independent non-executives should report in the firm's transparency report on how they have worked to meet the purpose of the Code defined as: <ul style="list-style-type: none"> Promoting audit quality. Helping the firm secure its reputation more broadly, including in its non-audit businesses. Reducing the risk of firm failure. 	See section 1.2
C.1.4 Independent non-executives should have regular contact with the Ethics Partner, who should under the ethical standards have a reporting line to them.	See section 1.2

Provision of the revised Code

How Grant Thornton UK LLP complies with the Code

<p>C.2 Characteristics of independent non-executives principle The independent non-executives' duty of care is to the firm. They should command the respect of the firm's owners and collectively enhance shareholder confidence by virtue of their independence, number, stature, experience and expertise. They should have a balance of relevant skills and experience including of audit and a regulated sector. At least one independent non-executive should have competence in accounting and/or auditing, gained for example from a role on an audit committee, in a company's finance function, as an investor or at an audit firm.</p>	<p>See section 3.1 and our Leadership and Governance pages on our website</p>
<p>C.2.1 The firm should state in its transparency report its criteria for assessing the impact of independent non-executives on the firm's independence as auditors and their independence from the firm and its owners.</p>	<p>See section 3.1 and our Leadership and Governance pages on our website</p>
<p>C.3 Rights and responsibilities of independent non-executives principle Independent non-executives of a firm should have rights consistent with their role including a right of access to relevant information and people to the extent permitted by law or regulation, and a right to report a fundamental disagreement regarding the firm to its owners and, where ultimately this cannot be resolved and the independent non-executive resigns, to report this resignation publicly.</p>	<p>See section 3.1 and our Leadership and Governance pages on our website</p>
<p>C.3.1 Each independent non-executive should have a contract for services setting out their rights and duties.</p>	<p>Each of our INEs has a contract</p>
<p>C.3.2 Independent non-executives should be appointed for specific terms and any term beyond nine years should be subject to particularly rigorous review and explanation.</p>	<p>Our INEs are appointed for an initial term of three years and are eligible for reappointment. None of the firm's INEs has been in the role for longer than nine years</p>
<p>C.3.3 The responsibilities of an independent non-executive should include, but not be limited to, oversight of the firm's policies and processes for:</p> <ul style="list-style-type: none"> • Promoting audit quality. • Helping the firm secure its reputation more broadly, including in its non-audit businesses. • Reducing the risk of firm failure. 	<p>See section 1.2</p>
<p>C.3.4 The firm should ensure that appropriate indemnity insurance is in place in respect of legal action against any independent non-executive in respect of their work in that role.</p>	<p>Our firm has appropriate indemnity insurance in place for the INEs</p>
<p>C.3.5 The firm should provide each independent non-executive with sufficient resources to undertake their duties including having access to independent professional advice at the firm's expense where an independent non-executive judges such advice necessary to discharge their duties.</p>	<p>Our firm provides sufficient resources to the INEs to enable them to perform their duties. This includes access to independent professional advice at the firm's expense if necessary</p>
<p>C.3.6 The firm should establish, and disclose on its website, procedures for dealing with any fundamental disagreement that cannot otherwise be resolved between the independent non-executives and members of the firm's management team and/or governance structures.</p>	<p>See section 3.1 and our Leadership and Governance pages on our website</p>
<p>D Operations</p>	
<p>D.1 Compliance principle A firm should comply with professional standards and applicable legal and regulatory requirements. Operations should be conducted in a way that promotes audit quality and the reputation of the firm. The independent non-executives should be involved in the oversight of operations.</p>	<p>See sections 1.2, 2.2 and Appendix B</p>
<p>D.1.1 The firm should establish policies and procedures for complying with applicable legal and regulatory requirements and international and national standards on auditing, quality control and ethics, including auditor independence.</p>	<p>See section 2.2 and Appendix B</p>

Provision of the revised Code

How Grant Thornton UK LLP complies with the Code

D.1.2 The firm should establish policies and procedures for individuals signing group audit reports to comply with applicable standards on auditing/dealing with group audits including reliance on other auditors whether from the same network or otherwise.	See section 2.2
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.	See Appendix B
D.1.4 The firm should take action to address areas of concern identified by audit regulators in relation to the firm's audit work.	See section 2.3
D.2 Risk management principle A firm should maintain a sound system of internal control and risk management over the operations of the firm as a whole to safeguard the firm and reassure stakeholders.	See section 2.3
D.2.1 The firm should, at least annually, conduct a review of the effectiveness of the firm's system of internal control. Independent non-executives should be involved in the review which should cover all material controls, including financial, operational and compliance controls and risk management systems as well as the promotion of an appropriate culture underpinned by sound values and behaviour within the firm.	See section 2.3
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.	See section 2.3
D.2.3 The firm should carry out a robust assessment of the principal risks facing it, including those that would threaten its business model, future performance, solvency or liquidity. This should reference specifically the sustainability of the audit practice within the UK.	See section 2.4
D.3 People management principle A firm should apply policies and procedures for managing people across the whole firm that support its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code.	See section 2.2
D.3.1 The firm should disclose on its website how it supports its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code through recruitment, development activities, objective setting, performance evaluation, remuneration, progression, other forms of recognition, representation and involvement.	See section 2.2 This transparency report is published on our website
D.3.2 Independent non-executives should be involved in reviewing people management policies and procedures, including remuneration and incentive structures, to ensure that the public interest is protected.	See sections 1.2 and 3.1
D.4 Whistleblowing principle A firm should establish and apply confidential whistleblowing policies and procedures across the firm which enable people to report, without fear, concerns about the firm's commitment to quality work and professional judgement and values in a way that properly takes the public interest into consideration.	See our whistleblowing policies and procedures under Our Culture pages on our website
D.4.1 The firm should report to independent non-executives on issues raised under its whistleblowing policies and procedures and disclose those policies and procedures on its website.	See our whistleblowing policies and procedures under Our Culture pages on our website See sections 1.2 and 1.3

