



TRANSPARENCY REPORT 2015

CONTENTS

Introduction from the Managing Partner	01
Report from the Head of Risk and Quality	02
Report from the Chairman of the Public Interest Committee.....	07
Delivering Audit Quality	10
• An introduction from the Head of Business Assurance	10
• Quality delivered through the right processes.....	14
• Quality delivered through the right people.....	29
Governance	37
Ethics and Independence	41
Appendices:	
Appendix A - Audit Firm Governance Code Statement of Compliance	43
Appendix B - Governance Structure – BDO International Network.....	47
Appendix C - Governance Structure – UK Firm.....	49
Appendix D - Financial Performance.....	54
Appendix E – Members of the Firm's Governance Structures at 3 July 2015	55
Appendix F – Leadership and Governance Meeting Attendance in the year ended 3 July 2015	59
Appendix G – Public Interest Audit Clients.....	60
Appendix H – Ethics and Independence.....	61

REGULATIONS

We have prepared the Transparency Report, in respect of the period ended 3 July 2015 (the report), in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 issued by the Professional Oversight Board of the Financial Reporting Council. The report also includes those matters specified to be included in the Transparency Report by the Audit Firm Governance Code (the Code), issued by the Institute of Chartered Accountants in England and Wales (ICAEW) in January 2010. Our statement on compliance with the provisions of the Code and our report on how we have applied in practice each of the principles of the Code are given in Appendix A.

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

INTRODUCTION

FROM THE MANAGING PARTNER

Welcome to BDO's 2015 Transparency Report. The market is changing not just within the audit profession but across international boundaries in response to the globalisation of businesses, changing regulation and demands for increased transparency. This report sets out how we are responding, particularly to ensure we deliver high quality audits, through the promotion of excellence in quality and our people.

Much of our focus over recent years has been on quality in the domestic audit market and returning confidence to investors. In the last year BDO has undergone four quality control reviews and achieved our best feedback yet. I congratulate our partners and staff on their excellent work and consistently high achievements.

The approach to audit has become increasingly focused on the quality of processes, reporting and independence. As a leading adviser to the mid-market however it is important that the level of regulation for these entities needs to be proportionate.

In the past three years we have seen significant growth in our tax and advisory businesses, both in the UK and in leveraging our extensive international network. This is set to continue. This growth is in part due to the widening of the non-audit services market, ahead of the implementation of EU Audit Reform but also through our strong reputation for providing diverse services to complex businesses across a range of industries. There is no doubt that changing regulation continues to benefit BDO.

Although we have a leading position in the mid-market we have also secured significant non-audit work in the FTSE 350.

We were pleased to respond to the Financial Reporting Council's (FRC's) consultation on the Audit Firm Governance Code. Although many aspects facing audit firms are the same as in 2010, when the code was first drafted, there have also been changes, such as the focus on public interest and in the structure of some firms, moving towards a more consultancy based practice. We see one of the major benefits of the Code is its flexibility, for firms of different structures and sizes and we look for this to be maintained.

Audit is fundamental to our business and rightly a key focus but reputation risk does not derive solely from audit, and as such, we consider public interest in all services we provide, whether to audit or non-audit clients.



SIMON MICHAELS
MANAGING PARTNER

2 October 2015

REPORT FROM THE HEAD OF RISK AND QUALITY

Excellence in quality is the core foundation of the firm's vision to provide exceptional client service. I am delighted to set out an overview of the key activities of the Risk and Quality Committee and the way in which the firm manages and monitors the risks facing our business in order to deliver sustainable audit quality.



IAIN LAWSON
HEAD OF RISK AND QUALITY
2 October 2015

RISK MANAGEMENT AND INTERNAL CONTROL

The firm recognises that risk is an inherent part of conducting business and that managing this risk is a critical element of its operations.

The governance structure of the firm and the role of the Risk and Quality Committee (R&Q Committee) are set out on pages 37 to 40 with further detail in Appendix C. The Leadership Team retains ultimate responsibility for the firm's system of internal control and for reviewing its effectiveness. Operationally, these responsibilities have been delegated to the R&Q Committee, which monitors the key risks facing the firm and scrutinises the processes and controls in place to mitigate them. The leaders of business units, service streams and practice management departments (PMDs) are responsible for the day to day implementation and monitoring of this system, incorporating financial, operational and compliance controls and risk management systems.

The members of the R&Q Committee are set out on page 58. They include members of the Leadership Team with direct responsibility for managing our delivery of professional services and therefore the Committee is well placed to ensure relevant actions are implemented effectively and within appropriate timescales.

TOP RISKS

During the year the R&Q Committee reviewed and refreshed its assessment of the risks facing the firm including those which could result in loss, damage to reputation and failure to deliver exceptional client service. The R&Q Committee considered the regulatory and market environments, the strategic goals of the firm and determined that there were seven key risks which are set out below ('Top Risks'). The Top Risks were reviewed and agreed by the Leadership Team.

Each service stream and PMD applies the risk management framework as appropriate to their own area of operation, reporting into the R&Q Committee. Action plans are drawn up and implemented to strengthen process and controls when changes in risks or new risks are identified. These action plans and risk maps were reviewed by the R&Q Committee.

The Top Risks of the firm determined by the R&Q Committee are shown overleaf.

RISK	DESCRIPTION	KEY MITIGATING ACTIVITIES
Client Acceptance and Scope	<p>Failure to identify engagement or other commercial risks associated with a potential client or project.</p> <p>Failure to define the scope of projects with sufficient clarity, or engage those who have the right knowledge and skills to deliver the scope of work.</p> <p>Failure to comply with anti-money laundering regulations.</p>	<p>Rigorous client and engagement acceptance policies and procedures.</p> <p>Levels of approval of potential clients or engagements with higher risk characteristics.</p>
Regulation	<p>Some of our activities are highly regulated and major changes in regulation can impact our business model.</p> <p>Failure to maintain quality standards to the required regulatory standard or deal with any adverse findings from regulatory inspections to the regulator's satisfaction.</p>	<p>Partner involvement with professional institutes and regulatory bodies. (Identifying change and influencing where possible).</p> <p>Maintaining an appropriate level of interaction and relationships with regulatory authorities.</p> <p>Regular review of anticipated regulatory changes and assessment of their impact.</p> <p>Comprehensive quality control systems, methodologies and guidance.</p> <p>Dedicated technical support services.</p>
Delivering Technical Excellence to Avoid Service Failure or Litigation Risk	<p>Major service failure resulting in litigation and/or regulatory action, with the potential to ultimately impact the survival of the firm.</p>	<p>Excellence in quality is at the heart of our strategy and is embedded in our activities.</p> <p>Comprehensive quality control systems, methodologies and guidance.</p> <p>Dedicated technical support services.</p> <p>Significant technical and commercial training to enhance the skills of our people and to ensure they remain up to date.</p> <p>Controls to ensure that partners and staff with the right specialist knowledge and skills are assigned to engagements.</p> <p>Internal inspections to review the quality of work and clear action plans to address the findings from internal and external reviews.</p> <p>Maintaining adequate professional indemnity insurance (PII).</p>

REPORT FROM THE HEAD OF RISK AND QUALITY

RISK	DESCRIPTION	KEY MITIGATING ACTIVITIES
Investment and Commercial Management	<p>Failure to be innovative and to develop new approaches to the delivery of services and insufficient investment in technology could lead to inefficiencies and services which deliver less value than those of competitors.</p> <p>Failure to match key skills to growth areas resulting in lost opportunities.</p> <p>Maintaining strong professional relationships with our clients is vital to our continued growth. Clients are becoming more value conscious in their purchasing. There is a risk that competitive market conditions restrict our ability to obtain an adequate commercial return.</p> <p>Failure to manage working capital appropriately.</p>	<p>Clear strategic plans developed by the Leadership Team and by service streams and PMDs. Regular "horizon scanning" of the external environment by both the Leadership Team and service stream management.</p> <p>Investment in people, technology, new methodologies and processes monitored in line with strategic plans and budgets.</p> <p>Detailed annual budgeting process with ongoing review of actual performance against budgets and remedial action taken where necessary.</p> <p>Working capital controls including close and ongoing monitoring.</p>
Data Loss/IT Architecture/Business Continuity	<p>Failure to protect client confidential or personal data.</p> <p>Major IT failure or major data loss results in the inability to carry out business as usual.</p> <p>Failure to identify and manage emergent cyber risks.</p>	<p>Robust IT policies and processes, including access controls and appropriate disaster recovery and business continuity plans.</p> <p>Extensive data protection policies and processes.</p> <p>Control of sensitive data through limited access.</p> <p>Ongoing training to alert partners and staff to cyber and other risks of data loss and the behaviours necessary to minimise such risks.</p>
Talent and Succession	<p>Our ability to attract, develop and retain the right number of sufficiently qualified, motivated and experienced people is vital to our ability to deliver exceptional client service.</p>	<p>Create an environment where our partners and staff are empowered and live by our values.</p> <p>Surveys to obtain feedback from partners and staff and ongoing programmes to maintain engagement and address feedback.</p> <p>Competitive reward and recognition.</p> <p>Significant technical and commercial training, competitive record and recognition development and on the job coaching.</p> <p>Structured performance reviews and feedback to help the development of partners and staff.</p>
International Network	<p>Significant litigation or service failure by an international firm resulting in a loss of reputation to the BDO network as a whole.</p> <p>Failure of BDO International to implement sufficient adequate quality controls (in particular in respect of audit) resulting in criticism by regulators and loss of reputation.</p> <p>Withdrawal of a significant member firm from the network.</p> <p>Inability of an international firm to service the needs of our clients leading to issues with service delivery and impacting on growth.</p>	<p>Robust methodologies and supporting tools applied globally, including our global audit methodology and electronic Audit Process Tool.</p> <p>Robust international quality inspection programme.</p> <p>Strong collaboration between member firms.</p>

STREAM AND PMD RISK PRESENTATIONS

On a rolling basis, the heads of each service stream and PMD meet with the R&Q Committee to discuss the risks facing their business unit, the controls and other risk mitigation measures in place and the service stream's/PMD's actions plans to further enhance quality and reduce risk. This ensures there is appropriate upward feedback to the Committee of emerging risks and concerns.

INTERNAL AND EXTERNAL INSPECTION REPORTS

The R&Q Committee is kept apprised of the key findings arising as external inspection visits progress and has reviewed the reports on the Firm from the FRC Audit Quality Review (AQR) and the ICAEW Quality Assurance Department (QAD). The Committee has also considered the key messages from other FRC Audit Quality reports and has reviewed the reports and findings from internal monitoring reviews and BDO International monitoring reviews. The key findings from the AQR and the actions being taken by the Firms are set out on pages 21 to 24.

OTHER REPORTING TO THE R&Q COMMITTEE

During the year, the R&Q Committee considered the current public focus on tax avoidance and the Firm's principles when providing tax services. The Committee also considered a number of updated policies including those regarding whistleblowing, complaints, financial interests and the sanctions for partners whose performance with respect to risk and quality matters does not meet the Firm's required standards.

INTERNAL AUDIT

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

Dedicated resource is used to conduct reviews with reports being presented to the R&Q Committee setting out the recommendations raised to address any weaknesses identified in the firm's system of internal control. These reports along with quarterly updates of progress against the internal audit plan and implementation of actions in response to findings from reviews were considered by the R&Q Committee.

EFFECTIVENESS OF THE FIRM'S SYSTEM OF INTERNAL CONTROL

As described above, we have reviewed and updated our system of internal control during the year. Year two of our three year Internal Audit plan has been delivered. One of the key elements of implementing and maintaining a sound system of internal control is the resolve of management to implement recommendations for improvement. As such, the three year Internal Audit plan includes a follow up exercise each year to independently verify that recommendations raised by internal audit, or as a result of any other internal or external reviews, have been implemented in full and in a timely manner.

Necessary actions are being taken to remedy weaknesses identified from the review which has been undertaken.



REPORT FROM THE CHAIRMAN OF THE PUBLIC INTEREST COMMITTEE

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



SIMON FIGGIS
CHAIRMAN OF THE PUBLIC
INTEREST COMMITTEE

2 October 2015

The Public Interest Committee (PIC) comprises, Lesley MacDonagh, David Isherwood and me.

David is the firm's Ethics Partner and oversees the design and implementation of the firm's audit methodology, both in the UK and, together with others, internationally. He also represents the firm on a number of committees and working parties. Lesley and I are independent.

The PIC see its role as ensuring that the public interest is considered at the highest level within BDO and to ensure that quality is a cornerstone of BDO's values and is at the heart of all that they do.

As Independent Non-Executives (INEs), Lesley and I, attend meetings of the PIC and the Leadership Team; I also attend meetings of the Risk and Quality Committee. We are briefed on the people management policies and procedures and Lesley works closely on the inclusion agenda. We are both involved in the selection of directors being put forward to become partners and Lesley acts as one of the interviewing panel. We also meet formally with the Partnership Council annually and give feedback on a wide range of issues and Lesley is on the firm's Diversity and Inclusion Group.

In short our role as INEs is not confined to meetings of the PIC, and this report explains what we have done more widely.

THE AUDIT GOVERNANCE CODE

The Audit Firm Governance Code was adopted in 2010 and the FRC is in the process of consulting on whether and how it should be updated. We agree with the consultation proposal that the code should focus on three main areas:

- Audit quality (first and foremost)
- A firm's reputation
- The prevention of a firm failure.

We have been involved in the response from BDO and support the comments made by the firm and in particular that it should remain principles based and that more enforced uniformity would be detrimental.

