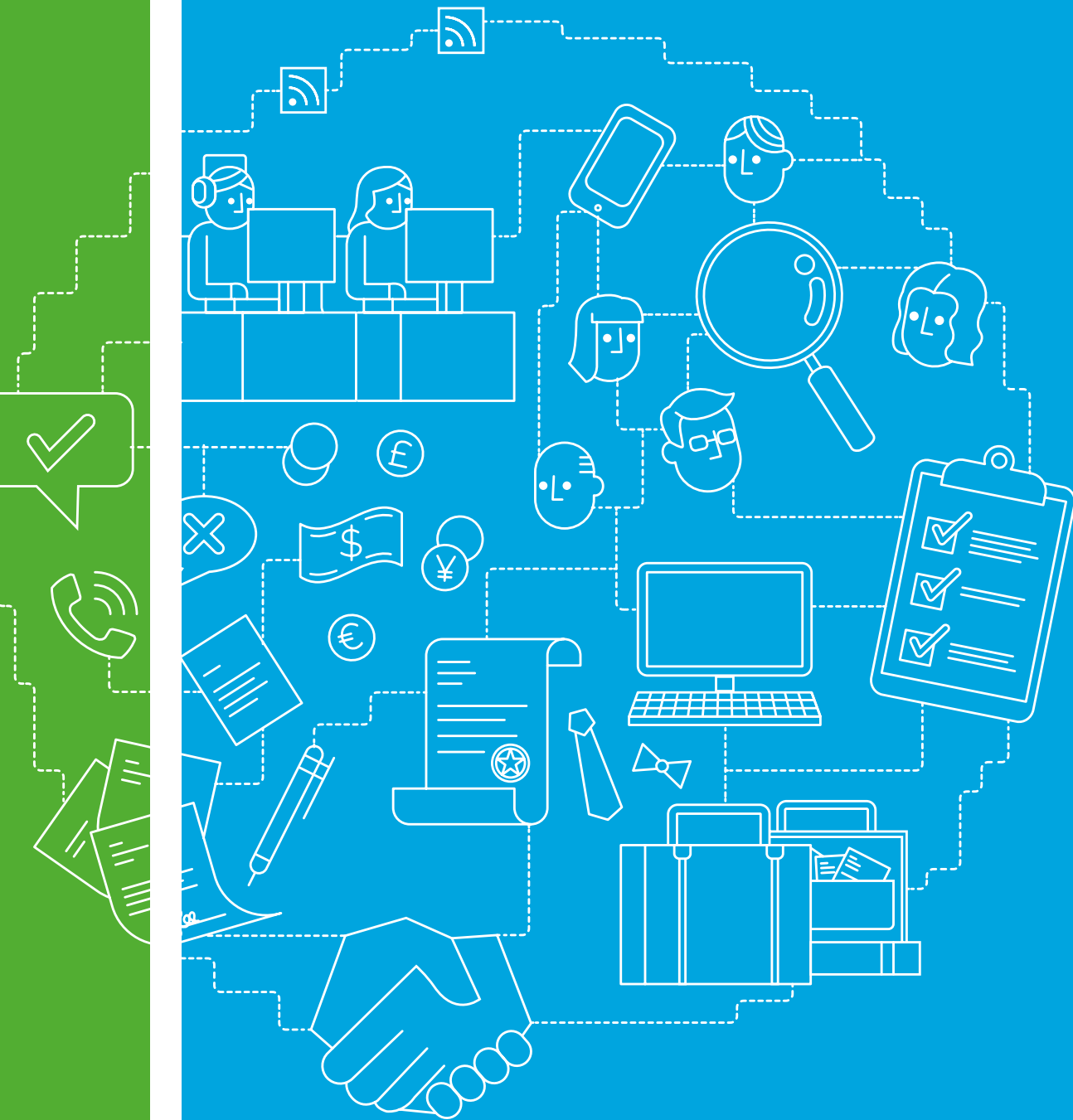


2020

RSM UK Audit LLP Transparency report



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Foreword

As the new Chief Executive Officer of RSM, I would like to welcome you to the RSM UK Audit LLP 2020 Transparency Report.

During my thirty-year career with RSM and its predecessors I have seen the firm grow in size and stature and professionalise in process and product. I have seen increased recognition of our brand profile and have witnessed an evolution in the quality and talent of the people we attract and retain in fulfilling careers.

The results for RSM UK group for the year ended 31 March 2020 were strong with revenues, in line with previous years, over £300m. As with the UK and global economy, RSM is dealing with the uncertainty caused by the worldwide coronavirus pandemic. Our people have successfully adapted to working virtually from home with the right technology in place to support them. Our recent employee survey assessed the impact of these changes on our staff and highlighted that many will probably work more from home in the future but they are looking forward to being able to see colleagues face to face in offices and not having to juggle home schooling along with work.

We recognise that this has been a particularly tough time for our clients: dealing with the immediate effects on their businesses and cashflow; understanding the availability but also limitations of government support and regulatory interim measures; trying to account for these and potentially prepare for a virtual audit. We have provided support, analysing and communicating information and issues as they arise both nationally and through our local teams to individual communities and sectors.

As lockdown gradually eases, we will see positives emerge from this crisis. Challenge brings opportunities and this has prompted much thought about the path society was on, and what that path might be in the future. I am confident that RSM, and its clients, will emerge from the current crisis as more robust and resilient businesses.

Rob Donaldson
Chief Executive Officer, RSM

Introduction from the Head of Audit

In a world where circumstances are changing daily, maintaining audit quality is challenging and has never been more important.