Provision of the revised Code

How Grant Thornton UK LLP complies with the Code

E Reporting	
E.1 Internal reporting principle The management of a firm should ensure that members of its governance structures, including owners and independent non-executives, are supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.	Our key governance bodies (including the INEs) received timely and relevant information to enable them to discharge their duties
E.2 Governance reporting principle A firm should publicly report how it has applied in practice each of the principles of the Audit Firm Governance Code and make a statement on its compliance with the Code's provisions or give a considered explanation for any non-compliance.	This appendix sets out how we have adopted each of the principles of the revised Code
E.2.1 The firm should publish on its website an annual transparency report containing the disclosures required by Code Provisions A.1.2, A.1.3, B1.2, C.2.1, D.1.3, D.2.2, E.2.2 and E.3.1.	See specific code provisions in this section for references to their disclosure requirements. This transparency report is published on our website
E.2.2 In its transparency report the firm should give details of any additional provisions from the UK Corporate Governance Code which it has adopted within its own governance structure.	We are developing a framework to adopt additional provisions of the UK Corporate Governance Code in our governance structure
E.3 Transparency principle A firm should publish on an annual basis in its transparency report a commentary on the firm's performance, position and prospects.	See Appendix F
E.3.1 The firm should confirm that it has carried out a robust assessment of the principal risks facing the audit firm, including those that would threaten its business model, future performance, solvency or liquidity. The firm should describe those risks and explain how they are being managed or mitigated.	See section 2.4
E.3.2 The transparency report should be fair, balanced and understandable in its entirety.	This report is based on the principles of the Code and requirements from the EU Audit Regulation, has been centrally co-ordinated by a specialist team and ultimately reviewed and approved by the Strategic Leadership Team and the Risk and Audit Committee
E.4 Reporting quality principle A firm should establish formal and transparent arrangements for monitoring the quality of external reporting and for maintaining an appropriate relationship with the firm's auditors.	See section 1.3
E.4.1 The firm should establish an audit committee and disclose on its website information on the committee's membership and terms of reference which should deal clearly with its authority and duties, including its duties in relation to the appointment and independence of the firm's auditors. On an annual basis, the audit committee should publish a description of its work and how it has discharged its duties.	See section 1.3 and the Leadership and Governance pages on our website
E.5 Financial statements principle A firm should publish audited financial statements prepared in accordance with a recognised financial reporting framework such as International Financial Reporting Standards or UK GAAP, and should be clear and concise.	Our audited financial statements are published on our website and prepared under International Financial Reporting Standards as adopted by the European Union and UK laws and regulations. This year we have adopted an innovative new format in our financial report to improve transparency and clarity for the end user

Provision of the revised Code

How Grant Thornton UK LLP complies with the Code

E.5.1 The firm should explain who is responsible for preparing the financial statements and the firm's auditors should make a statement about their reporting responsibilities, preferably in accordance with the extended audit report standards.	See section 1.3
E.5.2 The firm should state whether it considers it appropriate to adopt the going concern basis of accounting and identify any material uncertainties to its ability to continue to do so, with supporting assumptions or qualifications as necessary.	This statement is made in our Annual Report available on our website
F Dialogue	
F.1 Firm dialogue principle A firm should have dialogue with listed company shareholders, as well as listed companies and their audit committees, about matters covered by this Audit Firm Governance Code to enhance mutual communication and understanding and ensure that it keeps in touch with shareholder opinion, issues and concerns.	See section 2.3
F.1.1 The firm should disclose on its website its policies and procedures, including contact details, for dialogue about matters covered by this Audit Firm Governance Code with listed company shareholders and listed companies. It should also report on the dialogue it has had during the year. These disclosures should cover the nature and extent of the involvement of independent non-executives in such dialogue.	See section 2.3 and the Annual Report pages on our website.
F.2 Shareholder dialogue principle Shareholders should have dialogue with audit firms to enhance mutual communication and understanding.	See section 2.3
F.3 Informed voting principle Shareholders should have dialogue with listed companies on the process of recommending the appointment and re-appointment of auditors and should make considered use of votes in relation to such recommendations.	See section 2.3

B Ethics and independence

The firm is subject to ethical and independence standards set by its regulators. We recognise the impact of our individual and collective behaviours on our reputation and that of the Professional Services sector as a whole. 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, and regular training and awareness programmes.