AUDIT QUALITY

The reports of the Head of Business Assurance and Head of Risk and Quality are contained within this report. We have encouraged and supported the leadership and quality teams in pushing for ever higher standards. But we have taken some specific steps ourselves.

We have received detailed briefings on the remuneration policy for partners and how BDO reward partners for good quality work and how the 'fines' system works in relation to poor quality findings. I am a member of the panel which decides on the level of fines.

We met with the FRC's Audit Quality Review (AQR) team to understand BDO's report and also had a presentation of the results of the firm's own audit quality review process.

REPORT FROM THE CHAIRMAN OF THE PUBLIC INTEREST COMMITTEE

We discussed and agreed the proposed changes to the internal review process. We are pleased to note the improvement in the results of the various reviews conducted both internally and externally during the year.

As noted on page 24 there have been some breaches of the audit independence rules involving partner's investments in audit clients. This was disappointing but the firm reacted quickly, changing its policy on the use of discretionary managed investment arrangements.

THE FIRM'S REPUTATION

A substantial percentage of the firm's revenue derives from audit and thus audit quality is a fundamental driver in relation to the firm's reputation and remains a key area of our focus. However, as highlighted by the tribunal decision in the MG Rover case public interest can be adversely affected by the provision of services other than audit. Coupled with the growth in the provision of non-audit services it is important that our discussion of public interest covers not just the audit practice but all aspects of the firm's business.

We consider it important that the tone at the top demonstrated within the audit business extends across all areas of the firm.

PREVENTION OF A FIRM'S FAILURE

The long term success of a firm depends on the quality of its people and BDO have instigated a number of initiatives to enhance and secure the quality of their people, as set out on page 29 of this report.

Within the PIC we have focused on how the firm sustains its reputation but also and specifically, on its claims experience and its Professional Indemnity Insurance (PII) position. Accordingly we have had a briefing from the Head of Practice Protection on both current claims and the insurance arrangements.

OTHER MATTERS

We have received reports on BDO's whistleblowing procedure and the management of conflicts of interest and have made suggestions for improvement where necessary.

During the year we completed a self-assessment exercise as to our effectiveness as a committee and individually as INEs and we are pleased to receive positive confirmation of our impact on public interest matters within the firm. Areas identified for inclusion in the coming year's activity, alongside our usual activities were increasing visibility within the wider partnership and consideration of the firm's procedures over the quality and effectiveness of technical training.

BDO INTERNATIONAL (BDOI)

We received a briefing from the Head of International Advisory, Risk and Quality Services on how risks and quality are managed internationally and the impact this has – particularly on its audit practice. Details of BDOI's quality control procedures are included in Appendix B of this report.

We also received a briefing from BDOI's Chief Executive Officer, Martin van Roekel, on the aspirations for the network and the important role that BDO in the UK plays.

STAKEHOLDER ENGAGEMENT

We have had a number of meetings with the FRC and given our views on a range of topics – most notably in relation to its consultation on audit firms' governance.

But, as noted in last year's report, we have had very limited interaction with institutional shareholders. Scott Knight, Head of Business Assurance, is undertaking a programme of visits and if any of these (or any other) stakeholders would like to raise an issue with us we would be pleased to hear from you.

CONCLUSION

Based on our interactions with the firm we have confidence that the importance of the public interest is recognised in the firm's dealings with its clients, its people and other stakeholders.



DELIVERING AUDIT QUALITY

AN INTRODUCTION FROM THE HEAD OF BUSINESS ASSURANCE



SCOTT KNIGHT
HEAD OF BUSINESS
ASSURANCE

2 October 2015

The past year has seen BDO undergo four separate quality review procedures in respect of their audit files and we have achieved our best standards ever.

I am proud of the results of the 2014/15 AQR review which show continued improvement in audit quality, a key focus of the Audit Stream Executive (ASE) and the Leadership Team. But I am most proud of the hard work of our partners and staff in achieving these standards. High standards are not achieved by chance and can only be maintained through the continued hard work and dedication of our audit teams.

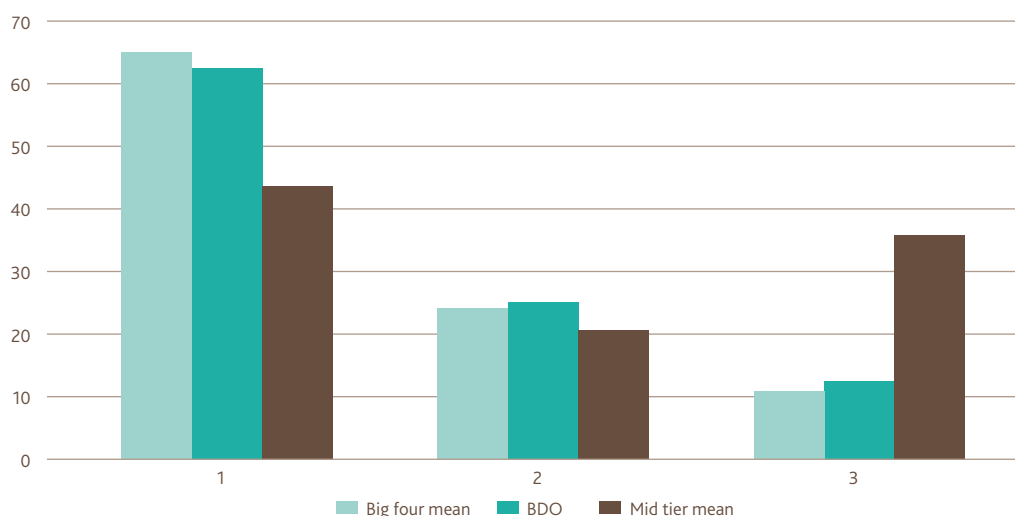
The firm is particularly proud of its achievement in audit quality not only relative to other mid-tier firms (Grant Thornton, Mazars and Baker Tilly) but also against the traditional Big Four firms where BDO have shown continuous improvement.

Details of the separate reviews are set out on pages 18 to 27.

However, there is no room for complacency. Both the firm's own quality control procedures and the AQR review have identified improvements are still needed in some areas and the firm remains committed to achieving these.

Over the past year we have undertaken a review of what it takes to perform well in a competitive market place, to maintain the high quality of our audits whilst achieving exceptional client service. As a result we have commenced transforming our audit approach.

Innovation in our approach to audits is fundamental. It is not sufficient merely to meet the auditing standards, any auditor should continually ask themselves what more can be done, not only to support the firm's goal of exceptional client service



- (1) Good with limited improvements required
- (2) Improvements required
- (3) Significant improvements required

but to meet our wider responsibility to improve confidence in the markets and meet the needs of stakeholders.

BDO ADVANTAGE

Fundamental to an innovative audit approach is the use of technology, we continue to invest heavily in BDO Advantage which will revolutionise the way we complete our audit testing. But technology alone will not have the desired impact on audit quality and the financial information extracted. It is a tool the success of which depends on its application by the audit team and the interpretation and understanding of the results it generates. Therefore in addition to investing in the technology we invest heavily in the training of our audit teams.

AUDIT QUALITY CORNERSTONES

Hand in hand with the challenge of deploying new technology, we are taking the opportunity to up skill our people, to equip them to utilise tools to gain real insights into the business of our clients; revisit the application of professional standards to our audits, enhance our understanding and the value of the procedures adopted and support Audit Committees and Boards in their governance of the company.

Our Audit Quality Cornerstones are shown below.

“
BDO Advantage utilises innovative technology that will revolutionise our audit approach
 ”

SCOTT KNIGHT
 HEAD OF BUSINESS ASSURANCE



DELIVERING AUDIT QUALITY

AN INTRODUCTION FROM THE HEAD OF BUSINESS ASSURANCE

BDO ACADEMY

This year has also seen the launch of the BDO Academy developed by the ASE to cultivate our leaders of the future.

The academy programme is a three stage process which takes our newly qualified staff through to Director and Partner level, supporting them to develop their own impact and commercial skills.

The first stage focuses on leadership, project management and personal impact skills. It is imperative that our staff are not only technically excellent but also have the personal skills to work with our clients.

The second stage focuses on personal leadership style, negotiation and approaches to bids and targets. The third stage will build on the first two stages.

IMPROVEMENTS IN INTERNAL MONITORING FOR 2015

To support our goal of continual improvement of audit quality. We have reviewed and revised our internal audit quality review process. We have moved from a blunt pass/fail standard to move the grading towards those used by the AQR. This will enable us to compare our monitoring process more directly with those of external regulators.

We will also be developing our process for identifying and evaluating root causes. This is an action arising out of the AQR review and is also a BDOI requirement.

In addition to the cold file reviews, our review team will continue to perform thematic reviews on an ad hoc basis to address concerns raised by the ASE and the FRC more generally.

Thematic reviews completed in the year include:

- Journal testing and management override
- Role of the EQCR
- Materiality
- Controls testing
- Impairment.

The purpose of these thematic reviews is to evaluate whether the firm's guidance is being applied.

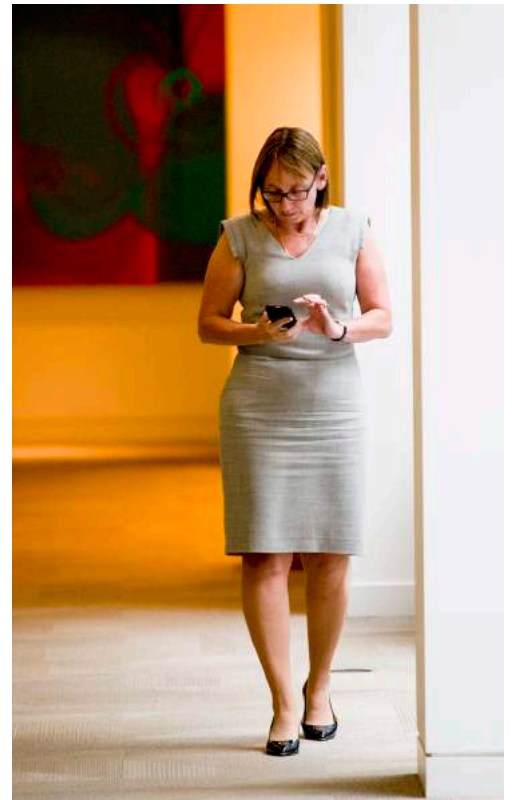
The results of these thematic reviews are used to direct our training and focus for upcoming audits to improve quality of audit approach and documentation.

AUDIT QUALITY INDICATORS – STAFF SURVEY

Audit quality is of paramount importance to us as a firm so when conducting our staff survey on audit quality we made the decision to ask for simple yes and no answers to our three quality questions, the responses to which are included on page 17. We have not included these questions in staff surveys previously so there is no comparable data.

In common with an industry sector coming out of a long period of recession, the accountancy profession is not immune to a shortage of available skills in the recruitment market. In response we are welcoming our largest intake of graduates and school leavers ever, who we feel sure can embrace the new technology, utilising it to its fullest potential. In addition we are continually seeking ways to improve our audit process to increase efficiency and effectiveness and are currently undertaking a number of initiatives such as utilising technology and focusing on our audit quality cornerstones.

That said I am immensely proud of and give my thanks to our audit staff, who despite the constraints have earned BDO its' highest ever quality rating, this can only be achieved through dedication to our clients and hard work.



DELIVERING AUDIT QUALITY

QUALITY DELIVERED THROUGH THE RIGHT PROCESSES

Maintaining quality standards is the key focus of the BDO International Audit Steering Committee.

BDO International's Audit Quality Framework identifies six internal drivers of audit quality:

- Leadership responsibility for quality within the firm
- Acceptance and continuance of client relationships and engagements
- Skills and personal qualities of engagement partners, engagement team and other firm personnel
- Engagement performance
- Internal monitoring and continuous improvement
- Communications with those charged with governance.

The firm's system of internal quality control is designed to provide reasonable assurance that the firm, its partners and staff comply with professional standards and regulatory and legal requirements and that audit work is performed to a consistently high standard.

The firm considers that such systems are compliant with all applicable standards, such as the IAASB's International Standard on Quality Control 1 (ISQC1), and, where relevant, best practice frameworks including the FRC's Audit Quality Framework.

In this report we set out how BDO applies the Audit Quality Framework and other applicable standards within the UK.

CASE STUDY: BDO ADVANTAGE

Advantage is BDO's new data auditing tool for the Assurance stream.

It works by combining smart technology with our knowledge and understanding of our clients' business to deliver trusted information for interpretation. These include graphics that aid the exploration and understanding of data and make it easier to spot patterns and trends and crucially to identify anomalies.

Advantage will improve our awareness, provide valuable insights and deliver improvements to audit quality of our audit clients.

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

ENGAGEMENT PERFORMANCE

CLIENT AND ENGAGEMENT ACCEPTANCE

Robust client and engagement acceptance procedures play a pivotal role in our ability to deliver a professional and quality service. In October 2014 we introduced new electronic Client Take On (CTO) procedures combining our risk assessment, conflict and know your client procedures.

Before we enter into a relationship with any prospective client, and throughout our relationship with any client, we gain and document knowledge about the client and the risks to the firm of our association with them. Amongst other important aspects the following remain key to our take on procedures:

- That we are, and can continue to be, independent
- That the firm has no conflict of interest
- That it is clear to the client that professional services will only be provided based on full disclosure
- The firm is satisfied as to the client's character and reputation.

In addition to fulfilling legal and regulatory requirements, understanding our clients and risks is essential to our ability to deliver exceptional client service. Being able to share this information across the business enables us to adopt 'One Firm' behaviours.