The Covid-19 crisis has had, and will continue to have, far-reaching consequences. We recognised the immediate dangers presented to audit quality before the country went into lockdown. Businesses are facing an uncertain future; investors and the wider market will appreciate that many businesses will not be able to predict their short-term future with any degree of certainty. Many audit procedures presuppose the physical presence of an auditor, important to not only see the assets but also, through face to face conversations with client staff and directors, gain an understanding of issues and potential risks. We therefore promptly updated our existing procedures and have implemented increased consultations on key areas such as going concern. The comfort that auditors are carrying out robust reviews will help to ensure confidence.

RSM entered the crisis in a strong financial position. Turnover and audit fees billed, including our statutory audit work, for the year ended 31 March 2020 all showed an increase on the previous year. It is a year since the launch of RSM Orb, our global audit methodology, with the aim to deliver a consistent approach to international assignments as well as enhancing quality at a local level. We are delighted by the commitment Responsible Individuals (RIs) and staff have made to the new approach which has been supported by a robust training programme and regular reviews by our technical and quality assurance teams.

The audit reform reviews have been foremost in the meetings of the Management Board and in its plans for the future. RSM UK Audit LLP is already operationally separate within the RSM UK group, with its own Management Board and two Independent Non-Executives (INEs). Sir Ian Byatt and Roger Alexander will be retiring from their positions on 31 July 2020 with two new INE appointments, one of whom will also be an Independent Non-Executive of the RSM UK Holdings Board.

Alongside our peer firms we have experienced increased opportunity in the FTSE market in the past 18 months. All our audit tender invitations are reviewed and considered with regard to our sector skills and resources, both domestic and international. We continue to invest substantially

in people and process to be able to respond promptly to market demand and to ensure the delivery of robust audits for our existing client base. We look forward to DBEIS consultations later this year and hope the Government and Regulators will support firms in their bid to widen the marketplace and build improvements in audit quality.

In the year to March 2020 we were reviewed by both ICAS and the FRC, and we are taking account of the feedback in our processes. Our RI conference in February shared the feedback and allowed everyone to consider together the actions required.

Investing in the training and development of our people is of utmost importance. We need people who are sceptical, ask questions, listen and respond using critical thinking and judgement. We also look to recruit new thinking into the team and increase the depth and breadth of our skills in key sectors. Our investment in data analytic techniques works hand in hand with these great teams.

All of our people are encouraged to make recommendations and provide feedback at any time and, in addition, this year we conducted our bi-annual quality survey. The results highlighted the commitment to quality our people have, and how keen they are to engage on wider topics around audit culture within the firm and the wider marketplace. We will continue to work with our teams through focus groups to further explore the feedback and seek to improve our ways of working.

We are looking forward to the future, to the opportunities that change will bring, and to continuing to enhance audit quality.

Jonathan Ericson
Head of Audit, RSM UK Audit LLP

RSM is fully committed to the Audit Firm Governance Code (Code) and its principles of openness, compliance and professionalism. Our staff are encouraged to consult and to share problems and experiences. Integrity is at the heart of our core values and this ethos is communicated regularly from the Audit Management Team to our people across the firm.

Through our quality strategy and risk management processes we will continue to fulfil the Code's purpose including securing our reputation in the marketplace.

RSM UK Audit LLP Management Board



Public Interest Committee: Report 2019–20

RSM's Public Interest Committee (PIC) changed membership on 31 July 2020. As the UK prepares to address the effects of Covid-19, the outgoing PIC presents its report on the year ended 31 March 2020. The members are conscious that, by the time this is published, the business landscape may look different but they are in no doubt that audit quality will remain of paramount importance to the firm.

In 2019–20, the work of RSM's PIC took into account four audit market enquiries: Kingman, CMA, BEIS and Brydon. Whilst these did not change the core role of the PIC, the Independent Non-Executives (INEs) were pleased that matters raised by the enquiries, particularly around audit quality and any risks or opportunities posed to the firm, were given due prominence at the meetings they attended.

This year, the annual RSM roundtable was held in January with a distinguished group of audit experts. Unsurprisingly, the discussion centred on the big issues raised in the enquiries including:

- defining 'public interest' and 'stakeholder interest';
- the role and extent of regulation;
- competition in auditing the FTSE 350 and the introduction of joint audits;
- replacement of the Financial Reporting Council (FRC) by an enhanced Audit Reporting and Governance Authority (ARGA);
- clear separation of the provision of audit and non-audit services; and
- greater accountability for company Audit Committees.

As well as assisting the PIC to inform its views on high-quality auditing at RSM, the roundtable also helped to enhance the firm's reputation amongst key members of the audit community. The paper on the three reports by Sir John Kingman, the Competition and Markets Authority and Sir Donald Brydon, and the record of the meeting can be found on the RSM website.

It is most important that the PIC listens to the views of audit partners and managers. In 2019–20 the PIC continued its attendance at RI meetings to understand the views of local partners and to explain the Committee's work, including how it is interacting with key stakeholders and contributing to the wider discussion on audit. The PIC was also able to witness how the messages from the Management Board and the Audit Management Team on audit quality were being received and understood.

The PIC is keen that all audit staff are aware of its purpose and work. In September, it published an intranet news story: "Audit in crisis? Thoughts from our PIC". This covered the Committee's views on audit and the audit market at a critical time. Staff were invited to learn more about the PIC by linking to more information on its role and composition.

The PIC attended the RI conference in February 2020 where RSM management, the FRC and the Institute of Chartered Accountants of Scotland (ICAS) presented their positions and the directions of their future work. The conference also discussed and reviewed the comments and points arising from the Audit Quality reviews undertaken by the FRC and ICAS.

Duties performed by the PIC in 2019–20

The PIC has been appointed to observe the processes adopted by RSM UK Audit LLP ensuring auditing is high-quality and that the public interest is properly identified and plays a sufficient role in the firm's practices. The PIC is committed to ensuring that they perform the duties set out in the Audit Firm Governance Code.