The policies and procedures highlighted were in operation for the year ended 30 June 2017.

The introduction of the FRC Revised Ethical Standard 2016, effective for accounting periods commencing on or after 17 June 2016, introduced some important changes.

The firm has made progress with modifications to certain processes and procedures, although full implementation to our systems is ongoing and is anticipated to be completed by the end of the current calendar year.

Leadership

The firm's Quality, Ethics and Excellence Partner provides guidance and support on the application of UK and international Ethical Standards supported by an enhanced Ethics Function. The team are proactive in providing advice on ethical issues from an Ethical Standard perspective and also, more generally, in relation to complex and high risk situations that could be of heightened public interest.

The firm has invested in the Ethics Function during the year. At the time of writing, five new team members have been recruited 4.8 FTE and the firm is currently recruiting for two further team members. We have transferred our personal independence operation into the Ethics Function, which means that we have Ethics and Independence under one umbrella team.

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 overarching principles of Ethics which underpin the ICAEW Code of Ethics and the FRC Revised Ethical Standard 2016. We 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.

As part of the quality, ethics and excellence programme we have upgraded the intranet site to provide detailed guidance and support and this will be an ongoing process.

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 programmes on key policies such as principles of ethics, anti-money laundering and information security, and the Bribery Act.

Our ethical approach is being embedded across all learning programmes. Last year we introduced a refreshed Ethics training module across the whole business; this was mandatory for all existing employees and is mandatory for all new ones.

We have developed Ethics modules to be included into all core audit, tax and advisory training delivered by the firm. 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, through our Annual Declaration.

Identifying conflicts of interest

The firm uses a search tool to interrogate a suite of databases where potential relationships could be identified. Individuals are asked about relationships where the database search identifies a possible match. In support of this approach, databases have been created to ensure that all relevant relationships are identified.

The International network also maintains an electronic Global Independence System to match the investment holdings of all relevant personnel with restricted entities to avoid personal investments threatening audit independence. As referred to earlier, the control of our personal independence (see 'Financial interests' below) process in the UK is now embedded within the Ethics Function.

Potential clients with international operations

If potential clients have international operations, an international relationship check is performed to identify any relationships of other member firms of GTIL that may present a conflict of interest and/or a threat to independence.

The International network maintains databases of restricted entities and other relationships that could create a conflict. These are searched as part of the International relationship checking process.

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 the proposed non-audit service is permitted, that any perceived threats to independence created by the proposed non-audit service can be adequately safeguarded. Where required, the circumstances are communicated to the audit client's audit committee and, in the case of public interest entities, are approved by them prior to commencement of work.

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 Function/Partner must be consulted.

Client take-on process

The firm continues to invest in enhancing its take-on processes. The centralised client take-on team has been supplemented with additional resource during the year and certain processes and operations improved and streamlined. The team undertakes client verification for anti-money laundering purposes for all new and existing clients. It also conducts family tree research for international operations and database searches that underpin our relationship checking processes. The firm has been developing a new business process management tool to create a common platform for operating the process. This is currently in roll-out, with all development and refinements anticipated to be completed during the current financial year.

Non-audit services to audit clients

Before offering a non-audit service to any audit client of the firm, the relevant Responsible Individual's approval must be obtained. This approval is only given after consideration of any possible threats to the firm's independence, the adequacy of any plan to safeguard such threats with consultation and confirmation, appropriate with the Ethics Function.

Contingent fees

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

Financial interests

Prior to the introduction of the FRC's Revised Ethical Standard 2016, partners, other Responsible Individuals and members of their immediate families were prohibited from having any direct or material indirect financial interest in an audit client or the parent undertaking 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.

The prohibition has now been widened to comply with the requirements of the Revised Ethical Standard 2016 to include the change in definition of “partner”, covered persons (broadly a person in a position to influence the conduct or outcome of an engagement, including certain persons with wider firm supervisory, management or other oversight responsibilities) and any persons closely associated with any such partner or covered person. Full details of the firm’s audit clients with publicly traded securities, and those of other member firms of GTIL, are accessible through the firm’s intranet.

Further, partners and employees may not have a material financial interest in any client to which they personally provide a professional service.

Partners, directors, associate directors and managers involved in client service are required to record their financial interests (and those of persons closely associated with them) in the firm’s automated tracking system, Global Independence System.

Financial interests of the firm and its affiliated entities are also recorded in the Global Independence System, as these could have an impact on the independence of the firm or other member firms of GTIL. Any financial interest which creates a conflict must be disposed of within five days.

A formal annual confirmation is also required in the firm’s Annual Declaration, a mandatory submission for all of our partners and employees, that the record is complete. Closing date for submission is 30 September 2017 and the deadline for dealing with queries/checks/required actions is 31 October 2017. The Ethics Function considers queries from the submissions and a subsequent audit is undertaken by our Business Risk and Quality Assurance team.