The acceptance of all clients requires an approval process that is appropriate to the perceived risk. High risk audit clients require pre-approval by designated senior partners within the business stream and, in certain circumstances, by the Head of Risk and Quality.

OUR GLOBAL AUDIT APPROACH

Audit approach and tool

Our approach is designed to ensure that audits meet all applicable professional standards, regulatory requirements and that the firm issues reports that are appropriate in the circumstances.

The network's state of the art audit software, APT, continues to be regularly enhanced as new technologies and audit practices emerge.

This year has also seen the development and introduction of a new data analytics tool (BDO Advantage) within the UK firm (see inset).

Together, the BDO Audit Approach and APT deliver a range of benefits including:

- Consistent and scalable worldwide audit performance
- Teamwork on a real-time basis
- Timely efficient multi-location and cross border audits
- An intuitive audit methodology that complies with the International Standards on Auditing (ISAs).

Supervision and review

All professional work is supervised by appropriately experienced and knowledgeable individuals. Responsible Individuals (RIs) ensure that related risks are identified and that the appropriate audit work is carried out efficiently, with appropriate scepticism, and that it meets the firm's standards in all respects.

RIs, through a review of the audit documentation and discussion with the engagement team, satisfy themselves that sufficient and appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued and that the audit has been carried out in



I congratulate our partners and staff on their excellent work and consistently high achievements.

Simon Michaels
Managing Partner



DELIVERING AUDIT QUALITY

QUALITY DELIVERED THROUGH THE RIGHT PROCESSES

accordance with the firm's policies and procedures. The RI is ultimately responsible for ensuring that all material or potentially material matters or issues raised during the audit are satisfactorily resolved and documented in the working papers.

An engagement quality control review is performed for audits of public interest entities and other high risk engagements. This review is performed by an audit partner other than the RI. The engagement quality control reviewer possesses the level of knowledge and competence related to accounting, auditing, and financial reporting required to serve as the person who has overall responsibility for the same type of engagement, and be knowledgeable and familiar with the client's industry, but will be independent from the audit team. They would ordinarily be an experienced audit partner and not likely to be unduly influenced by the views of a particular audit engagement partner. The engagement quality control reviewer cannot be actively involved in making ongoing decisions relating to the engagement and will not be involved in performing the engagement.

Engagement quality control reviewers are selected by our Technical Standards Group (TSG) from a list of approved reviewers, as determined by the Head of Risk and Quality.

Consultation and support

The national Audit Stream is supported by the TSG and the Risk Management Unit (RMU).

TSG is responsible for the following:

- Maintaining the firm's independent standards
- Developing our Audit Approach and guidance to ensure compliance with auditing standards
- Maintaining the firm's technical manuals relevant to the Audit Stream and communicating developments to the firm's partners and staff

- Helping maintain the firm's audit practice to the highest standards prevailing in the profession
- Consulting with local office partners and other professionals seeking technical advice
- Overseeing the firm's audit technical initial professional development (IPD) and continuing professional development (CPD) programmes.

TSG and RMU assist the Audit Compliance Partner, who is responsible for the following:

- Monitoring of independence
- Monitoring the firm's audit work
- Coordinating the professional performance of each Strategic Business Unit (SBU) and achieving in each of them standards that measure up to the firm's professional objectives
- Evaluating the firm's quality control policies and procedures.

Our culture of openness encourages consultation with experienced partners and other specialists where appropriate in order to achieve quality outcomes that properly take into account the public interest.

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

AUDIT QUALITY INDICATORS

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

METRICS FROM PARTNER AND STAFF SURVEYS	
1. I am encouraged to perform a high quality audit	98% of staff felt encouraged to perform high quality audits
2. I have sufficient time and resource to deliver quality audits	57% felt there was not always sufficient time and resource to deliver quality audits
3. I receive enough training and development to enable me to deliver quality audits	90% felt they had received enough training and development to enable them to deliver quality audits
METRICS ON EXTERNAL INVESTIGATIONS	
Number of cases in the last 12 months in which the:	
4. FRC's conduct committee has found against the firm or one of its members	We have no such findings against the firm
5. Disciplinary committee of any other regulatory body has found against the firm or one of its members	We have no such findings against the firm
METRICS ON ENGAGEMENT PERFORMANCE REVIEWS	
6. Results of firm's internal audit quality reviews	The results of our internal reviews along with a description of our Audit Quality Assurance Review process and a definition of the grades awarded are set out on page 19.
7. Results of the FRC's Audit Quality Review Team reviews on the firm	Our last review by the FRC's Audit Quality Review took place in 2014/15. Further details can be found on page 20. BDO is now subject to annual reviews by the FRC's Audit Quality Review in line with the recommendations made by the Competition Commission.
8. Annualised percentage of Responsible Individuals subject to firm's internal engagement performance reviews	This information can be found on page 19.
METRICS ON INVESTMENT	
9. The extent of training undertaken per person in the Assurance practice	See pages 34 to 35.
10. Investment in research and development on assurance	Our investment in BDO Advantage is described on page 11. In addition the UK firm contributes resources to the development of our global audit methodology and tools which is led by BDO International. The investment we make in training our people, and in assurance research and development is reflected in the profitability figures set out on page 54.
METRICS ON INVESTOR LIAISON	
11. Qualitative description of investor liaison	As noted in our Public Interest Committee report we are keen to develop communication with the investor community.

DELIVERING AUDIT QUALITY

QUALITY DELIVERED THROUGH THE RIGHT PROCESSES

RESPONSIBILITY FOR AUDIT QUALITY

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

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

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

INTERNAL INDEPENDENT REVIEWS PROCESS

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

At the conclusion of the annual programme the results are reviewed by the Leadership Team.

The programme comprises a review of the working papers and reports of a sample of selected audit engagements. The review considers all matters from client take on, through planning and executing the assignment, to reporting and the role of the EQCR. It also considers the appropriateness of accounting policies and disclosures.

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

The administration of the programme is undertaken by the firm's Quality Assurance Director, who reports to the Head of Risk and Quality. The reviewers are taken mainly from the audit stream.

Review teams are headed up by either an experienced audit partner or the Quality Assurance Director and reviewers are all experienced partners, directors or senior managers. Internal sector specialists are used as reviewers or consulted in the review.

The Quality Assurance Director ensures that there is independence of reviewers from the audit team, usually by choosing a review team from an office separate from that of the audit team.

The Quality Assurance Director briefs the review teams in advance of their work, setting out:

- The objectives of the programme
- The use of review checklists
- Guidance on conducting the reviews including findings from the prior year's reviews and any current areas of focus
- Reporting templates.

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

An audit is of an acceptable standard where only minor weaknesses are found.

An audit is assessed as requiring significant improvement where:

- Required audit procedures relating to a significant cycle, balance or audit area were not performed or not documented
- Procedures were not substantially performed in accordance with professional standards
- Audit procedures failed to detect a material departure from applicable accounting standards.

The findings from the 2014 inspection cycle are as follows:

2014 REVIEW STATISTICS	2013	2014
Proportion of RIs reviewed	65%	57%
Number of audit engagements reviewed	84	67
Proportion of acceptable files	81%	87%

We are proud of our approach of reviewing all RIs within a two year cycle, in comparison to every three years in some other audit firms, and feel this keeps an appropriate spotlight on audit quality which we believe has contributed to the increase in % of acceptable files.

Many of the actions taken in response to the findings from external reviews explained on page 20 onwards complement the actions taken with regard to internal reviews.

We consider whether the findings of reviews are systemic and whether significant deficiencies require prompt corrective action.

A key aspect of the annual inspection programme is to identify areas where improvements are needed and to feed the findings back. There are three aspects to this. First members of the audit team whose file has been reviewed are made aware of areas for improvement. For files identified as needing significant improvement the RI meets with the Head of Risk and Quality or the Head of TSG to discuss the findings and the actions they will be undertaking. This results in the preparation of action plans to ensure corrective action is taken. Depending on the nature of the deficiencies this may result in action plans for members of the team more widely or for the audit stream within their office.

Second, the audit stream as a whole is updated on general areas for improvement through written communications and training sessions and appropriate action plans are drawn up.

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

Finally, the results of the annual inspection are discussed with the ASE and the Leadership Team as part of their review of the effectiveness of the programme.

RIs assessed as requiring significant improvement are subject to, a further review in the following year.

The market is changing not just within the audit profession but across International boundaries.

DELIVERING AUDIT QUALITY

QUALITY DELIVERED THROUGH THE RIGHT PROCESSES

THEMATIC REVIEWS

During the year we continued our programme of thematic reviews that look at specific aspects of the firm's audit work where the firm perceives a risk or emerging issue or wishes to check whether actions taken in response to previously identified areas for improvement have been effective.

The decision to undertake a thematic review is taken by the Audit Stream Executive in consultation with the Head of Risk and Quality and the Head of Business Assurance. The reviews themselves are undertaken by the Quality Assurance Director and staff from TSG. In the past twelve months we have undertaken reviews in the following areas:

- Journal testing and management override
- Role of the EQCR
- Materiality
- Controls testing
- Impairment.

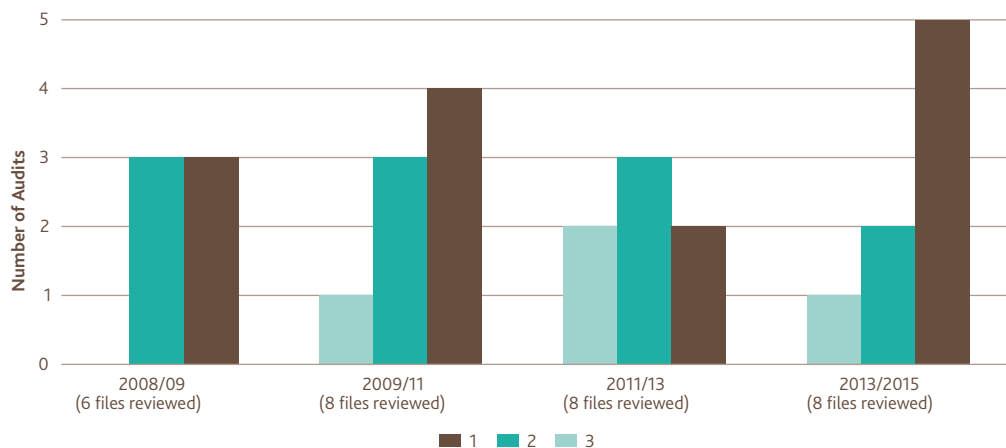
The findings of thematic reviews are considered in aggregate rather than individually and reviews are not graded.

As a result of the thematic reviews completed over the last twelve months we gained assurance that our methodology is appropriate but improvements in application are needed in some areas. Action plans are being drawn up to address the root causes of these findings.

EXTERNAL AUDIT QUALITY REVIEWS UNDERTAKEN BY THE FRC

The FRC's Audit Quality Review (AQR) team have completed their biennial review resulting in a public report setting out the principal findings arising from the inspection in respect of the two year period to 31 March 2015. The firm are now on a one year reporting cycle as recommended by the Competition Commission in October 2013. The public report in respect of the two years to 31 March 2015 is available on the FRC website (www.frc.org.uk).

The results of the 2015 review, and the comparative results for earlier inspections, are as follows:



(1) Good with limited improvements required
 (2) Improvements required
 (3) Significant improvements required

DELIVERING AUDIT QUALITY
QUALITY DELIVERED THROUGH THE RIGHT PROCESSES

While the AQR acknowledged that the firm placed emphasis on its overall systems of quality control and had appropriate policies and procedures in place in most areas for its size and the nature of its client base it set out a number of key messages to which it recommended we pay particular attention.

We set these out below, together with our response to date:

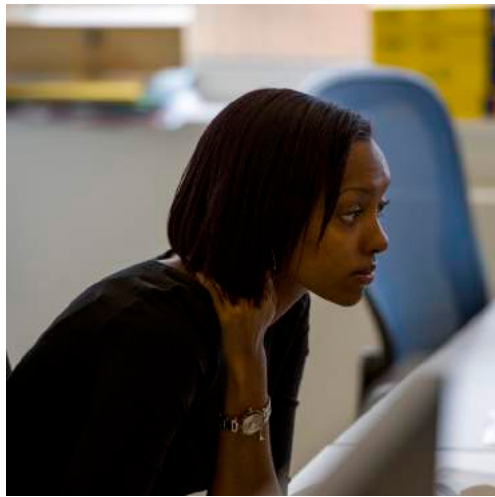
AQR Observation	Response
Take further action to ensure that professional scepticism and challenge of management are successfully embedded in the firm's culture.	<p>As acknowledged by the AQR in our 2015 report the firm took a number of actions following the previous action plan (AQR review 2011 – 2013) and these efforts have been maintained throughout 2014 and 2015 by keeping professional scepticism at the forefront of peoples' minds through publications and training.</p> <p>Our aim continues to be to ensure the theme of professional scepticism is incorporated into all our training and guidance rather than being treated as a stand-alone area.</p> <p>As noted in our 2015 AQR report we have undertaken a number of initiatives to further embed professional scepticism in the culture of our firm and acknowledge that there is still work to be done in this area. We will continue to focus on areas where we feel professional scepticism was not exercised to the extent we would expect to allow us to develop responses that will enable our teams to have a full understanding of what is expected of them and allow them to develop skills to address these issues.</p>
Strengthen the firm's quality control procedures related to direction, supervision and review of individual audits, including improving the effectiveness of EQCRs.	<p>The firm has taken a number of steps to strengthen our procedures including repeated emphasis of the firm's policy in partner training.</p> <p>Following our review of root cause analysis we are undertaking further research to identify possible causes of issues relating to direction, supervision and review to allow us to assist teams where we can to improve in this area.</p>
Take further and timely action to improve the audit of financial statement disclosures, including cash flow statements and related party transactions.	<p>All audit staff have undertaken mandatory training in both cash-flow statements and related party transactions and continued emphasis is placed on these areas in the firm's internal inspection reviews.</p> <p>We acknowledge the importance of this area and are committed to making improvements. We will continue to monitor the results of the FRC's thematic inspection on the quality of reporting of smaller listed and AIM quoted companies (available on the FRC's website www.frc.org.uk) as this is a key area for our client base. We will continue to perform root cause analysis including in this area to help identify issues that are preventing teams from getting this right.</p>
Ensure that all auditors' reports issued by the firm accurately describe the audit procedures performed to address the audit risk.	<p>A number of actions have already been taken to address this concern including training for RIs and additional emphasis within the firm's audit working papers. We will continue to monitor through the 2015 internal inspection process.</p>
Improve the firm's procedures to identify and assess breaches of both ethical standards and the firm's policies and to report these to the firm's Risk and Quality Committee.	<p>The firm has taken a number of steps in respect of this issue including establishing an email ethics helpline, maintaining an extended ethics log and reporting all breaches of both ethical standards and firm policy to the Risk and Quality Committee.</p>

DELIVERING AUDIT QUALITY

QUALITY DELIVERED THROUGH THE RIGHT PROCESSES

The AQR also noted a number of areas in our policies and procedures where improvements were required. We set these out below, and our response.