The PIC continues to promote audit quality by:

- regularly attending the Management Board meetings to observe the tone at the top and contribute suggestions for maintaining, improving and explaining audit quality, without taking an active part in Board decisions;
- maintaining close contact with RSM's Quality Assurance Department, with the aim of critically reviewing processes for examining shortfalls in audit practice and for establishing processes for improving audit quality;
- receiving reports from the firm's Ethics Panel allowing it to see the handling of potential conflicts of interest and independence challenges as well as the application of and training of ethical standards across the whole firm; and
- observing and questioning steps taken by the management of RSM to monitor and improve the performance of auditors, including appropriate mentoring and training.

The PIC continues to secure the firm's reputation by:

- regularly seeing the Head of Audit to understand the audit strategy and objectives;
- maintaining a relationship and meeting independently with the FRC; and
- keeping abreast of current issues and regulation affecting the audit marketplace.

If the PIC require information on RSM UK Holdings Limited non-audit business, they have the right to contact the CEO and Chairman.

The PIC continues to reduce the risk of firm failure by:

- challenging the Management Board on the financial results of the firm;
- reviewing the annual audited financial statements, including the principal risks facing RSM UK Audit LLP; and
- having regular contact with and being able to raise queries with RSM UK Holdings Limited's Chief Financial Officer.

The PIC is satisfied that the management of RSM UK Audit LLP is committed to producing and continually improving audit quality including providing audits which satisfy the public interest and improve the reputation of UK businesses.

Tom McMorrow, Roger Alexander and Sir Ian Byatt
Public Interest Committee



Legal structure, ownership and governance

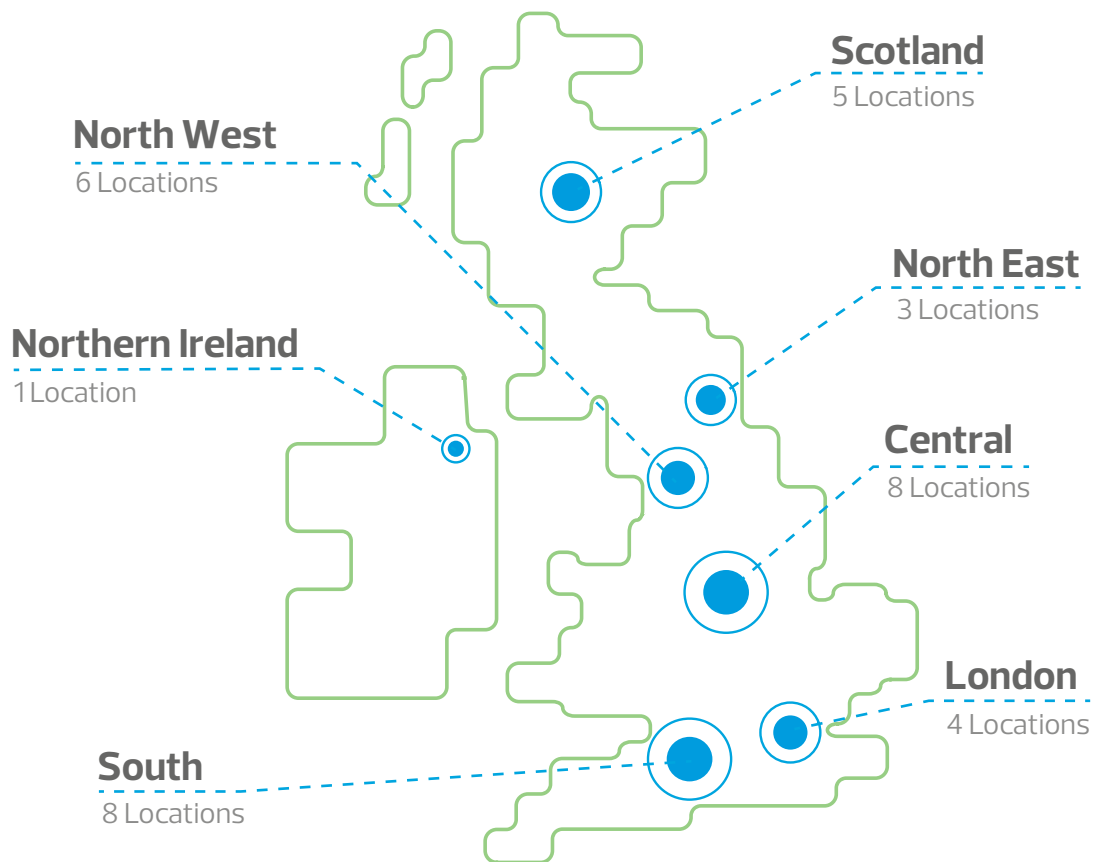
Leadership

The Chief Executive Officer of the RSM UK group parent company (RSM UK Holdings Limited) is appointed to hold office for a period of four years. Rob Donaldson was appointed with effect from 20 April 2020.

The Board of RSM UK Holdings Limited has power to appoint and remove directors (including the Chief Executive Officer). Board members (other than the Chief Executive Officer) are subject to retirement by rotation. The Board appoints the National Leadership Team (NLT) of RSM UK Group LLP and the Operations and Markets team (O&M) for the group. The Board is responsible for agreeing the group's overall strategy and the NLT and O&M are responsible for driving it forward.

From 1 August 2020 RSM UK Holdings Limited will have two Independent Non-Executive Directors who will support and independently challenge the Board. One of the INEs will also serve on RSM UK Audit LLP's Public Interest Committee.