Other ethical considerations

Rotation of senior audit team members

Engagement Leads and other senior team members responsible for audits are required to rotate off the engagement after specified periods of time that depends on their role and the type of entity.

Rotation in respect of listed and certain other public interest entities is initially recorded when individuals are first assigned to a client. This record is maintained on a central database.

The firm’s policy concerning the rotation of partners and people requires that:

- an audit lead may serve as the Responsible Individual on the audit of a public interest entity or other listed entity for a period of five years. In certain circumstances, and subject to audit committee decision and the approval of the firm’s Ethics Function together with the disclosure by the entity to its shareholders as soon as practicable, 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 Responsible Individual must then rotate away from the engagement for a minimum of five years; the firm’s policy dictates that they must not normally have a client-facing role with that particular client during this period.

The Revised Ethical Standard 2016 changes some of the requirements on rotation. In particular, the Responsible Individual of a material subsidiary is a “key audit partner” and can now only act for five years, rather than seven, and after that period has to rotate off the engagement for at least five years, rather than two. We have incorporated these considerations in the audit team succession plans.

- A partner may serve as independent review partner (‘Engagement Quality Control Reviewer’) on the audit of a public interest entity and other listed entities for a maximum period of seven years. After this time 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 with that particular client during this period
- Where a partner serves on the audit of a public interest entity or other listed entity in a combination of roles as audit partner, independent review partner and/or a “key partner involved in the engagement”, 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 engagement” can act for seven years 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 public interest entity or other listed entity 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

Rotation of the Responsible Individual for other public interest assurance engagements is dependent on the entity type and is a maximum of either five, seven or ten years, based on the risk assessment. In certain circumstances an extension may be granted for audit quality purposes by the firm's Ethics Function.

Hospitality and gifts

The firm's policy on gifts and hospitality reflects the enhanced requirements of the Revised Ethical Standard 2016 and partners and employees are not permitted to accept from or give to clients, suppliers or third parties any gifts or hospitality which might, or might be seen to, prejudice our integrity and objectivity in relation to our clients.

Subject to de minimis levels, all gifts or hospitality (given or received) must be recorded in the firm's hospitality register. In addition, prior approval is required for:

- any gift given in excess of £25 or received in excess of £100
- hospitality given in excess of £50 or received in excess of £200.

Limits have also been set for maximum permitted amounts of gifts and hospitality given to, or received from, certain categories of clients (eg audit) or certain third parties. Although these limits were introduced last year, we anticipate reviewing our policies during the current year to take account of emerging market practice.

Monitoring

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

- the firm's Annual Declaration process. All of our people are required to confirm 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 to check compliance with internal controls and specifically engagement acceptance procedures and independence policies
- review of the GIS accounts of all new partners, 20% of existing partners and 5% of managers annually against evidence to support their recorded financial interests from this year onwards; this is a tightening of previous monitoring numbers and timescales
- 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 Strategic Leadership Team and the Partnership Oversight Board through the Risk and Audit Committee. A new system is currently being introduced which will include electronic annual self-review for certain functions within the business followed by a five-year cycle; this will be shortened in the event that non-compliance is detected
- encouraging 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. Reports of the hotline's activity are reviewed by the Risk and Audit Committee.

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. The CEO and Head of Quality, Ethics and Excellence have regular forums with the In House Legal Counsel to discuss all relevant issues and they together ensure that all potential claims are handled appropriately.

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 Function must be consulted.

C Members of the firm's leadership and governance bodies

Members of the Partnership Oversight Board as at 30 September 2017



Ed Warner, Chairman

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 derivatives exchange LMAX, and is a non-executive director and chairman at institutional stockbroker and investment bank Panmure Gordon and non-executive director at global shipping company Clark.



Deena Mattar

Deena is a skilled FTSE 250 finance director with nine years of experience as an executive on a PLC board, with an excellent knowledge of the City and a first-class reputation among institutional shareholders and buy and sell side analysts.

She has nearly five years of experience as a non-executive director (and, in some cases, audit chair) of a number of boards of both listed and unlisted companies. She is non-executive director of Wates Group Limited and RM plc.



Imogen Joss

Imogen has a strong strategic, commercial and operational approach to business. As an executive she had a reputation for rapidly building and maintaining customer and stakeholder network relationships. Previous senior roles were at S&P Global Inc [McGraw Hill prior to 2016] and London Stock Exchange Group plc.

She is on the board of Gresham Technologies as senior independent director and chair of the remuneration committee. She has also recently accepted a role as non-executive director of IPSX UK, the UK regulated board of a soon to be launched commercial property platform.



Tracey James

Tracey is a listed company audit specialist and lead partner on a number of the firm's fast growing and aspirational clients acting across a number of industry sectors including technology, property and construction, and renewable energy. Prior to her appointment as an audit partner, Tracey worked as director of finance for a medical supplies company in Canada.