AQR Observation	Response
Four of the firm's Audit Quality Assurance Reviews (AQAR) did not adequately explain how it was concluded that audits were performed to an acceptable standard.	The firm will consider the nature of our reports to RIs in order to see how we can clarify or better explain the issues identified such that the level of their severity is clearer. As noted below for the 2015 AQAR programme of reviews we have made some amendments to our grading system.
The firm's definition for audits classified as 'acceptable' or 'requiring significant improvement' are at a high level and further guidance may be helpful to assist reviewers.	The firm has considered this carefully and decided that for the 2015 programme of reviews we will use three grades, being: 1. Good, with limited improvements required 2. Improvements required 3. Significant improvements required. For the 2015 AQAR programme, we will give further guidance to assist reviewers in judging what grade should be awarded.
The firm has 16 non-public interest audits (all legacy PKF) where the audit partner has been involved for over 20 years, with an EQCR appointed as a safeguard.	As the AQR have stated this is a legacy PKF issue. It is BDO's policy that partners on non-public audits rotate after ten years. This was not enforced immediately following the merger to enable PKF clients' time to adjust. Partners have been reminded of the need to rotate in line with BDO policy and an assurance has been made that all situations where the partner has been involved for 20 years or more will rotate during 2015.
The audit partners for two listed entities had served for a total of six years without prior approval for the term of five years to be extended, as a result of failing to identify the existence of listed non-traded debt.	The firm will continue to remind partners of the importance of identifying changes in the status of companies from one year to the next, particularly where debt becomes listed.
The firm identified a number of instances where partners and staff held investments in entities on the firm's prohibited entities list. None of these instances involved audit partners.	As stated by the AQR these breaches were identified by the firm's own procedures and did not involve audit partners. The firm is satisfied that these isolated breaches did not affect the firm's independence. The matters were self-reported to the Audit Registration Committee of the ICAEW who did not impose a regulatory penalty. We take the holding of shares in prohibited entities very seriously and as a consequence have introduced a number of stringent measures to help prevent these types of violations occurring in the future, including not permitting discretionary managed investment arrangements and periodic reviews of partners' financial interests.



DELIVERING AUDIT QUALITY

QUALITY DELIVERED THROUGH THE RIGHT PROCESSES

AQR Observation	Response
One instance where a senior manager joined their own audit client as financial controller but only notified the firm on acceptance of the appointment and not immediately on approach.	A reminder has been sent to all staff notifying them of their obligation to advise the firm at the time they are approached by an audit client. In this instance the approach was made after the completion of the field work but before the audit report was signed. The firm is satisfied that its independence was not compromised. In addition the firm's audit engagement letter with clients has been updated to include a requirement that they notify the audit engagement partner if they are considering approaching a member of the audit team to offer them employment.
The firm's Ethics Partner reports significant breaches of Ethical Standards to the Risk and Quality Committee, some less significant breaches had not been identified and reported to the R&Q committee.	Additional resource has been recruited into this area to support the Ethics Partner. As a result the Ethics log has been expanded and now all breaches are reported to the R&Q Committee not only significant breaches.
The Firm's AQAR team identified, through conducting a thematic review that the audit of cash flow statements was not satisfactory and took a number of steps including additional procedures within the firm's audit tool and stream wide training to address the issues. There is a risk that the identification of training needs may not be known until September 2015 which could mean in some cases that the audit of cash flows for December 2014 is inadequate.	As stated by the AQR the firm has already taken steps to provide mandatory training of all audit staff on cash flow statements. This was completed by January 2015, in time for the audit of December 2014 year ends. This training was part of a suite of other measures to address the audit of cashflows, including previous communications to the stream and additional procedures included within the firm's audit tool.
Where partners are assessed as 'improvement required' for Risk and Quality the firm will levy a fine. One partner who received an unacceptable AQAR grade was awarded an overall 'meets the requirements' R&Q grade.	To some extent this was a timing issue with the R&Q grading being agreed in June 2014 and the system of fines not being introduced until September 2014. However, the firm does not agree that there should be an indelible link between the outcome of the internal inspection process and R&Q grading as the latter takes account of a number of Risk and Quality areas.
For two listed audits graded as unsatisfactory in the firm's AQAR, no action was considered in respect of the EQCRs.	The firm has already amended its procedures in respect of the evaluation of EQCRs within the internal inspection process for 2014/15 the results of which are now fed into their performance review. For the 2015 internal inspection process EQCRs will be involved at an earlier stage in the review process.

FRC AUDIT QUALITY THEMATIC INSPECTIONS

The firm supports and participates in the work undertaken by the AQR in respect of their Thematic Inspections to improve audit quality which commenced in 2013. During the inspections the policies and procedures of individual audit firms on individual areas of an audit are reviewed by the FRC to test their effectiveness and to suggest improvements.

In the last year (2014) the firm has participated in the following thematic inspections:

- Quality of financial reporting in smaller listed entities
- The audit of loan loss provisions and related IT controls in banks and building societies.

We have communicated the findings from the thematic inspections as we feel this is a key area of importance for our client base. In 2015 the firm will participate in the following thematic inspections:

- Engagement quality control reviews
- Sampling
- Annual quality assurance reviews (AQAR).



DELIVERING AUDIT QUALITY

QUALITY DELIVERED THROUGH THE RIGHT PROCESSES

OTHER EXTERNAL REVIEWS**ICAEW REVIEW**

The Quality Assurance Department (QAD) of the ICAEW monitors all firms registered for audit with the ICAEW and undertakes periodic monitoring visits to firms.

QAD conducted a review of the firm in 2014 which was finalised in 2015.

Their overall conclusion was that the audit work on the files they reviewed was of an overall high standard. QAD found nine files to be either satisfactory or generally acceptable with two files where some improvements were required. None of the files reviewed required significant improvement. Action plans were put in place to deal with the matters that did arise.

Public Company Accounting Oversight Board (PCAOB)

The PCAOB's 2012 report on BDO LLP was published on 19 December 2013, in which they state that they 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 its opinion on the financial statements. Some concerns were raised in respect of the firm's internal inspection and EQCR process which assessed the performance of the audit against ISAs rather than PCAOB auditing standards and SEC rules and regulations and on the lack of evaluation of the impact on independence of potential business relationships with audit clients.

BDO INTERNATIONAL

We are subject to periodic Quality Assurance Reviews (QARs) on behalf of the BDO International network. The objective of these QARs is to provide assurance that BDO Member Firms adhere to and comply with applicable professional standards, as well as BDO's international standards. They are carried out by a team of dedicated reviewers, for whom there is an on-going training process in place. QARs cover the major services supplied by the member firm, as well as their overall quality and risk management framework. Member firms undergo these international reviews on a rotational basis. The last review took place in May 2014 and the results were as follows:

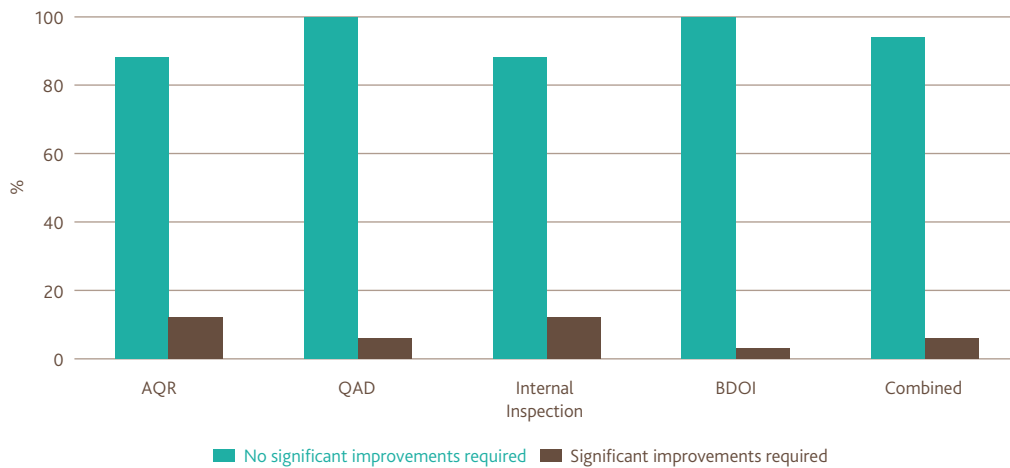
- Six files were reviewed of which five were graded as satisfactory
- No files were graded unsatisfactory
- One file was graded as requiring improvement in certain areas.

The firm is playing a key role within the BDO network in improving the quality and effectiveness of the system of QARs at network level in order that we can continue to take assurance over the quality of work undertaken by member firms on component audits.

Partners within the firm support the network by representing BDO at meetings with International Forum of Independent Audit Regulators (IFIAR) and by providing thought leadership on improvement in audit quality and compliance with the International Standard on Quality Control (ISQC1).

COMBINED QUALITY RATING

Over the course of 2014 BDO was the subject of four separate quality review processes, as detailed above, covering 97 files. We believe the results reflect our continued drive for Excellent Client Service through Quality of our people and our work. Never complacent BDO continually strives to improve audit quality.



BDO's state of the art audit software, APT continues to be regularly enhanced as new technologies and audit practices emerge.

MANAGEMENT STATEMENT ON EFFECTIVENESS OF FUNCTIONING

In accordance with the Statutory Auditors (Transparency) Instrument 2008, the firm's management believes the firm's policies, procedures, monitoring and review activities provide assurance over the effectiveness of the firm's internal quality control system.

We are satisfied that the firm's system of internal quality control allows us to identify areas where improvements may be necessary.

The firm's management has inter alia considered the results of the Financial Reporting Council's Audit Quality Review, the regulatory inspections by the Quality Assurance Department (QAD) and other regulators in reaching this opinion.

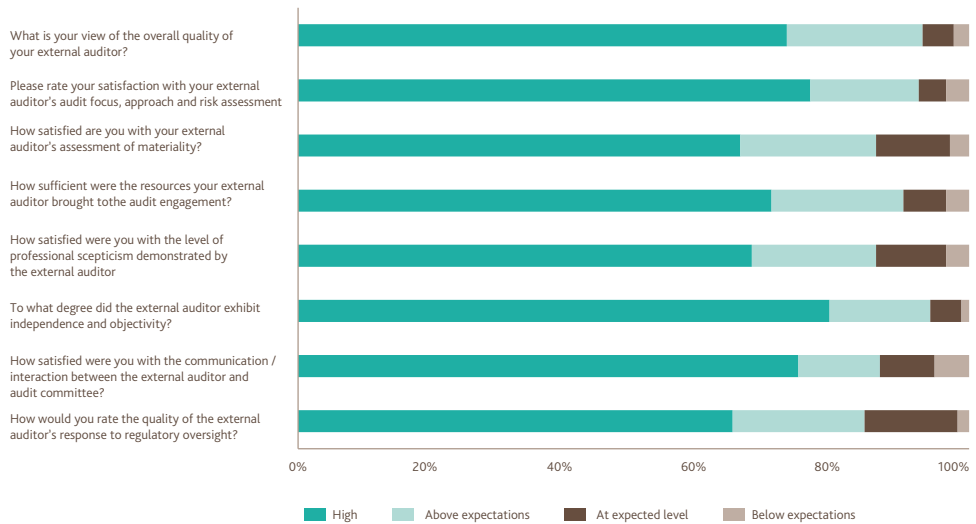
DELIVERING AUDIT QUALITY
 QUALITY DELIVERED THROUGH THE RIGHT PROCESSES

AUDIT COMMITTEE CHAIR SURVEY

During the summer 2014, the Audit Committee Chairs (ACCs) of the FTSE 350 companies completed a survey, commissioned by the six largest audit firms which make up the Policy and Reputation Group (PRG). The survey sought the views of the ACCs on their experience of audit quality at their respective companies. Responses were received from 173 companies, just under 50% of those surveyed. The questions looked at the main areas of focus of audit quality including independence and objectivity, professional scepticism and resourcing.

Generally the responses were positive across all aspects of audit quality with 97.69% of respondents' indicating their experience of overall audit quality was at or above expectation. The survey also highlighted areas needing improvement; with 5% of ACCs considering communication was below expectation. Focus also needs to remain on professional scepticism and materiality.