RSM UK key statistics



Over
4,000
Partners and staff



35
Locations



UK revenue
>£355m

The RSM UK Holdings Limited Board as at 31 July 2020

Kevin O'Connor Executive Chairman	Rob Donaldson Chief Executive Officer	Andrew Westbrook Chief Financial Officer (acting)	Howard Freedman Partner
Simon Hart Partner	Victoria Kirkhope HR and Development Director	David Punt Head of Ethics and Group Compliance	Zoë Rudling Partner

National Leadership Team as at 31 July 2020

Rob Donaldson Chief Executive Officer	Andrew Westbrook Chief Financial Officer (acting)	John Taylor Chief Operating Officer	Chris Knowles Chief Digital Officer
Jonathan Ericson Head of Audit	Kirsty Sandwell Head of Transactions	Ali Sapsford Tax Partner	

Joining the NLT by invitation

Catherine Riches Head of Brand & Communications

The Operations and Markets Team as at 31 July 2020

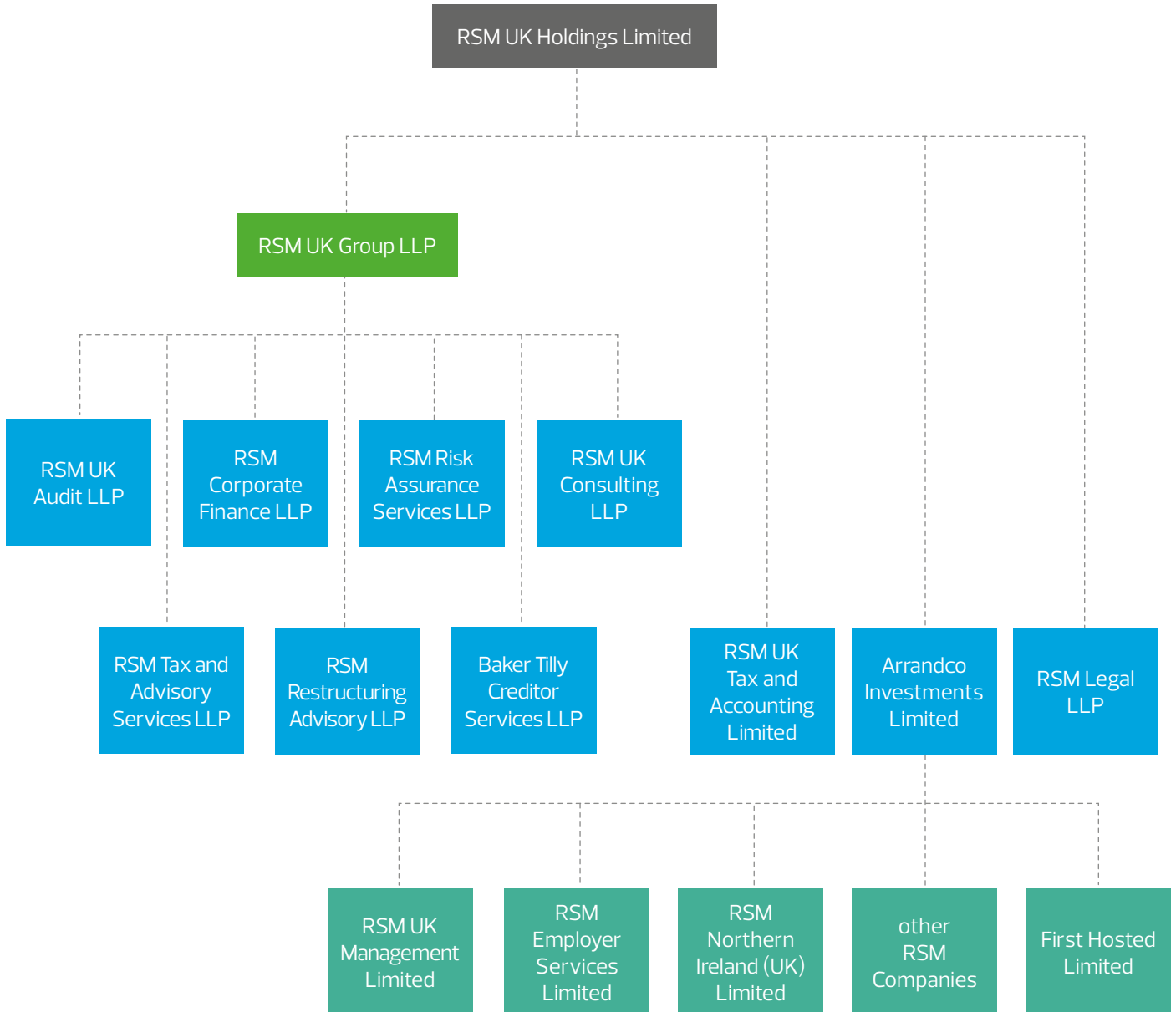
Rob Donaldson Chief Executive Officer	John Taylor Chief Operating Officer	David Blacher Regional Managing Partner, London	Kevin Duffy Regional Managing Partner, North West	Simon Hart Partner
Kevin O'Connor Regional Managing Partner, North East & Yorkshire	Ali Sapsford Regional Managing Partner, South	Alex Tait Regional Managing Partner, Scotland & Northern Ireland	Mark Taylor Regional Managing Partner, Central	
Alison Bowyer Finance Director	James Grant Chief Marketing Officer	David Hilland IT Director	Victoria Kirkhope HR and Development Director	

The following also served on the Board and the NLT for the year ended 31 March 2020

Jez Filley Regional Managing Partner, London	Penrose Foss General Counsel	David Gwilliam Partner	Simon Harding-Rolls National Director of IT	Elfed Jarvis Partner
Jill Jones Regional Managing Partner, North West	Laurence Longe Partner	Martin Rodgers Partner	Nigel Tristem Partner	Robert Ross Partner
Mark Taylor Regional Managing Partner, Central				

Organisational structure

As at 31 July 2020



Note: The diagram is a simplified view of the organisational structure and only includes the main trading or holding entities of the RSM Group.