Tracey joined the Partnership Oversight Board in September 2014 and is a member of the Risk and Audit Committee.



Simon Bevan

Simon is a London-based Assurance Partner, with a client focus on knowledge businesses and professional service firms. He leads the firm's China Britain Services Group and has taught at two Chinese universities.

Simon joined the partnership in 2012 from another leading firm, where he had held leadership and governance positions.

Simon joined the Partnership Oversight Board in July 2015 and is a member of the Remuneration Committee. He was recently appointed chair of the Partner and Director Selection Panel, and also leads the firm's Partner Support Unit.



Nigel Morrison

Nigel has been an Advisory partner for 18 years but his role has recently changed in order to focus on business development with dynamic organisations, coaching and mentoring fellow partners and carrying out a number of governance roles.

Nigel has been a member of the Partnership Oversight Board since July 2015 and is also a member of the Partner and Director Selection Panel.



Mo Merali

Mo is an advisory partner focusing on due diligence services for corporate and private equity transactions. He is also Head of Private Equity. He has significant experience of leading private equity transactions, IPOs and complex cross-border transactions for private equity houses, banks and corporates, and has advised in a wide range of industries, including technology, media and telecommunication, healthcare services and financial services.

Mo joined the Partnership Oversight Board in July 2009 and is a member of the Remuneration Committee.



Helen Dale

Helen is a Transactions Advisory partner specialising in Restructuring. Helen works with executive boards and their senior teams to deliver change under difficult and/or time-sensitive circumstances.

Helen also heads up our Corporate Advisory offering for London Restructuring. Helen is an active speaker and panellist for topics including leadership, change and business turnaround.

Helen joined the Partnership Oversight Board on 1 July 2017.



Nick Page

Nick is an audit partner based in the London Technology, Media and Telecommunications practice. He works with a variety of mid-corporate, privately owned, private equity backed or AIM listed clients. Nick is also the leader of the firm's Technology, Media and Telecommunications Industry group.

Nick joined the Partnership Oversight Board on 1 July 2017 and is a member of the Risk and Audit Committee.



Karen Campbell-Williams

Karen is based in our Manchester office and has been a tax partner at Grant Thornton since 1997.

She works with growing, dynamic entrepreneurial businesses and their stakeholders to effectively manage their tax compliance obligations.

As well as her client-facing role, Karen joined the Partnership Oversight Board in July 2016 and is a member of the Remuneration Committee and the Partner and Director Selection Panel.



Philip Secrett

Philip is a corporate finance partner and is Head of Public Company Advisory. He has been advising on public company corporate finance transactions for almost 20 years and has included supporting growth companies access to UK equity markets and leading public company M&A transactions.

Philip is Chairman of the AIM Advisory Group at the London Stock Exchange, a group that provides input and advises on all matters affecting the operation and regulation of AIM.

Philip joined the Partnership Oversight Board in July 2016 and is a member of the Risk and Audit Committee.

Members of the Strategic Leadership Team as at 30 September 2017



Sacha Romanovitch

Sacha is CEO focusing on embedding our purpose to shape a vibrant economy and is a regular speaker on the issues of leadership and a sustainable future. Sacha has specific responsibility for quality, ethics and excellence.

Other positions held:

- Grant Thornton Global Board of Governors and member of Strategy Committee, Chair of Member Firm Matters Committee
- National Advisory Board of the Global Impact Investing Steering Committee
- Chair (to October 2017) of Access Accountancy
- Co-chair (since September 2017) of the UK Government's Inclusive Economy Partnership
- Board member of London and Partners (from October 2017)

Appointed CEO in July 2015, prior experience in her 27 years with the firm has included membership of the National Leadership Board with responsibility for People and Culture, the London Advisory practice, leading Corporate Advisory Services and the London audit and tax practice.



Robert Hannah

Robert is Head of Operations with responsibility for the delivery of our trading operations and has responsibility for this aspect of our firm's purpose.

Leading the element of our purpose to unlock the potential for growth in dynamic organisations, Robert speaks out on issues around export and talent and continues to work with a number of clients in our Scottish practice.

Joining Sacha's Strategic Leadership Team in July 2015, Robert was previously on the National Leadership Board with specific responsibility as Head of the Regions and draws on 28 years of experience with the firm including setting up a Corporate Finance team in Scotland before becoming Managing Partner for Scotland in 2007 with roles providing assurance, corporate finance, valuation and general business advice services.



Simon Jones

Simon is Head of Finance and Infrastructure with responsibility for the people and systems that support the business.

He continues to work with clients, sharing his expertise in the finance and infrastructure functions.

Other positions held:

- Global IT Strategy Committee
- Global Finance Committee

While joining the Strategic Leadership Team in July 2015, Simon was previously on the National Leadership Board and has 29 years' experience in the firm, with a background in audit, including time as managing partner for Milton Keynes office and as regional managing partner for our Central region offices.



Mark Byers

Mark leads our strategic client relationships as well as our international strategy. He has responsibility for the firm's focus of our purpose on building trust and integrity in markets.