The six largest audit firms that commissioned the survey see this as a valuable insight into the key aspects that comprise audit quality. The survey is being repeated by the FRC in 2015 with the results expected to be available later this year.



DELIVERING AUDIT QUALITY

QUALITY DELIVERED THROUGH THE RIGHT PEOPLE

Our people are a critical factor in our ability to provide exceptional client service and deliver quality work.

To ensure that we have sufficient staff with the capabilities, competence, and ethical standards necessary to provide quality work in accordance with professional and legal requirements we have established clear policies and procedures addressing the following areas:

- Our Values
- Talent identification and assessment
- Inclusion
- BDO and social mobility
- Achieving gender balance
- Recruitment
- Performance management and development
- Capabilities and competence
- Career development and progression
- Resource management.

OUR VALUES

Our values represent the principles we are committed to upholding now and in the future. They define what we stand for as a firm, and are there to guide us in our day-to-day work and decisions. Our four Core Values complement each other and are all equally important.



DELIVERING AUDIT QUALITY

QUALITY DELIVERED THROUGH THE RIGHT PEOPLE



TALENT IDENTIFICATION AND ASSESSMENT

The talent management process is concerned with the ability to attract, identify, develop and retain our talent in BDO which is of critical importance to our ability to meet our strategic business needs including cultivating high quality staff to meet the needs of our clients. We are committed to providing good opportunities for all individuals and have a number of targeted talent programmes in place to support the development of individuals in their career at BDO.

INCLUSION

We believe inclusion is critical to creating a sustainable and measurable difference to business performance and culture, which is why we do our best to ensure all of our people are valued and feel valued.

A culture of sustained inclusivity cannot be achieved overnight, and it cannot be done by one or two individuals or by single initiatives that spotlight a particular issue for a period of time, only for it to disappear once our focus changes. The Leadership Team is committed to setting the tone at a firm-wide level and initiating a collective response to bring about change over a sustained period of time. Inclusion has a permanent place on all Leadership Team meetings and the inclusion steering group meetings are chaired by our Managing Partner, Simon Michaels, and attended by our Senior Partner, Mark Bomer, and Chief Operating Officer, Mark Sherfield, as well as one of our Independent Non-Executives, Lesley MacDonagh. We are also committed members of the 30% Club and Opportunity Now, and have signed up to the Government's Think Act Report initiative.

We have a number of forums enabling our people to participate and focus on inclusion issues. Our Women's Network is a successful example of this, but the issues are wider than gender alone, and Blend for our LGBT community and our Islamic Network are also proving to be valuable forums.

BDO AND SOCIAL MOBILITY

As with other aspects of inclusion, social mobility is a key factor in our strategy for a sustainable future. In 2014 we were proud to become a founding member of the Access Accountancy initiative in partnership with a number of firms and professional bodies which aimed to improve the social mobility for talented students from disadvantaged backgrounds and was designed to respond to the challenges posed by the Social Mobility and Child Poverty Commission. Part of our overall commitment to Access Accountancy has

been to increase our number of work-experience placements (as part of an overall target of 3,750 additional placements across all members of the Access Accountancy project).

We've also continued to make considerable efforts and achievements in support of the profession's increasingly important social mobility agenda. For BDO, this has included:

- Expanding our long-established school leaver programme, providing opportunities for students who are unable – or choose not – to commit to the burden of university tuition fees
- Taking part in a range of mentoring and internships with organisations specifically targeting inner city schools and students from less advantaged backgrounds, including SEO London, Career Academies, Pure Potential, The Brokerage, Access Professions and Financial Skills Partnership
- Launching a summer school for A-level students that helps to bridge the gap between students who have previously had access to work experience and those that have not
- Introducing 'Insight Days' to allow school pupils from a variety of state schools and colleges to spend time in our offices right across the country, helping to familiarise themselves with a professional work environment, recruitment processes and the accountancy profession
- Sponsoring the ICAEW's Business, Accounting and Skills Educations (BASE) programme, during which our professionals act as mentors to students as they learn about the industry via a series of regional and national competitions.

DELIVERING AUDIT QUALITY

QUALITY DELIVERED THROUGH THE RIGHT PEOPLE

ACHIEVING GENDER BALANCE

The debate on quotas is ongoing, but at BDO we believe there is a better way to achieve gender balance. We are working to deliver sustainable change in the medium to long-term by identifying and focusing on the reasons for the imbalance and introducing measures that will address the issue over time. Measures we are taking include looking at ways to address 'unconscious bias' during recruitment and selection of candidates; mentoring for our senior women; working towards balanced graduate and school leaver intakes; adopting innovative approaches to supporting return to work opportunities following maternity leave; and improving our transparency in relation to key gender balance metrics.

Led by the Government Equalities Office, the 'Think, Act, Report' voluntary framework supports and encourages organisations to improve gender equality. BDO has signed-up to 'Think, Act, Report', and in late 2013, our Leadership Team agreed a number of measures designed to ensure transparency of the key metrics for senior female representation, our talent pipeline and how we attract new joiners.

The Leadership Team monitor our continuous progress towards improved gender balance at six monthly intervals in terms of partner, management and governance representation as well as the gender balance of our people at all levels. In addition we monitor the mix of applications we receive for new and replacement roles for trainees and experienced hires.

INCLUSION AGENDA

Our Inclusion Steering Group, chaired by Simon Michaels, drives the firm's response to the complex diversity and inclusion agendas challenges faced by the profession to ensure we are creating a business environment where everyone feels valued for being themselves and, in turn, values and respects others.

Gender balance is a critical part of the inclusion agenda. The Leadership Team has confirmed our ambitions that, by 2020, we will increase our female representation in the partnership to 20%, and achieve gender parity in all other senior grades across the firm. We will continue to be transparent in our measures and hold ourselves accountable for making positive progress in the right way.

ENABLING OUR PEOPLE TO DELIVER AUDIT QUALITY**RESOURCE MANAGEMENT**

We recognise that for us to deliver a quality audit it is ultimately the ability, placement and commitment of our people that really makes a difference. Our ability to attract the right number of high quality people into the audit stream and at the right time is of utmost importance. To help us do this, we plan our resource requirements some 12 to 18 months in advance by factoring in current and future client service needs. In a competitive employment market it is never easy to second guess resource needs but we are able to use secondment programmes to help build in that flexibility.

RECRUITMENT

The post-recessionary bounce in the service sector side of the UK economy has meant that along with other firms we are on a constant search for talent. We are proud of our rigorous approach to selection at both our trainee and experienced hire levels.

For those joining us through our Graduate and School Leaver routes we assess potential trainees using a combination of:

- Entry grades or qualification requirements appropriate to their training route
- Online testing of numeracy and verbal reasoning skills
- Competency-based questions during interviews which seek to challenge potential recruits
- Assessment centres examining individual and collective responses to a range of scenarios.

Our experienced hire route into BDO Audit is no less challenging. A set of competency-based interview questions and a detailed accounts review enable us to provide the consistency and robust assessment we need to make a judgement of potential recruits; this also provides an opportunity for candidates to demonstrate their capabilities in a practical context.

PERFORMANCE DEVELOPMENT

Having a strong performance development process in place for all our people enables us on a case by case basis to recognise talented individuals as well as to identify development gaps. Just as no two audits are the same, so no two colleagues have the same development needs. All those working in audit receive annual and interim performance reviews; in addition, colleagues operating at trainee levels complete more detailed and regular job appraisals for all audit engagements in excess of 35 hours.

Our firm-wide annual 360 degree feedback process enables everyone to receive feedback from fellow professionals operating in roles above, below or at the same level. For many years now our Values have provided our roadmap as to how we operate; it is of critical importance that in addition to 'what' people do in the workplace, the 'how' they

do it element is also reflected in their 360 degree feedback. To underline the importance we attach to living our Values, we also provide opportunities for a formal upwards feedback of how all our Partners are performing against our Values. People follow people they don't just follow titles so we've continued to actively provide opportunities for less formal tools in areas such as mentoring, career conversations and coaching opportunities.

As part of each performance review meeting all audit staff complete a form documenting previous objectives, self-assessment and feedback on their performance against those objectives and identification of fresh objectives which are aligned to audit quality.

CAPABILITIES AND COMPETENCE

To maintain our audit quality we need to have people who are capable and competent to perform each role. In order to do this BDO provides technical training that is targeted at the initial professional development (IPD) and continuing professional development (CPD) stages of a person's career. Our audiences are potentially quite broad and can range from the digital-native 'millennial' generation entering the workforce for the first time right across to baby boomer colleagues who have a preference to more traditional teaching methods. Whatever the delivery mechanism, we determine the areas of focus by making use of:

- AQR/QAD inspection reports
- Thematic inspections
- Changes in regulations or standards
- Our own internal inspection reviews.

Our Technical Standards Group also liaises with local Stream Training Contacts, the ASE and risk management team to help identify additional areas of development for auditors at all levels.

The firm supports and participates in the work undertaken by the AQR in respect of their Thematic Inspections to improve audit quality.

DELIVERING AUDIT QUALITY

QUALITY DELIVERED THROUGH THE RIGHT PEOPLE

Professional competence and capabilities are not just about technical skills. It is just as important that we have a talented team of auditors who are able to deliver in other areas such as leadership, collaboration, communication and commercial skills; all of these skills help our people contribute towards delivering exceptional client service. By working with our Learning and Development team we are able to provide this content on a needs basis in addition to regular offerings.

Professional development

Professional development is a key factor in enabling our people to deliver quality audits so as a result we have developed programmes for members of the Audit Stream which includes:

- Completion of a relevant professional qualification
- Technical training
- Professional skills development.

These programmes reflect individuals' roles within the audit stream and responsibilities to be undertaken throughout their careers – encouraging above all the application of professional judgement and development of professional scepticism skills.

Our audit trainees are immersed in an intensive orientation programme covering the firm's audit approach, tools, values, policies and procedures. Additional IPD training is then provided as each trainee progresses through their career so that they can receive the 'know-how' skills and an opportunity to apply them on a timely basis. To enable our trainees to feel empowered and supported we consider the impact of:

- Changing expectations of each role
- Feedback from the audit stream
- Consideration of syllabus content provided by professional bodies.

All of these elements enable us to ensure that only appropriately trained individuals are performing the work at each level. This professional development is complemented by on the job coaching and captured by job appraisals and biannual performance reviews.

To successfully perform their roles our people have a personal responsibility to keep their technical and professional skills up to date. All qualified audit professionals, including managers, directors and partners, are provided with CPD training in auditing and financial reporting matters; some of these interventions are mandatory for certain individuals and elective for others, depending on their client portfolio and own professional development needs. To this end, our qualified audit professionals had access to a selection of 200 hours of available workshop based training. In addition to workshops, BDO provides additional learning opportunities on a just in time basis throughout the year via a rolling programme which include:

- Locally organised training events
- Facilitated conference calls
- A suite of e-learning modules
- Guidance distributed via monthly email updates
- Quarterly 'quality matters' publications.

Additional sector specific audit and financial reporting training is also provided to relevant partners and staff within the Audit Stream with further support and guidance (including training) being provided to offices/sectors by the firm's Technical Standards Group (TSG) as requested. The firm requires participation in appropriate CPD programmes and monitors the fulfilment of programme obligations.

We want to make our learning accessible to all, so we provide learning maps on our intranet site that outlines professional development opportunities for everyone. Our Learning and Development team can then help support professional development via our learning management system which we use to select, book and track attendance of online or workshop based activities. As we move towards newer technology we aspire to make more use of innovative approaches to learning enabling everyone to obtain the learning and development when they require it.

Colleagues joining the business at an experienced hire level may have a wide range of prior experience so it is important that we partner with them to review their professional development needs and to build a tailored programme commensurate with their role and responsibilities in the firm. In addition to more formal induction events, experienced hire colleagues may also be offered opportunities for coaching, buddy support or additional learning as part of their induction process.

As noted earlier, taking part in regular performance reviews when combined with our 360 degree feedback process provides an excellent opportunity for individuals to continue to build their skills which enable us to improve audit quality.

Global training

As a key member of the BDO International network of member firms we are also able to benefit from technical training that is shared or developed at a global level. As well as sharing best practice approaches to the development of content this has also enabled the UK firm to tap into a Global Audit Curriculum to help identify areas of additional content as well as adopt a collaborative approach to content development during major changes in our audit approach.

CAREER DEVELOPMENT AND PROGRESSION

We want to safeguard our talent pipeline; to help us do this, we only promote our people to the next level when there is a business case and each individual has been prepared for the increased responsibilities that promotion entails.

To enable us to measure readiness for promotion we provide an opportunity at key promotion points for nominated individuals to demonstrate that they have the ability to perform a role. This may include attendance at development or assessment centres with a focus on safe-guarding audit quality and a variety of technical, work-based and personal skills-based scenarios or interviews.

To help support our colleagues throughout their careers and as a part of our lifelong learning agenda, we also make available on our intranet the 'Your Development' pages and support via a 'Career and Performance Wheel'.

We want to provide every opportunity for our people to succeed in their roles. When individuals are struggling to deliver then we will consider a range of responses which might include additional support, further learning and development or performance improvement processes.



GOVERNANCE

BDO LLP is a member firm of the BDO network. BDO is an international network of public accounting, tax and advisory firms, the BDO Member Firms, which perform professional services under the name and style of BDO.

THE BDO GLOBAL NETWORK

The BDO network aims to deliver exceptional client service through:

- Anticipating client needs and being forthright in our views to ensure the best outcome for them
- Being clear, open and swift in our communication
- Agreeing to and meeting our commitments
- Providing the right environment for our people and the right people for our clients
- Creating value through giving clients up to date ideas and valuable insight and advice they can trust.