The RSM UK group

The principal service lines of the group are Audit, Restructuring Advisory, Tax, Accounting, Business Advisory, Outsourcing, Corporate Finance, Risk Assurance, Consulting, Legal Services and HR Services. The parent company, RSM UK Holdings Limited, derives its income primarily from dividends from subsidiaries and from a profit share, as a member of RSM UK Group LLP. RSM UK Holdings Limited is owned by its shareholders who are mainly current and former partners. Arrandco Investments Limited, which is a 100% subsidiary of the parent company, holds investments in single purpose companies which do not impact the audit function. Audit staff are employed by RSM UK Tax and Accounting Limited and support staff are supplied by RSM UK Management Limited.

Audit Committee

RSM UK Holdings Limited has, as part of its governance procedures, an Audit Committee. The Audit Committee comprises three members who are appointed by the Board.

The Audit Committee at 31 July 2020 comprised:

Howard Freedman

Chair and Audit Partner

Rachel Fleming

Audit Partner

Ross Stupart

Tax Partner

The Audit Committee performs several important functions which include:

- assist the Board in the oversight and integrity of the consolidated financial statements of the Group;
- review of the significant estimates and judgements made by the directors in the preparation of the financial statements;
- keep under review the Group's internal financial controls and procedures;
- evaluation and monitoring of the external auditor's independence and performance;
- recommendation of the external auditor's remuneration and reappointment;
- review and agreement of the external auditor's audit scope proposals; and
- review of final audit findings and recommendations.

The Audit Committee discharged its duties in the year to 31 March 2020.

RSM UK Audit LLP

As at 31 March 2020, RSM UK Audit LLP had 103 members, 102 of whom were Responsible Individuals (RIs). In addition, there were 26 employee RIs who were not members of RSM UK Audit LLP giving a total of 128 RIs. The employee RIs are subject to the same training, controls and monitoring as the partner RIs.

RSM UK Audit LLP Management Board

Members of the RSM UK Audit LLP Management Board as at 31 July 2020

Jonathan Ericson

Appointed 29 March 2014

Kate Reid

Appointed 1 April 2018

Andrew Westbrook

Appointed 1 April 2018

Nigel Tristem also served on the Board until 15 January 2020

The members of the RSM UK Audit LLP Management Board are appointed by a vote of the members of RSM Audit LLP on candidates approved by RSM UK Group LLP. Members are appointed for terms of four years and are eligible to stand for re-election with the approval of RSM UK Group LLP.

The Management Board is responsible for all aspects of the management and governance of the LLP. Any of the Management Board's powers may be delegated to any individual member or members of the Board and, in practice, the responsibility for the day-to-day operational management of the service line is entrusted to the Head of Audit who carries out such management with the Audit Management Team (AMT).

The Management Board meets at least three times a year and additionally as required. All Board meetings in the year were attended by all Board members holding office at the relevant time. The agenda consistently covers a discussion on aspects of governance and a report by the Head of Audit on operational issues and financial performance.

Audit quality always features prominently at the meetings. The Head of the Quality Assurance Department (QAD) provides a written report and the Board monitors closely actions taken to address QAD findings. Specifically, the Board discusses and ratifies any proposed RI appointments and changes in authorisations and monitors whether training requirements are being addressed.

The Management Board invited the PIC to relevant Board meetings.

Reports from external regulators are discussed and the firm's action plans to address regulatory findings are critically assessed and monitored on an ongoing basis. Finally, any ethical issues are raised and discussed so that action plans can be put in place where appropriate.

The Head of Audit sits on the National Leadership Team and raises any issues which might affect the way RSM UK Audit LLP achieves the Code's purpose.

Having the RSM brand on our accounts and as our external auditors provides our management and our stakeholders with the highest level of compliance and reassurance. The audit processes are professional, rigorous and detailed. The RSM teams are highly experienced and with this comes highly sensible, measured approach which take on board the overall working practices within the organisation. Audits and year end processes are generally stressful times for most finance staff within any organisation, however this is eased by the friendly and approachable manner of the RSM teams.

The Four Stones MAT, Sally Gill, Chief Finance Officer



Public Interest Committee

The Public Interest Committee (PIC) has oversight over all public interest matters. Independent Non-Executives (INEs) form the majority of the Committee's complement which enables them to direct the Committee's work and ensure that its principal objectives are fulfilled.

A sound ethical culture and ethical decision-making are significant contributors to the overall tone at the top of the firm and how it delivers professional services. Tom McMorrow, a member of the firm's Ethics Team, acts as the PIC's Chair. This ensures meaningful liaison between the INEs, the Ethics Team and the Head of Quality Assurance.

Members of the PIC are appointed to serve for a period of three years, renewable by joint agreement of the member and the firm.

The PIC meets three times a year before Management Board meetings and as required at other times during the year.

The duties of the PIC are:

- to engage with external stakeholders including regulators, investors and shareholders, and respond purposefully to any concerns;
- to engage with internal stakeholders including meeting with the CEO and Chairman of RSM UK Holdings Limited and being satisfied that principals and employees have a discreet avenue of recourse for dispute resolution or counsel;
- to recognise and ensure the firm's adherence to its public interest responsibilities;
- to ensure that any weaknesses which are identified with regards to quality are addressed, in particular any threats to the firm's independence as auditors;
- to review people management policies and procedures, including remuneration and incentive structures;
- to be involved in the review of the effectiveness of the firm's system of internal control and reduce the risk of the firm's failure; and
- to consider the broad reputation of the firm across all aspects of its business.

We believe that the PIC clearly demonstrates our commitment to the Audit Firm Governance Code, FRC Ethical Standard and our pursuit of excellence in the delivery of Audit Quality.

Independent non-executives (INEs)

During 2019–20 there were two INEs, both of whom sat on the PIC. Neither were members of RSM UK Audit LLP nor did they sit on the Management Board. This provided a safeguard to their independence from potential operational conflicts.