Mark has also significant continuing client responsibilities with a particular focus on the Financial Services sector.

Other positions held:

- Head of the Advisory practice
- Global Lead for Restructuring services

Appointed to the Strategic Leadership Team in July 2015, Mark has 39 years with the firm in regulatory roles, corporate finance advisory, restructuring and insolvency.



Karl Eddy

Karl leads on our enterprise activities and has responsibility for the firm's focus on the aspect of our purpose to create environments where people and business thrive.

Karl works on creating and managing the strategic partnerships and investments of the firm.

Joining the Strategic Leadership Team in July 2015, in his 13 years with the firm Karl has built a depth of experience in advising on and delivering large-scale programmes supporting business growth.



Stephanie Hasenbos-Case

Stephanie leads on the People and Client Experience, which includes responsibility for our shared enterprise culture.

Other positions held:

- Global People and Culture Leader (to October 2017)

Stephanie joined the UK Strategic Leadership Team on 13 March 2017, bringing 20 years' experience from the profession and industry in strategy, talent management, change management, knowledge management and customer experience, including 12 years of international leadership experience gained while living in Paris, Prague, Amsterdam and London.

D Meeting attendance

The table below sets out attendance at meetings of the firm's principal leadership and governance bodies and their subcommittees in the year to 30 June 2017.

		Meetings			
	Appointed	SLT	POB	RAC	RemCo
Number of meetings in year		11	6	7	4
Strategic Leadership Team					
Mark Byers	1 July 2015	10	1		
Karl Eddy	1 July 2015	11	1		
Robert Hannah	1 July 2015	11	4		
Simon Jones	1 July 2015	9	6	7	
Norman Pickavance	Retired on 31 October 2016	4	0		
Sacha Romanovitch (CEO)	1 July 2015	11	6	6	4
Stephanie Hasenbos-Case	13 March 2017	6			
Partnership Oversight Board					
Simon Bevan	1 July 2015		5		4
Karen Campbell-Williams	1 July 2016		6		4
Paul Flatley	1 July 2009		5	6	
Tim Lincoln	1 October 2006		5	6	
Mo Merali	1 July 2009		6		4
Nigel Morrison	1 July 2015		6		
Stephen Mills	Retired on 15 October 2016		0		
Tracey James	1 September 2014		6	7	
Philip Secrett	1 July 2016		6	6	
Independent non-executives					
Caroline Goodall	Retired on 30 June 2017		5	6	
Deena Mattar	19 February 2016		5	6	
Ed Warner	15 September 2010		6		4

Coloured to represent 'attendance by invitation'

Key:

SLT – Strategic Leadership Team

POB – Partnership Oversight Board

RAC – Risk and Audit Committee

RemCo – Remuneration Committee

E 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.

At 30 September 2017, GTIL had 140 independent member firms (2016: 140) with aggregate revenues of US\$4.8 billion (2015: US\$4.6 billion), and more than 47,000 people.

A full list of Grant Thornton member audit firms in European Union (EU)/European Economic Area (EEA) member states, and the countries in which they are registered or have their principal place of business, is shown below.

The total turnover achieved by statutory auditors and audit firms that are members of the GTIL network in EU or EEA member states from the statutory audit of annual and consolidated financial statements, calculated to the best extent possible, is approximately Euros 510 million. This represents the turnover consolidated into the GTIL financial statements from each entity converted to euros at the exchange rate as at the GTIL financial year-end date (30 September 2016).

Member firm admissions

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) 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 Global Board of Governors and the Global Leadership Team. Their roles and responsibilities are set out, in summary, below.

Global 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, CEOs from the largest Grant Thornton member firms, CEOs elected from Grant Thornton member firms outside of the largest firms and independent non-executive 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, 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 Board members as at 30 June 2017 are:

- **Scott Barnes**, Chair, Board Member
- **Ed Nusbaum**, CEO, Grant Thornton International Ltd
- **Mike McGuire**, US
- **Sacha Romanovitch**, UK
- **Emilio Imbrigliom**, Canada RCGT
- **Xu Hua**, China
- **Kevin Ladner**, Canada LLP
- **Daniel Kurkdjian**, France
- **Greg Keith**, Australia
- **Anna Johnson**, Sweden
- **Joachim Riese**, Germany
- **Vishesh Chandiok**, India
- **Vassilis Kazas**, Greece
- **Marivic España**, Philippines
- **Hisham Farouk**, UAE
- **Arnaldo Hasenclever**, Argentina
- **Gagik Gyulbudaghyan**, Armenia
- **Pascal Boris**, Independent Board Member
- **Judith Sprieser**, Independent Board Member

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 co-ordinated group in support of the CEO on global strategy.

The current Chair is Scott Barnes and his current 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.

The Global Leadership Team

The Global Leadership Team (GLT) drives the execution of the global strategy and is chaired by the CEO. 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.