The global aggregated turnover for BDO Member Firms (including their exclusive Alliances) for the year ended 30 September 2014 was in excess of \$7.02bn. At 30 September 2014, the BDO network consisted of 110 voting member firms, operating in 151 countries with 1328 offices. At 30 September 2014, the BDO network had just under 60,000 partners and staff. Further details of the structure and governance of our international network are available in Appendix B.

THE UK FIRM

LEGAL STRUCTURE AND OWNERSHIP

BDO LLP (the LLP or the firm) is a limited liability partnership, incorporated in the UK and is owned by its members (who are often referred to as partners). At 3 July 2015, there were 225 members.

At 3 July 2015 our business operated from 17 locations nationwide. Our business is structured into both geographical strategic business units (SBUs) and service lines (streams). Our practice management departments (PMDs) support the SBUs and streams.

The firm offers a broad range of services in three main areas: Audit, Tax and Advisory. Further details of these services, including key contacts, are available on our website. These business streams have dedicated teams of partners and professional staff nationwide tailoring high quality business solutions for their clients.

For the purposes of transparency reporting under the Instrument, this report contains information about BDO which is relevant to all other service lines, as well as specific matters relevant to our audit business.

GOVERNANCE

GOVERNANCE STRUCTURE OF THE UK FIRM

Biographical details of members of the firm's governance structures and management team are given in Appendix E, along with meeting attendance details for the year in Appendix F.

An overview of the governance structure is shown below with a high level summary of the composition and purpose of the key committees.



BODY	COMPOSITION	RESPONSIBILITIES
Leadership Team	<ul style="list-style-type: none"> • Elected Managing Partner • Six executive members appointed by managing partner • Two Independent Non-Executives (INEs) • The Senior Partner ordinarily attends. 	<ul style="list-style-type: none"> • Provides strategic and operational leadership with emphasis on the firm's services to its clients.
Public Interest Committee	<ul style="list-style-type: none"> • Two INEs • Ethics Partner • The Managing Partner ordinarily attends. 	<ul style="list-style-type: none"> • Considers public interest matters that affect the firm, with a goal of enhancing stakeholder confidence in the public interest aspects of the firm's activities.
Partnership Council	<ul style="list-style-type: none"> • 12 elected partners • Senior Partner • Managing Partner • Two representatives from the Leadership Team who may attend by invitation of the Managing Partner. 	<ul style="list-style-type: none"> • Equity and governance matters; including the accountability and oversight of management.
Audit Committee	<ul style="list-style-type: none"> • Four members of the Partnership Council. 	<ul style="list-style-type: none"> • Meets with the external auditors and management to provide a forum for the external auditors' reporting • Assesses and monitors the independence of auditors • Reviews and monitors the integrity of the firm's financial statements • Considers the effectiveness of the internal controls maintained and monitored by management as well as reviewing management's prioritisation of key operational risks.

GOVERNANCE

BODY	COMPOSITION	RESPONSIBILITIES
Risk and Quality Committee	<ul style="list-style-type: none"> • Head of Risk and Quality • One Independent Non-Executive • Managing Partner • Head of Professional Services • Head of Business Assurance • Head of International Advisory and Risk and Quality • Head of Practice Protection • Head of Risk Management Unit • Head of Technical Standards Group. 	<ul style="list-style-type: none"> • Ensuring appropriate strategies and plans are drawn up, implemented and monitored to ensure the effective management of risk and the delivery of quality services consistent with the firm's strategy.
Audit Stream Executive	<ul style="list-style-type: none"> • Head of Business Assurance • Head of Technical Standards Group • Operations Director for the National Audit Stream • Six partners from a range of sectors and regional offices. 	<ul style="list-style-type: none"> • Ensures audit quality remains at the top of our agenda • Develops and delivers the national Audit Stream strategy • Monitors commercial and regulatory activity in the audit market • Supports practitioners to be successful in the market, creating a culture of consultation and support • Sets Audit Stream policies and procedures • Provides oversight of quality, licensing and rotation.

ETHICS AND INDEPENDENCE

Ethics and independence are of fundamental importance to the firm as a whole.

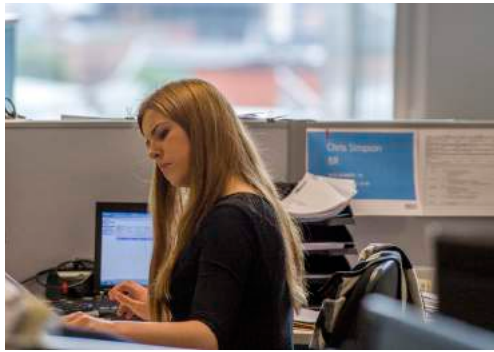
Our policies and procedures relating to ethical conduct and auditor independence are set out in detailed internal guidance pages on the firm's intranet and in the BDO UK Audit Manual. These are supplemented by helpsheets and complemented by extensive advice on consultation and training programmes designed to ensure compliance with International and UK Ethical Standards targeting the needs of the individual partners and staff. The Ethics Partner is responsible for providing guidance and support on the application of ethical standards to ensure that our professional objectivity and independence is maintained.

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

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

As chartered accountants we are expected to demonstrate the highest standards of professionalism. Ethical behaviour plays a vital role in ensuring public trust and upholding the reputation of the accounting profession. The ICAEW Code of Ethics assists us by providing relevant ethical guidance. Our client facing partners and staff across all streams and senior PMD staff have completed firm-wide e-learning on ethical behaviour and the provisions of the ICAEW Code. Our partners and directors also attended Risk and Quality roadshows where the ICAEW Code and the Public Interest were key topics.

A summary of the firm's key policies and procedures relating to independence is set out in Appendix H.



APPENDIX A

AUDIT FIRM GOVERNANCE CODE STATEMENT OF COMPLIANCE

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

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

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

APPENDIX A

AUDIT FIRM GOVERNANCE CODE STATEMENT OF COMPLIANCE

<p>INDEPENDENT NON-EXECUTIVES</p>	<p>C.1 Involvement of independent non-executives principle</p> <p>We appointed Independent Non-Executives ('INEs') in July 2008.</p> <p>In 2013, we established a Public Interest Committee (PIC) to consider public interest matters that affect the firm, and to enhance stakeholder confidence in the public interest aspects of the firm's activities, including those activities in the firm's business that are not otherwise effectively addressed by regulation. The firm's INEs form the majority of the PIC, one of whom takes the role of Chairman. Further details on the terms of reference and composition of the PIC can be found on pages 50 and 58. A report from our PIC can be found on pages 7 to 9.</p> <p>The INEs met with the Partnership Council during the year to discuss matters relating to their remit under the Code.</p> <p>Pages 50 and 51 gives further details about the INE's appointment, duties and the support available to them.</p> <p>C.2 Characteristics of independent non-executives principle</p> <p>Our INEs comply with the same independence requirements as our partners and employees. Individuals are chosen to ensure they have sufficient experience and expertise to command the respect of the partners. Biographical details of our INEs are given on page 57.</p> <p>C.3 Rights of independent non-executives principle</p> <p>The INEs have formal contracts covering their duties. They are also covered by our professional indemnity insurance and have sufficient resources to undertake their duties including having access to independent professional advice at the firm's expense, if needed.</p> <p>We have formalised procedures by which fundamental disagreements between the INEs and the firm are resolved. Further details of the procedures are given on pages 50 and 51. Where ultimately the disagreement cannot be resolved and results in the resignation of the INE they have the right to report this resignation publicly.</p>
<p>OPERATIONS</p>	<p>D.1 Compliance principle</p> <p>We have policies and procedures in a series of manuals and internal online guidance designed to ensure that we comply with professional standards and applicable legal and regulatory requirements.</p> <p>Our procedures for managing potential and actual conflicts of interest are explained on page 61.</p> <p>We welcome independent inspection of our audit process and the findings and observations from these inspections assist us in achieving our shared objective of improving audit quality.</p> <p>D.2 Risk management principle</p> <p>Page 5 of our Transparency Report includes further details on:</p> <ul style="list-style-type: none"> • The internal audit function's activities • The reviews performed by the firm in 2014/15. <p>During 2013/14, an enhanced internal audit function was introduced, with a three year internal audit plan being developed, based on the Top Ten Risks of the firm. The internal audit function is the primary mechanism by which the effectiveness of the firm's system of internal control is reviewed and tested.</p>

OPERATIONS

D.3 People management principle

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

Lesley MacDonagh, one of our INEs, provides support on the firm's people agenda with a particular focus on diversity and inclusion, potential partners and succession planning.

D.4 Whistleblowing principle

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

Further information on our whistleblowing policy is given on page 63.

REPORTING

E.1 Internal reporting principle

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

E.2 Financial statements principle

We publish annual audited financial statements prepared in accordance with UK GAAP.

E.3 Management commentary principle

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

E.4 Governance reporting principle

This statement forms the required statement under E.4. Our Transparency Report for the 52 weeks ended 3 July 2015 includes those disclosures required by Code Provisions in the following sections:

Provision	Description	Reference to Transparency Report
A.1.2	The firm should state in its transparency report how its governance structures and management team operate, their duties and the types of decisions they take.	Pages 37 to 40, Appendix C Governance structure - UK firm
A.1.3	The firm should state in its transparency report the names and job titles of all members of the firm's governance structures and its management team, how they are elected or appointed and their length of service, meeting attendance in the year, and relevant biographical details.	Appendix C Governance structure - UK firm
C.2.1	The firm should state in its transparency report its criteria for assessing the impact of independent non-executives on the firm's independence as auditors and their independence from the firm and its owners.	Report of the public interest committee, Appendix C Governance structure of the UK firm
D.1.3	The firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest.	Appendix H Ethics and independence

APPENDIX A

AUDIT FIRM GOVERNANCE CODE STATEMENT OF COMPLIANCE

REPORTING	Provision	Description	Reference to Transparency Report
	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.	Report from Head of Risk and Quality
	D.2.3	In maintaining a sound system of internal control and risk management and in reviewing its effectiveness, the firm should use a recognised framework such as the Turnbull Guidance and disclose in its transparency report the framework it has used.	Report from Head of Risk and Quality
	E.5 Reporting quality principle		
	The Audit Committee meets with the external auditors and management to provide a forum for the external auditors' reporting. Each year the Audit Committee seeks reassurance from the external auditors of their independence and objectivity. It assesses and monitors their independence in line with the ICAEW publication 'Reviewing auditor independence: guidance for Audit Committees'.		
DIALOGUE	F.1 Firm dialogue principle		
	We recognise that dialogue between audit firms and stakeholders is essential in order for the firm to keep abreast of shareholder opinion. Representatives of the firm have met informally with representatives of listed companies and their shareholders during the year. The firm ensures that it is well represented on panels and working groups relating to our profession and the wider economic environment. Senior representatives of the firm meet frequently with our domestic and international regulators and members of the UK Government, both individually, and collectively. Typically these groups include representatives from the investor community. Discussions concerning the future developments of audit and the audit report have been of particular relevance this year and partners from the firm have met with a number of key institutional shareholders in order to understand their needs and help the firm play its part in shaping the future.		
	In addition to our proactive measures to increase dialogue, our senior partners and INEs continue to engage with stakeholders who would like to understand more about our approach to the Code, audit quality, or indeed any other matters affecting the audit profession.		

APPENDIX B

GOVERNANCE STRUCTURE – BDO INTERNATIONAL NETWORK

BDO LLP is a member firm of the BDO network.

BDO is an international network of public accounting, tax and advisory firms, the BDO Member Firms, which perform professional services under the name and style of BDO. BDO is the brand name for the BDO network and all BDO Member Firms. BDO is a registered trademark of Stichting BDO. Stichting BDO is a Dutch Foundation whose registered office is in Eindhoven. The objects of the foundation are:

- To promote high standards of auditing, accountancy, financial, fiscal and business advice throughout the world by the use of the business name BDO and the development of the BDO network
- To own and protect any and all rights to the name BDO its accompanying logos and styles and any other intellectual property and rights
- To grant licenses to use the BDO name.

The BDO network aims to deliver exceptional client service through:

- Anticipating client needs and being forthright in our views to ensure the best outcome for them
- Being clear, open and swift in our communication
- Agreeing to and meeting our commitments
- Providing the right environment for our people and the right people for our clients
- Creating value through giving clients up to date ideas and valuable insight and advice they can trust.

SIZE OF NETWORK

The global aggregated turnover for BDO Member Firms (including their exclusive Alliances) for the year ended 30 September 2014 was in excess of \$7.02bn. At 30 September 2014, the BDO network consisted of 110 voting member firms, operating in

151 countries with 1328 offices. At 30 September 2014, the BDO network had just under 60,000 partners and staff.

LEGAL AND STRUCTURAL ARRANGEMENTS IN THE NETWORK

Each BDO Member Firm is a member of BDO International Limited, a UK company limited by guarantee, either as a voting member (one per country) or a non-voting member.

Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a Belgian limited liability company with its seat in Brussels.

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

Each of BDO International Limited, Brussels Worldwide Services BVBA and the BDO Member Firms is a separate legal entity and has no liability for another such entity's acts or omissions, unless they contract with each other for the provision of services. Such liability could arise because the client's sole recourse is to the contracting firm who is liable for its sub-contractors. Nothing in the arrangements or rules of BDO shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide services BVBA and/or the BDO Member Firms.

GOVERNANCE OF THE NETWORK

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

The Council comprises one representative from each voting member and represents the members of BDO International Limited in general meeting.