INEs are appointed to serve for a period of three years, renewable by joint agreement of the INE and the firm. Either party can terminate the appointment with one month's notice.

Currently the Management Board have opted to have two INEs. The Code's reference to the proportionality principle of good regulation applies because the firm audits a relatively small number of public interest entities compared to the Big Four firms. This is being kept under review.

Independence

Each INE is required to complete the firm's annual independence declarations to ensure that they do not have any relationships with entities that the firm audits which may compromise the firm's independence.

The INEs are required to abide by the INE terms of reference which obliges them to eschew any matter or involvement that might compromise law or regulation.

The INE's duties ensure that they are involved in key discussions and decisions around the firm's independence as auditors. On an annual basis the Head of Audit and the Chair of the PIC ensure that the INEs have performed their duties in relation to independence.

Performance of duties

The INEs meet regularly and they attend and contribute to the meetings of the major audit firms' INEs held by the Financial Reporting Council so that they are fully conversant with INE policy at the highest level.

By invitation, the firm's INEs attend relevant Management Board meetings and are entitled to raise any matters relevant to audit quality they deem fit. In addition to agendas and supporting papers, the Management Board provides any information which the INEs request and the INEs are invited to interrogate any matter they wish. The INEs also, independently, meet the Head of QAD, enquiring of him the resource available to him, its adequacy, and any matters he wishes to raise with the INEs.

The INEs have an open invitation to attend the firm's Ethics Panel meetings. The INEs are constantly made aware of how the firm safeguards against conflicts of interest, independence challenges, how it trains partners and staff in fulfilling ethical norms, whether any such issues have arisen and how they have been addressed.

The INEs' involvement at Board level and with the Ethics Partner and Ethics Panel provides a useful check and balance on executive action. In addition, the INEs have access to a degree of confidential information about the operations of the firm that allows them to evaluate any risks facing the firm.

Fundamental disagreements

The firm makes a public commitment to support the INEs in their work. To ensure that their views are properly addressed, the firm has established a protocol for dealing with any fundamental disagreement the INEs may have at any time with the Executive of the Firm. Ease of communication between the Committee and the Executive, the potential for several layers of consultation to be deployed, access to alternative dispute resolution machinery, if necessary, and the right to resign and make the fact of it public are the key features of the protocol.

The INEs have a contractual right to obtain outside opinions (at the firm's expense) and to disclose to any relevant authority the fact and nature of any fundamental disagreement with the firm's management that cannot otherwise be resolved.

They are also provided with relevant indemnity insurance in respect of legal action against them.

Members of the Public Interest Committee until 31 July 2020

Roger Alexander

INE

Roger Alexander was appointed to the PIC on 1 March 2014. Roger was an Audit Partner from 1969 to retirement in March 2002. He was the lead Audit Partner on high profile audits including a FTSE 100 company and its UK and worldwide subsidiaries; large privately-owned groups of companies; and the UK subsidiary of a US listed company. Roger served on the RSM UK Audit LLP Management Board as an INE for three years from 2011 to 2014.

Sir Ian Byatt

INE

Sir Ian Byatt was appointed as an INE and joined the PIC on 1 March 2014. He is the former Director General of OFWAT, a post he held between 1989 and 2000 during which time he established and implemented the regulatory regime for the privatised England and Wales water sector. Previously Deputy Chief Economic Advisor to the Treasury, Head of Public Sector Economic Unit in the Treasury and Director of Economics in the Environment Department, he has also been active in the world of academia lecturing at two of the UK's most prestigious Universities.

Tom McMorrow

Chair

Tom McMorrow was appointed to the PIC on 1 March 2014. Trained as a solicitor, he spent 17 years with ICAS in professional conduct-related roles, latterly as General Counsel, and then as a prosecutor with the Crown Office's Financial Crime Unit. Tom has a love for the RAF and flying which sees him dedicate much of his spare time as a volunteer 'special projects officer' with the Air Training Corps, a role which he most thoroughly enjoys. He served on the RSM UK Audit LLP Management Board for three years.

INE structure from 1 August 2020

The current INEs will retire on 31 July 2020 and two new INEs will be appointed. One INE will also be an INE for RSM UK Holdings Limited. This will ensure alignment of governance between RSM UK Holdings Limited and RSM UK Audit LLP.

The current PIC, alongside the Management Board, has been involved in refreshing and updating the terms of reference of the INEs, selecting and recruiting for the positions and preparing for a smooth handover.

RSM welcomes dialogue with listed companies and listed company shareholders about matters covered by the Audit Firm Governance Code. Initial contact should be made with David Punt, Head of Ethics and Group Compliance, david.punt@rsmuk.com

Over many years we have built a strong working relationship with RSM and have found the team to be knowledgeable, experienced and efficient. Responsiveness and consistency are important to us and the team at RSM deliver at both levels. RSM is a modern firm but has not lost the personalised, close partner led approach, which you can't easily find with big, multinational corporates. The RI is one of the UK's top experts in the travel sector and we value his involvement in the audit process. He shares relevant insights and events tailored to the sector which we find very useful.

Sunspot Tours Ltd, Irina Ropotan, CFO



Day to day management of RSM UK Audit LLP

For management purposes the national audit practice is divided into five regions. Each region has a Regional Audit Managing Partner (RAMP) who is appointed by the Head of Audit.

The Management Board has delegated operational responsibility for the strategy and performance of the audit practice and for audit quality to the Audit Management Team (AMT). The AMT consists of the RAMPs as well as a National Audit Technical Partner and a Regional Compliance Partner who both bring additional oversight on technical and quality issues.

Each region has a Regional Compliance Partner (RCP), reporting directly to the AMT. The role of the RCP is to ensure compliance with the firm's policies and procedures relating to integrity, objectivity and independence and to ensure compliance with audit regulations on a regional basis. The RCPs are responsible in their region for oversight of the application of the audit methodology, compliance with auditing standards and ethical issues.