The GLT members as at 30 June 2017 are:

- **Ed Nusbaum**, CEO, GTIL
- **Antony Nettleton**, Global Leader, Assurance Services
- **Paul Raleigh**, Global Leader, Growth and Advisory Services
- **Francesca Lagerberg**, Global Leader, Tax Services
- **Gernot Hebestreit**, Global Leader, Business Development and Markets
- **Robert Quant**¹, Global Leader, Collaboration and Capability
- **Paul English**, Marketing and Client Experience

More information can be found at www.grantthornton.global.

Chief Executive Officer

The Chief Executive Officer (CEO) is responsible for the leadership of GTIL and 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 current CEO, Ed Nusbaum, will retire at the end of this calendar year and will be succeeded by Peter Bodin from 1 January 2018. 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 assurance, tax and advisory service lines.

¹ Robert was global leader of Business Development and Markets up to August 2017.

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 software, that is used globally
- policies and procedures contained in audit manuals that are benchmarked against international auditing, quality control, independence and ethics 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 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 is in place to support the 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 assurance practice quality control systems.

Grant Thornton Audit Review

Each member firm is obligated to submit to an inspection of its quality control system, referred to as the Grant Thornton Audit Review, at least once every three years. The Grant Thornton Audit Review process is designed to monitor member firm compliance with professional standards and global audit policies and procedures.

The Grant Thornton Audit Review 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.

Grant Thornton Audit Review 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 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 Grant Thornton Audit Review 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 assurance engagements. On conclusion of each Grant Thornton Audit Review, 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 Grant Thornton Audit Review 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 Grant Thornton Audit Review, a further visit or remote assessment is made to review progress in implementing these actions.

There are equivalent review processes for other network services.

Grant Thornton member audit firms – European Union (EU)/European Economic Area (EEA) member states

The table below shows the statutory auditors and audit firms which are members of the Grant Thornton network in the EU or EEA member states and the countries in which they are registered or have their principal place of business as at 30 June 2017.

Country	Member firm
Austria	Grant Thornton Unitreu Gmbh Wirtschaftsprüfungs- Und Steuerberatungsgesellschaft
Belgium	Grant Thornton Bedrijfsrevisoren
Bulgaria	Grant Thornton Ood
Croatia	Grant Thornton Croatia
Republic of Cyprus	Grant Thornton (Cyprus) Ltd
Czech Republic	Ib Grant Thornton Audit SRO
Denmark	Grant Thornton Statsautoriseret Revisionspartnerselskab
Estonia	Grant Thornton Baltic OÜ
Finland	Advico Grant Thornton Idman Vilen Grant Thornton Revico Grant Thornton
France	Aace LDF ADG International AEG Finances Carib Audit Grant Thornton France GT Expertise Conseils GT Management IGEC Tuillet Audit
Germany	ATS GmbH Grant Thornton Deutschland GmbH Warth & Klein Grant Thornton GmbH & Co. KG Frankfurt Warth & Klein Grant Thornton GmbH & Co. KG Stuttgart
Greece	Grant Thornton SA
Hungary	Ib Grant Thornton Audit Kft.
Iceland	Grant Thornton Endurskoðun Ehf
India	Grant Thornton India LLP Walker Chandio & Associates Walker Chandio & Co LLP
Indonesia	Kap Gani Sigiro & Handayani
Ireland	Grant Thornton Ireland
Italy	Ria Grant Thornton SPA
Latvia	Grant Thornton Baltic SIA
Liechtenstein	Grant Thornton Liechtenstein
Lithuania	Grant Thornton Lithuania
Luxembourg	Grant Thornton Lux Audit SA

Country	Member firm
Malta	Grant Thornton Malta
Netherlands	Grant Thornton Accountants En Adviseurs BV
Norway	Grant Thornton Revisjon AS
Poland	Grant Thornton Frąckowiak Sp. z o.o sp.k.
Portugal	Grant Thornton & Associados, Sroc, Lda Grant Thornton Consultores, Lda
Puerto Rico	Kevane Grant Thornton, LLP
Romania	Grant Thornton Audit SRL
Slovakia	IB Grant Thornton Audit, S.R.O.
Slovenia	Grant Thornton Slovenia
Spain	Cruces Y Asociados Auditores, S.L.P. Grant Thornton Andalucía, S.L.P. Grant Thornton, S.L.P.
Sweden	Grant Thornton Sweden AB
United Kingdom	Grant Thornton UK LLP

F Financial information

The following information has been extracted from Grant Thornton's annual audited financial statements and financial records for the year ended 30 June 2017. The full financial statements for the firm can be downloaded from our website. This information shows the importance of statutory audit work to the overall results of the firm.