APPENDIX B

GOVERNANCE STRUCTURE – BDO INTERNATIONAL NETWORK

The Council approves budgets, appoints the Global Board and approves any changes in the Articles and Regulations of BDO International Limited. The Council meets annually.

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

The Global Leadership Team is tasked with coordinating the activities of the network on a day-to-day basis. It is headed by the Chief Executive Officer (CEO) and comprises the Global Heads of Audit and Accounting, Tax, Advisory, People, Clients and Markets, Network Development, the CEO Europe, the CEO Asia-Pacific and the Head of the Brussels Worldwide Services BVBA Legal Department. The Global Board elects a CEO to hold office for a term as may be specified by the Global Board. The CEO appoints the Global Leadership Team, with the prior approval of the Global Board. There is no limit to the number of terms that an individual may serve on the Global Leadership Team.

International committees comprising professionals from BDO Member Firms and Brussels Worldwide Services BVBA report to the respective members of the Global Leadership Team, the CEO and/or the Global Board. The international committees produce materials, policies and guidelines to serve the needs of BDO Member Firms.

The main committees are:

- Audit Steering Committee
- Tax Advisory Committee
- Advisory Leadership Group
- International Corporate Finance Group
- International Risk Management Committee
- International Brand and Marketing Committee
- International Human Resources and Development Committee
- International IT Committee.

The committees are complemented by various other sub-groups, task forces and working parties.

KEY FEATURES OF THE MEMBER FIRM NETWORK AGREEMENT

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

Membership of the network confers certain rights on BDO Member Firms, as well as certain obligations. Rights include the use of the BDO brand, including the network name and logo, the ability to refer work to and from other BDO Member Firms and a wide range of resources. Obligations include the capability to offer the minimum core services, including accounting and auditing, taxation and specialist advisory services, and a high standard of professionalism and ethics.

APPENDIX C

GOVERNANCE STRUCTURE – UK FIRM

LEGAL STRUCTURE AND OWNERSHIP

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

At 3 July 2015, there were 225 members.

A service company, BDO Services Limited, employs our people and contracts with suppliers and recoups its expenditure from the LLP by way of management charge. It also provides services to third parties.

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

BUSINESS STRUCTURE

At 3 July 2015 our business operated from 17 locations nationwide. Our business is structured into both geographical strategic business units (SBUs) and service lines (streams). Our practice management departments (PMDs) support the SBUs and streams.

The firm offers a broad range of services in three main areas: Audit, Tax and Advisory. Further details of these services, including key contacts, are available on our website. These business streams have dedicated teams of partners and professional staff nationwide tailoring high quality business solutions for their clients.

The firm has a wholly owned subsidiary, BDO Corporate Finance (Middle East) LLP, registered in the Dubai International Financial Centre and authorised and regulated by the Dubai Financial Services Authority. BDO Corporate Finance (Middle East) LLP provides corporate finance advice and other specialist advisory services.

The firm has a 13.3% interest in Broadstone Group Executive Limited (formerly Fitzwilliam Bidco Limited), the holding company of the Broadstone Group.

BDO Limited in Guernsey, a wholly owned subsidiary of BDO LLP, is a limited liability company incorporated in Guernsey and is authorised to undertake audits in the UK by the ICAEW. BDO Limited employs approximately 65 people in Guernsey and six of its nine Directors are partners in BDO LLP. Clients range from listed entities to small owner managed businesses, with a substantial number of clients that operate in the Financial Services sector.

MANAGING PARTNER AND LEADERSHIP TEAM

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

The Managing Partner appoints the Leadership Team. The Leadership Team is approved by the Partnership Council. The Leadership Team comprises seven executive members together with two Independent Non-Executives (INEs) who add value to the firm by bringing independent challenge and improved governance.

The Leadership Team provides strategic and operational leadership to the firm. It met formally 11 times during the period under review. Additional informal Leadership Team meetings were also held.

The Leadership Team sets and implements strategy with a high degree of emphasis on the firm's services to its clients.

APPENDIX C

GOVERNANCE STRUCTURE – UK FIRM

The Managing Partner maintains an ongoing dialogue with the wider firm through regular business updates on strategy and development to all partners and employees (including a formal six monthly update on the performance of the business) as well as periodic engagement sessions, giving individuals at all levels the opportunity to raise questions and issues directly with him.

PUBLIC INTEREST COMMITTEE

The Public Interest Committee (PIC) has been created to consider public interest matters that affect the firm, and to enhance stakeholder confidence in the public interest aspects of the firm's activities, including those activities in the firm's business that are not otherwise effectively addressed by regulation. As part of this overall objective the PIC provides a forum for considering the impact of public interest matters arising from within the profession and wider society through direct engagement with, or a review of information originating from: the firm, the profession and the firm's wider stakeholder base. In accordance with the Audit Firm Governance Code, the PIC and its individual members form part of the firm's performance assessment regime.

The firm's INEs form the majority of the PIC, one of whom takes the role of Chairman. The other permanent member of the PIC is the firm's Ethics Partner. Observers and contributors are invited to meetings, as appropriate to the agenda. The firm's Managing Partner ordinarily attends in this capacity.

The PIC's public report can be found on pages 7 to 9 of this Transparency Report. The PIC also report internally to the firm's Partnership Council and Leadership Team, as appropriate.

The PIC has scheduled meetings four times a year with the option for further meetings if required.

INDEPENDENT NON-EXECUTIVES

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

It is a condition of the appointment that INEs comply with the firm's policies and procedures applicable to employees and partners including independence rules as outlined on page 41.

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

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

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

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

SENIOR PARTNER

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

The Senior Partner is not eligible for election for more than two consecutive terms in such office.

The Senior Partner is a non-executive position. The Senior Partner is responsible for firm governance as well as acting as a senior representative for, and ambassador of, the firm. The Senior Partner undertakes a client facing role and sits within a SBU. The Senior Partner chairs the Partnership Council and takes responsibility for managing all Partnership Council duties. The Senior Partner attends Leadership Team meetings in a non-executive capacity to facilitate the governance oversight role of Partnership Council.

PARTNERSHIP COUNCIL

The Partnership Council is independent from the Leadership Team and has overall responsibility for equity and governance matters; including the accountability and oversight of management.

The Partnership Council meets about once each month, chaired by the Senior Partner, to consider matters such as partner equity issues, profit sharing and new admissions to and exits from the partnership. Its composition is designed to ensure appropriate representation of partners by region. It consists of 12 elected partners together with the Senior Partner, Managing Partner and two representatives from the Leadership Team who may attend by invitation of the Managing Partner. Elected partners are elected for a four year term, with a maximum of two consecutive terms subject to transitional arrangements in relation to the merger. Partners can be re-elected after a break of two years and only elected partners have voting rights.

AUDIT COMMITTEE

The Audit Committee comprises four members of the Partnership Council. Members of the Audit Committee are appointed by the Partnership Council and each member has skills and experience appropriate to the LLP's business. Their term of office coincides with their time on the Partnership Council.

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

It reviews and monitors the integrity of the firm's financial statements, including key judgements made by management, before they are submitted to the partnership. It considers the effectiveness of the internal controls maintained and monitored by management as well as reviewing management's prioritisation of key operational risks.

APPENDIX C

GOVERNANCE STRUCTURE – UK FIRM

RISK AND QUALITY COMMITTEE

The Risk and Quality Committee (R&Q Committee) meet monthly. The R&Q Committee has responsibility for ensuring appropriate strategies and plans are drawn up, implemented and monitored to ensure the effective management of risk and the delivery of quality services consistent with the firm's strategy. This includes understanding and monitoring all the risks facing BDO as a business (be they strategic, reputational, financial, operational) and for scrutinising the processes in place within the business for managing and mitigating these risks. Additionally, emphasis is placed on ensuring the firm, in conducting its activities, has due regard to ethics and properly takes the public interest into consideration.

The R&Q Committee is responsible for:

- Promoting a risk management and quality culture throughout the firm based on ethical standards, laws and professional regulations and standards, best practice and professional scepticism
- Monitoring and evaluating the exposure and risk profile of the activities of the firm and assessing the firm's appetite for risk
- Ensuring that the firm has a comprehensive map of risk to the business
- Monitoring changes in risk profile and ensuring appropriate responses are initiated
- Reviewing and evaluating the resources devoted by streams and the firm, centrally, to risk and quality
- Reviewing and evaluating the risks arising from the development of new or amended services
- Monitoring whether all areas of service delivery meet the required levels of quality and following up where necessary

- Monitoring the success of implemented plans against requirements and making changes where necessary
- Considering the findings of the firm's root cause analysis
- Monitoring compliance with professional standards and regulations and the firm's policies and guidelines through cold review programmes and other procedures and reviewing cold review programme results to identify opportunities for improvement and focus
- Approving significant risk and quality policies and material changes of such policies
- Promoting effective management of practice protection issues (claims and regulatory investigations)
- Sharing knowledge and best practice on risk and quality matters across the firm.

AUDIT STREAM EXECUTIVE

The firm's Audit Stream Executive (ASE) has a leadership role within the Audit Stream. The ASE works to implement strategy and deliver on the stream's objectives, through action planning and communication with local audit partners. The ASE comprises the Head of Business Assurance, the Head of the Technical Standards Group, the Operations Director National Audit Stream and six partners from a range of sectors and SBUs.

The role of the ASE is to:

- Ensure audit quality remains at the top of our agenda
- Develop and deliver the national Audit Stream strategy
- Monitor commercial and regulatory activity in the audit market

- Support practitioners to be successful in the market
- Set Audit Stream policies and procedures
- Create a culture of consultation and support
- Provide oversight of quality, licensing and rotation
- Considering the findings of the quality control reviews and root cause analysis.

PARTNER GROUP MEETINGS

Certain matters are specifically reserved for decision by all partners. Arrangements for voting are laid down by the Members' Agreement and reckonable votes (which reflect profit sharing entitlements) are determined by the Partnership Council at each annual profit sharing review.

PARTNER REMUNERATION

MEMBERS' PROFIT SHARES

Profits are shared among all equity partners under a framework set out in the Members' Agreement. The Leadership Team is responsible for allocations and these are considered on an annual basis. They are based on a fixed first tranche, plus a second tranche based on the points held by each individual partner. There is provision to make payments for exceptional performance or severance payments.

Salaried partners receive an annual salary, cash allowance and core benefits.

A number of criteria are used in assessing the performance of each partner. These include quality and risk management, delivering exceptional client service, technical excellence, growing and developing our people, contributing to the firm's financial success and growing our brand

and reputation. Partners are subject to annual performance development reviews which include feedback on the quality of the relevant partner's work and 360 degree feedback from staff and peers. The performance development review includes a risk and quality grading by the relevant stream executive. If a partner receives a risk and quality grading of 'requires improvement' it will have a direct impact on their remuneration. In forming these gradings for Audit Partners, the Audit Stream Executive draw upon factors such as: the results of external and internal audit file reviews and other ad-hoc reviews, attendance or involvement in training courses claims or complaints and any breaches of Ethical Standards. The firm has instigated a system of fines for partners who are given a risk and quality rating of 'requires improvement'. Audit partners are not remunerated by reference to the sale of non-audit services to their audit clients.

CAPITAL, LOANS AND DRAWINGS

Equity partners share in the profits and, where required under our Members' Agreement, subscribe the entire capital and loan requirement of the firm. Each equity partner contributes £5,000 of capital and their loan contribution is linked to their share of profit. The rate of loan contribution is determined from time to time depending on the financing requirements of the business.

The policy for equity partners' drawings is to distribute the majority of profit during the financial year, taking into account the need to maintain sufficient funds to settle partners' income tax liabilities and to finance the working capital and other needs of the business. The Leadership Team sets the level of equity partners' monthly drawings and reviews this at least annually.

Salaried partners do not subscribe capital or loan requirements.

APPENDIX D

FINANCIAL PERFORMANCE

REVENUE	2015 £M	2015 %	2014 £M	2014 %
Audit	134	34	131	33
Advisory	143	36	158	40
Tax	123	30	103	27
Total	400	100	392	100
Audit and directly related services	134	34	131	33
Non-audit work – entities audited by the firm	70	18	50	13
Non-audit work – entities not audited by the firm	196	48	211	54
Total	400	100	392	100
Operating profit – Audit	24		28	

Note: Unless stated otherwise, all disclosures above are unaudited

* Including our Belfast Firm which operates under a licence.

Audit comprises statutory audit work and directly related services.

The stream analysis of operating profit is stated after charging direct costs and central overheads where these can reasonably be allocated to the streams. Direct costs comprise employment costs (including internal recharges for work performed cross stream) and other costs incurred directly within the streams; central overheads that are deemed to be attributable to streams are allocated pro-rata on the basis of headcount, revenue or floor space occupied.



APPENDIX E

MEMBERS OF THE FIRM'S GOVERNANCE STRUCTURES AT 3 JULY 2015

LEADERSHIP TEAM

The executive members of the Leadership Team at 3 July 2015, all of whom are based in the London office, are:



SIMON MICHAELS
MANAGING PARTNER

Simon's role is to lead BDO in the UK with overall responsibility for strategy, building our brand and reputation and ensuring that the correct tone at the top is set in relation to risk and quality, growth and investment. He represents the firm on the BDO International Global Board and has oversight of partner development and performance. Simon was elected to serve as Managing Partner with effect from 5 July 2008 and was re-elected during 2012 for a second term which expires on 30 September 2016.