The RCPs manage Audit Quality Champions (AQC) in their region to ensure that best practice, efficiency and quality are embedded in audit teams. The AQC is responsible for promoting and achieving a culture of audit quality in the office, working with a number of interested parties to bring about continuous improvement.

Reporting to the RAMP in each office is an Audit Group Manager (AGM), responsible for the day-to-day management of audit staff in that office. The AGM in each office leads the local audit group and manages staff and other resources in order to ensure optimum profitability, efficiency and client service in line with regional and national strategic objectives.

The AGMs work closely with the AQC to ensure that the dual aims of enhanced audit quality and improved audit profitability are achieved. Specific training is given to the AQC as and when required linking with the Quality Assurance Department, National Audit Technical Services and Learning and Development to equip them with the skills to perform their roles.

Regional Compliance Partner

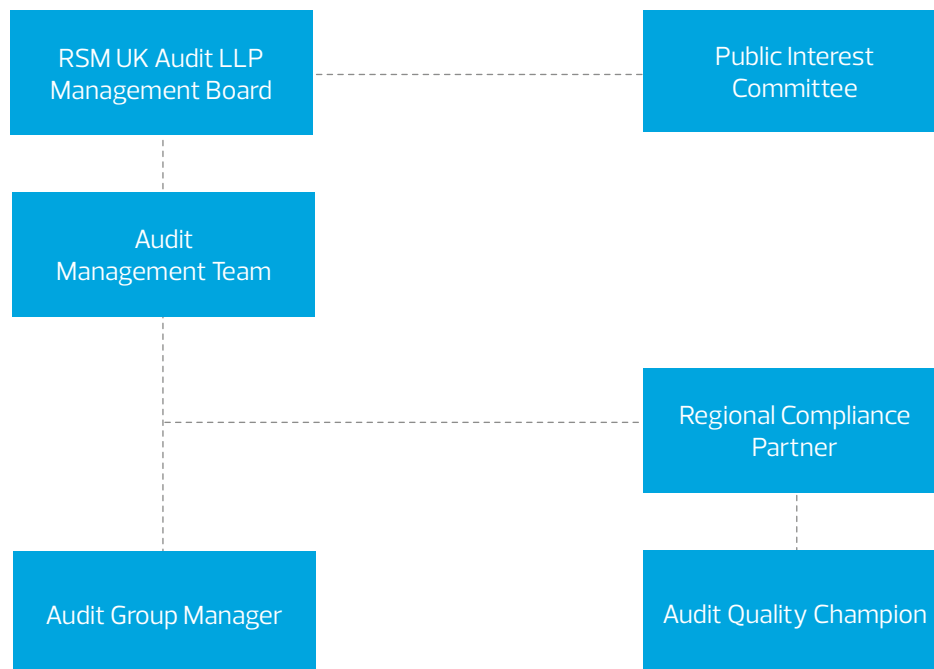
- Ensures compliance with the firm's policies and procedures relating to integrity, objectivity and independence, and compliance with APB Ethical Standards.
- Ensures that the firm complies with the Audit Regulations on a regional basis.
- Oversees the implementation, by the AQC, of the firm's quality control procedures, including personal action plans.

Audit Quality Champion

- Keeps audit quality objectives prominent in the office and takes appropriate actions to bring about improvements.
- Ensures quality processes and procedures exist and are supported including personal action plans.
- Provides quality-related feedback on RIs, managers and staff for use in the appraisal process.
- Encourages a working environment, culture, attitudes and behaviours that prioritise audit quality.
- Promotes the achievement of the firm's professional and ethical standards and enables all staff to share best practice.

Audit Group Manager

- Drives the achievement of financial targets and promotes audit efficiency at all times.
- Ensures quality processes and procedures exist and are supported in conjunction with the AQC, RCP and RAMP.
- Undertakes the central role in managing the performance of the audit group and leads on staff resource management.
- Promotes the achievement of the firm's professional and ethical standards and enables all staff to share best practice.



Audit Management Team meetings

The AMT meeting agendas cover all operational areas of the audit business including:

- budget setting and review of financial performance;
- technical developments and their impact on internal authorisation, training, ethical and other policies;
- quality assurance findings and progress in addressing issues arising;
- training programmes including the agreement of mandatory courses and consideration of course content;
- appropriate business development initiatives;
- staff development and talent management initiatives; and
- resource allocation.

Information from the AMT meetings is taken by the RAMPs and cascaded down to their regional teams through regular regional RI and RCP meetings, and meetings of AGMs and AQC's.

The AMT meets monthly and is joined, by invitation, by representatives from Technical, Quality Assurance, Training, Human Resources and Marketing departments.

Audit Management Team appraisals

The AMT is subject to the same rigorous appraisal regime which is in place for all partners. The process involves a self-assessment by the partner, peer reviews from other partners, upward feedback from the manager group, feedback from QAD and feedback collected from clients. There is a formal appraisal session which results in an agreed personal action plan for the forthcoming year.

The AMT appraisals are carried out by the Head of Audit and the Head of Audit's appraisal is carried out by the Chairman of RSM UK Holdings Limited.

Members of the Audit Management Team as at 31 July 2020

Jonathan Ericson

Head of Audit

Jonathan qualified in 1995. Prior to becoming Head of Audit, Jonathan was RAMP for the London Region, a role he continues to undertake. Jonathan is involved in the audit of large Owner Managed Businesses operating in both UK and international markets.

Ben Lawrance

Regional Audit Managing Partner, Central

Ben qualified in 2000 and has been an audit partner since 2009. Ben is involved in auditing large Owner Managed Businesses, Private Equity Backed Groups and groups operating in a range of sectors throughout the UK including international subsidiaries.