Relative importance of statutory audit work

An analysis of turnover for the years ended 30 June 2017 and 2016 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:

	2017		2016	
	£ million	%	£ million	%
Statutory audit and related fees	133.0	27	131.9	25
• Public interest entities	8.6	2	7.8*	1
• Other	124.4	25	124.1	23
Non-audit work to audit clients	55.2	11	56.8	11
Sub-total audit clients	188.2	38	188.7	36
Non-audit work to non-audit clients	311.7	62	345.1	64
Total	499.9	100	533.8	100

*Under Directive 2006/43/EC, as amended by Directive 2014/56/EU, the definition of a public interest entity (PIE) has changed, which is applicable for year ended 30 June 2017. The 2016 comparative includes fees in relation to statutory audits of those PIEs as defined under the new definition, together with PIEs as defined in the Statutory Auditors (Transparency) Instrument 2008, where an audit report was signed in the year ended 30 June 2016.

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:

	2017 £ million	2016 £ million
Turnover	133.0	131.9
Operating profit	10.9	8.4

Audit services for this purpose include 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.

G Partner remuneration

In accordance with the firm's membership agreement and subject to the approval of the Partnership Oversight Board, the Chief Executive Officer (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 our scorecard on contribution to implementing our strategy and with particular reference to ensuring that quality is at the heart of everything we do:

- **markets:** be the vibrant firm at the heart of growth
- **clients:** seize opportunities in a connected world
- **people:** build an innovation culture that creates value leadership in the development of colleagues
- **operations:** make it easy and rewarding to deliver superior and sustainable results.

Behaviours 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 the Partnership Oversight Board. The Remuneration Committee is responsible for setting the basis and criteria against which the CEO is measured, including the setting of targets and assessment of actual achievements. It also approves the CEO's allocation of profit sharing units to other partners on the Strategic Leadership Team.

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 monitoring reviews of the National Assurance Services team (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.

H Public interest entities

The list of public interest entity audit clients for which Grant Thornton UK LLP has signed an audit opinion in the year ended 30 June 2017 is given below.

The definition of a public interest entity for this purpose is that given under Directive 2006/43/EC, as amended by Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014, being:

- a) entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC;
- b) credit institutions as defined in point 1 of Article 3(1) of Directive 2013/36/EU of the European Parliament and of the Council, other than those referred to in Article 2 of that Directive
- c) insurance undertakings within the meaning of Article 2(1) of Directive 91/674/EEC
- d) entities designated by Member States as public interest entities, for instance undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees.

- 1 Allianz Technology Trust Plc
- 2 Astrenska Insurance Limited
- 3 Aurora Investment Trust Plc
- 4 Avocet Mining Plc
- 5 Bank Saderat Plc
- 6 Birmingham City Council
- 7 Blackburn with Darwen Borough Council
- 8 British & American Investment Trust Plc
- 9 Caffyns Plc
- 10 Calculus VCT Plc
- 11 Cambridgeshire Housing Capital Plc
- 12 Candover Investments Plc
- 13 Coventry City Council
- 14 Dudley Metropolitan Borough Council
- 15 East Finance Plc
- 16 Edge Performance VCT Plc
- 17 Ediston Property Investment Company Plc
- 18 The Establishment Investment Trust Plc
- 19 Folgate Insurance Company Limited
- 20 Fuller, Smith & Turner Plc
- 21 The Griffin Insurance Association Limited
- 22 Grifonas Finance No. 1 Plc
- 23 GVC Holdings Plc
- 24 Hansa Trust Plc
- 25 Helical Plc
- 26 Henderson Alternative Strategies Trust Plc
- 27 Henderson International Income Trust Plc
- 28 Highcroft Investments Plc
- 29 Ingenious Entertainment VCT 1 Plc
- 30 Ingenious Entertainment VCT 2 Plc
- 31 Interserve Plc
- 32 Invesco Perpetual UK Smaller Companies Investment Trust Plc
- 33 JP Morgan US Smaller Companies Trust Plc
- 34 JP Morgan Japan Smaller Companies Trust Plc
- 35 The Lindsell Train Investment Trust Plc
- 36 Liverpool City Council

37 London Borough of Croydon
38 Manchester City Council
39 The Master and Fellows of the College of the Great Hall
of the University commonly called University College in
the University of Oxford
40 Mears Group Plc
41 Medica Group Plc
42 Melli Bank Plc
43 Menhaden Capital Plc
44 MGM Advantage Life Limited
45 MPS Risk Solutions Limited
46 National Exhibition Centre (Developments) Plc
47 Neptune Calculus Income and Growth VCT Plc
48 Oldham Metropolitan Borough Council
49 Pantheon International Plc
50 Pembroke VCT Plc
51 Premier Veterinary Group Plc
52 Record Plc
53 RHP Finance Plc
54 S4B (Issuer) Plc
55 Salford City Council
56 Simplyhealth Access
57 Solutions 4 North Tyneside (Finance) Plc
58 Sports Direct International Plc
59 Standard Life Equity Income Trust Plc
60 Swan Housing Capital Plc
61 Together Housing Finance Plc
62 Triple Point Income VCT Plc
63 Triple Point VCT 2011 Plc
64 University of Greenwich
65 Value and Income Trust Plc
66 Vordere Plc
67 Warrington Borough Council
68 Witan Investment Trust Plc
69 Woodford Patient Capital Trust Plc
70 World Trade Systems Plc



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EPI.1242