PAUL ENGLAND
HEAD OF PROFESSIONAL SERVICES

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



MARTIN GOODCHILD
HEAD OF PRACTICE PROTECTION

Martin is responsible for managing the firm's client and reputational risks, PII and legal counsel and engages with partners on risk matters. He has served on the Leadership Team since 29 March 2013.



SCOTT KNIGHT
HEAD OF BUSINESS ASSURANCE

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

APPENDIX E

MEMBERS OF THE FIRM'S GOVERNANCE STRUCTURES AT 3 JULY 2015



**GERVASE
MACGREGOR**
UK HEAD OF
INTERNATIONAL
ADVISORY AND
QUALITY AND RISK

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



MARK SHERFIELD
CHIEF OPERATING
OFFICER (COO)

Mark works alongside the Managing Partner, Head of Professional Services and Finance Partner in the operational running of the firm and is responsible for People Leadership and PMD budgets and performance. He is specifically responsible for HR, L&D and IT. He chairs our Inclusion Steering Group. He has served on the Leadership Team since 1 January 2010.



CALUM STEWART
FINANCE PARTNER

Calum is responsible for both the firm and partner finances and for our real estate portfolio. Calum has served on the Leadership Team since 29 March 2013.

INDEPENDENT NON-EXECUTIVES

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



**LESLEY
MACDONAGH**
INDEPENDENT NON-
EXECUTIVE

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



SIMON FIGGIS
INDEPENDENT NON-
EXECUTIVE

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

APPENDIX E

MEMBERS OF THE FIRM'S GOVERNANCE STRUCTURES AT 3 JULY 2015

PUBLIC INTEREST COMMITTEE

The Public Interest Committee at 3 July 2015 comprised the following members:

NAME	TITLE
Simon Figgis (Chair)	Independent Non-Executive
Lesley MacDonagh	Independent Non-Executive
David Isherwood	Ethics Partner

SENIOR PARTNER

The Senior Partner at 3 July 2015 was Mark Bomer. Mark was elected as Senior Partner with effect from 21 June 2011 and is in his second term which expires on 30 September 2018. He is a member of our Inclusion Steering Group and is our representative at the 30% Club and its professional services sub-group, which are committed to seeing more women on the boards of UK companies.

PARTNERSHIP COUNCIL

The Partnership Council at 3 July 2015 comprised the following members:

NAME	TITLE
Mark Bomer (Chair)	Senior Partner
Simon Michaels	Managing Partner
Additional Leadership Team representatives:	
Paul Eagland	Head of Professional Services and Tax
Martin Goodchild	Head of Practice Protection
Elected partners	
Solly Benaim	Audit Partner
Ian Bingham	Tax Partner
Russell Field	Audit Partner
Malcolm Cohen	Business Restructuring Partner
Stuart Collins	Audit Partner
Gary Hanson	Audit Partner
David Pooler	Tax Partner
Keith Ferguson	Corporate Finance Partner
Martha Thompson	Business Restructuring Partner
Wendy Walton	Tax Partner
Matthew White	Audit Partner Chair of the Audit Committee
Julien Rye	Audit Partner

AUDIT COMMITTEE

The Audit Committee at 3 July 2015 comprised the following members:

NAME	TITLE
Mark Bomer	Senior Partner
Matthew White	Audit Partner Chair of the Audit Committee
Stuart Collins	Audit Partner
Gary Hanson	Audit Partner

RISK AND QUALITY COMMITTEE

The R&Q Committee at 3 July 2015 comprised the following members:

NAME	TITLE
Iain Lowson (Chair)	Head of Risk and Quality
Paul Eagland	Head of Professional Services
Simon Figgis	Independent Non-Executive
Martin Goodchild	Head of Practice Protection
Scott Knight	Head of Business Assurance
Nicole Kissun	Head of Technical Standards Group
Gervase MacGregor	Head of International Advisory and Risk and Quality
Pauline McGee	Head of Risk Management Unit
Simon Michaels	Managing Partner

APPENDIX F

LEADERSHIP AND GOVERNANCE MEETING ATTENDANCE IN THE YEAR ENDED 3 JULY 2015

NUMBER OF MEETINGS HELD		LEADERSHIP TEAM	PARTNERSHIP COUNCIL	PUBLIC INTEREST COMMITTEE	AUDIT COMMITTEE	RISK AND QUALITY COMMITTEE
		11	13	4	3	12
NAME	POSITION	NUMBER OF MEETINGS ATTENDED				
Simon Michaels ¹	Managing Partner	11	12			9
Paul England	Head of Professional Services	9	12			11
Martin Goodchild	Head of Practice Protection	10	10			7
Jeff Jones	National Head of Advisory (stood down 15/4/15)	8				7
Scott Knight	Head of Business Assurance					11
Gervase Macgregor	Head of International Advisory and Risk and Quality	9				5
Mark Sherfield ²	Chief Operating Officer	11				
Calum Stewart ³	Finance Partner	11				
Simon Figgis ²	Independent Non-Executive	10		4		11
Lesley MacDonagh	Independent Non-Executive (Chair of Leadership Team)	10		4		
Mark Bomer ⁴	Senior Partner		13		2	
Solly Benaim	Audit Partner		13			
Ian Bingham	Tax Partner		12			
Richard Citron	Tax Partner Stood down 12/11/14		1			
Malcolm Cohen	Business Restructuring Partner		12			
Stuart Collins	Audit Partner		12		3	
Keith Ferguson	Corporate Finance Partner Appointed – 18/5/15		1			
Russell Field	Audit Partner Appointed – 1/10/14		9			
Gary Hanson	Audit Partner		13		1	
David Pooler	Tax Partner		12			
Dermot Power	Business Restructuring Partner Stood down –13/9/14		3			
Julien Rye	Audit Partner Appointed – 13/11/14		7			
Martha Thompson	Business Restructuring Partner		13			
Wendy Walton	Tax Partner		13			
Matthew White	Audit Partner Chair of Audit Committee		13		3	
Rhodri Whitlock	Audit Partner Stood down – 12/3/15		9			
David Isherwood	Ethics Partner			4		
Iain Lawson ²	Head of Risk and Quality					12
Pauline McGee	Head of Risk Management Unit					11
Nicole Kissan	Head of Technical Standards Group					9

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

2 Invited to attend specific Audit Committee meeting

3 Calum Stewart is not a member of the Audit Committee and sits 'in attendance'

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

APPENDIX G

PUBLIC INTEREST AUDIT CLIENTS

A list of public interest entities as at 1 September 2015 is set out below. For the purposes of this transparency report, public interest entities are defined as 'an issuer

a) Whose transferable securities are admitted to trading on a regulated market

b) The audit of which is a statutory audit within the meaning of section 1210 of the Companies Act 2006.'

Audit clients listed on a EU regulated market:

A2D Funding Plc	Downing Two VCT Plc	Mobeus Income & Growth VCT Plc
Acencia Debt Strategies Limited	Elderstreet VCT plc	NATS (En Route) plc
Albion Development VCT Plc	Empiric Student Property PLC	North Midland Construction PLC
Albion Enterprise VCT Plc	Endeavour SCH plc	Octopus Aim VCT 2 Plc
Albion Technology & General VCT Plc	Eurocastle Investments Limited	Octopus Aim VCT Plc
Albion Venture Capital Trust Plc	European Real Estate Investment Trust Ltd	Octopus Eclipse VCT Plc
Alpha Pyrenees Trust Limited	Funding For Homes	Peterborough (Progress Health) plc
Alpha Real Trust Ltd	Goldbridges Global Resources Plc	Petra Diamonds
Amati VCT 2 Plc	Great Places Housing Group Limited	Playtech Plc
Amey Roads NI Financial Plc	Green Dragon Gas Ltd	ProVen Growth & Income VCT PLC
Anglo-Eastern Plantations	Greencoat UK Wind Plc	ProVen VCT plc
Atlas Estates Limited	Gresham Computing plc	PT (Jersey) Limited
Better Capital PCC Limited	Hargreave Hale Aim VCT 1 Plc	Randgold Resources
Bisichi Mining PLC	Hargreave Hale Aim VCT 2 Plc	River & Mercantile Group Plc
British Smaller Companies VCT	Haynes Publishing Group P.L.C.	River & Mercantile UK Micro Cap Investment Company
Bwin.Party Digital Entertainment plc	Hazel Renewable Energy VCT 1 Plc	Soho House Bond Limited
Castings PLC	Hazel Renewable Energy VCT 2 Plc	Solar Financing 2012-1 Plc
Cayenne Trust plc (The)	HSS Hire Group plc	Titon Holdings Plc
Chrysalis VCT PLC	Income & Growth VCT Plc(The)	Triad Group Plc
City Of London Group Plc	Kings Arms Yard VCT Plc	Tritax Big Box REIT Plc
Crown Place VCT Plc	Law Debenture Corp	Triton (European Loan Conduit No 26) plc
Downing One VCT Plc	Malina Financing 2013-1 Plc	Unicorn Aim VCT Plc
Downing Planned Exit VCT 2011 Plc	Mallett Plc	Urban & Civic Plc
Downing Planned Exit VCT 6 Plc	Meridian Hospital Company Plc	Ventus 2 VCT Plc
Downing Planned Exit VCT 7 Plc	Mobeus Income & Growth 2 VCT Plc	Ventus VCT Plc
Downing Structured Opps VCT 1 Plc	Mobeus Income & Growth 4 VCT Plc	Wereldhave Property Corporation PLC
Downing Three VCT Plc		

APPENDIX H

ETHICS AND INDEPENDENCE

INTEGRITY, OBJECTIVITY AND INDEPENDENCE

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

Audit engagement partners are required to communicate to Those Charged With Governance on a timely basis all significant facts and matters that bear upon the auditor's objectivity and independence. Internal guidance and templates are available detailing the matters which should be included in such communications.

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

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

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

FINANCIAL, BUSINESS, EMPLOYMENT AND PERSONAL RELATIONSHIPS

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

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

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

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

Partners and staff members should report to the Ethics Partner where any member of their immediate family or close family, or anyone with whom they have a personal relationship, has an involvement with an audit client which they consider might create a threat to the firm's objectivity or a perceived loss of independence.

The annual declaration process seeks confirmation from partners and staff that our policies surrounding financial, business, employment and personal relationships have been complied with. All exceptions are reviewed and investigated by RMU and the Ethics Team.

APPENDIX H

ETHICS AND INDEPENDENCE

LONG ASSOCIATION WITH THE AUDIT ENGAGEMENT

Our policies are in accordance with Ethical Standard 3 (Revised October 2009) Long association with the audit engagement (ES3) notably that:

- The audit partner on a listed audit client rotates after five years except in exceptional circumstances, as noted in ES3, where rotation can be extended to occur after seven years. Where an extension of the rotation period occurs additional safeguards will be put in place and approval for the extension will be obtained from the Ethics Partner
- For other public interest clients, audit partner rotation takes place after seven years. Extensions are not permitted for public interest clients
- For non-listed audit clients, the audit partner will normally rotate off the audit after ten years. Where rotation is extended beyond ten years, a rotation plan will be agreed with the firm's Ethics Partner.

Rotation in relation to listed and other public interest audit clients is monitored by TSG and a designated member of the ASE.

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

Ordinarily contingent fees are not allowed for any project where the firm will, as any part of that project or any other project, be required to give an independent opinion. The firm's relationship risk review requires project partners to consider the impact of the prospective project's fees on the partners' portfolio.

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

In accordance with The Bribery Act, partners, staff or anyone who performs services for or on behalf of the firm are not permitted to agree to anything that an informed reasonable third party might perceive to be a bribe. The firm has specific policies regarding situations where a bribe might occur – gifts, hospitality and expenses, facilitation payments, political contributions, charitable contributions, sponsorship, commission payments, commission receipts and recruitment.

Partners, staff and their immediate family members may only accept a gift, favour, or other personal material benefit from clients (or clients' officers

or employees) or introducers of work to the firm or any other organisation or individuals including suppliers to the firm who may benefit or be seen to benefit from their relationship with the firm if it satisfies the criteria set out in the firm's gifts policy.

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

NON-AUDIT SERVICES PROVIDED TO AUDIT CLIENTS

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

From 2015 the provision and approval of non-audit services is specifically reviewed at an engagement level as part of the firm's Audit Quality Assurance programme conducted on a selection of audit files.

WHISTLEBLOWING

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

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

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

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

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

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

APPENDIX H

ETHICS AND INDEPENDENCE

INTERNAL REVIEW OF INDEPENDENCE PRACTICES

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

- An annual declaration undertaken by all partners and staff, a sample of which are reviewed by RMU. All exceptions are reviewed and investigated by RMU
- The Independent Inspection programme examines a selection of audit files on an annual basis as explained on pages 18 to 19
- Regular and ad hoc monitoring activities targeting specific aspects of audit independence.

Where independence violations are identified, appropriate remedial action is instigated and appropriate improvements are made to the firm's systems and processes and additional guidance and training is implemented.

BDO INTERNATIONAL GLOBAL INDEPENDENCE PRACTICES

BDO Member Firms' independence and objectivity on assurance clients is achieved through policies and procedures designed to ensure compliance with the independence standards of the International Federation of Accountants (IFAC) Code of Ethics and the respective national regulatory organisations. The relevant ethics and independence rules for each member firm are posted on BDO's global intranet, which is accessible by all BDO partners and professionals.

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

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

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

FOR MORE INFORMATION:

SIMON MICHAELS

+44(0)207 893 2221
simon.michaels@bdo.co.uk

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO LLP to discuss these matters in the context of your particular circumstances. BDO LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO Member Firms.

BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

© October 2015 BDO LLP. All rights reserved.

www.bdo.co.uk