Claire Leece

Regional Audit Managing Partner, Scotland, North East and Northern Ireland

Claire qualified in 1998 and has been an audit partner since 2008. Claire is involved in auditing large Owner Managed Businesses, who operate in a range of sectors. Claire's audit portfolio also includes a number of charity and education clients.

Jonathan Lowe

Regional Audit Managing Partner, North West

Jon qualified in 2008 and became an audit partner in 2013. Jon leads the audits of Private Equity portfolio companies and Owner Managed Businesses, including large international groups, across a range of sectors including technology, leisure and logistics.

Graham Ricketts

Regional Compliance Partner, London

Graham qualified in 2008 and has been an audit partner since 2013. Graham's audit work focuses on listed businesses, many of which have international operations. He works with clients in a range of sectors, including natural resources, technology and property.

Colin Roberts

Regional Audit Managing Partner, South

Colin qualified in 1994 and joined the firm as an audit partner in 2007. Colin is involved in the auditing of Owner Managed and AIM listed businesses of varying sizes, predominantly in the property, technology and professional services sectors.

Nicky Warburton

National Audit Technical Partner

Nicky qualified in 1999 and is a technical partner, advising on audit, financial reporting and ethical matters. Nicky is a member of the Ethics Team and specialises in co-ordinating the technical quality of the firm's audit operational procedures and the provision of technical support provided to audit and financial reporting engagement teams.

National Audit Technical Services

The firm has a dedicated audit technical department National Audit Technical Services (NATS). At 31 March 2020 NATS comprised 15 individuals supporting audit personnel in the delivery of high-quality audits.

NATS is responsible for the technical quality of the firm's audit operational procedures and the provision of guidance and advice on audit and financial reporting matters.

It does this on a day to day basis by:

- providing oversight and input into the firm's and network's global audit methodology;
- conducting:
 - engagement quality control reviews for high reputational risk engagements; and
 - second opinion reviews on specific audit matters where there is an increased audit risk eg when there is significant doubt over an entity's ability to continue as a going concern or a non-standard/modified audit report is being issued;
- providing technical advice and opinions to partners and staff on client specific audit or financial reporting matters;
- preparing technical communications, internal guides and UK specific practice aids;
- reviewing technical training materials; and
- leading and/or contributing to quality enhancement projects such as efficiency reviews, live file reviews and targeted root cause analysis.

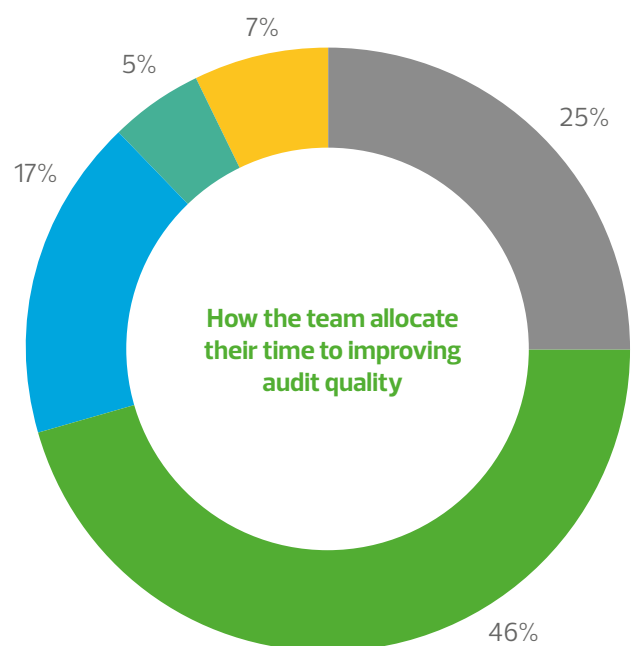
NATS also plays a significant role in responding to regulatory consultations including those issued by the Financial Reporting Council and the International Accounting Standards Board. Many NATS members sit on professional, regulatory and international network committees and working parties.

Responsibility for NATS lies with the Audit Technical Committee (ATC). The ATC comprises three Responsible Individuals committed to providing the practice with the necessary framework, tools and support needed to enable effective and efficient audit engagements carried out in compliance with relevant professional standards and legislation.

The ATC works closely with the Head of Audit, AMT, RCPs, and other members of NATS to ensure that the needs of the business are understood and responded to appropriately. A member of the ATC sits on the AMT and also sits on the firm's Ethics Team which gives the ATC a direct line of communication into the firm's Ethics Partner.

Members of the department have a wide range of experiences and specialisms mirroring the diverse nature of our audit client base. They reside in key offices throughout the UK and have responsibility for building and establishing relationships with audit personnel in their allocated region. Their visibility and proximity to local audit teams encourages consultation and enhances audit quality.

Communication between NATS members is a regular occurrence, with team consultations taking place before advice is given on any but the most straightforward issues. In addition, there is a database of examples to which team members can refer and regular formal meetings are held at which emerging issues are discussed and actions agreed.



- Ethics & EQC reviews
- Technical advice & support
- Training, communications & quality enhancement projects
- Consultation responses & regulatory matters
- Oversight & input into RSMi global audit methodology

The RSM International network

RSM UK Group LLP is a member of RSM International, the sixth largest global network of independent audit, tax and consulting firms, as its UK member firm.

The RSM network connects member firms through common methods and processes, including commonly agreed and applied quality standards. This connection provides comfort to RSM member firm partners and their clients that the quality of service and advice to referred clients will be to a consistently high standard, everywhere in the world.

Many RSM member firms are among the top seven in their respective countries and possess some of the best professional resources and experience available. The member firms have a broad client base, from large listed and international companies to smaller, Owner-Managed Businesses in the public and private sectors. In addition to traditional assurance services, RSM possesses significant resources and experience in tax, transaction support, risk advisory, and corporate recovery and insolvency.

Legal structure and ownership

RSM International Limited is a company limited by guarantee and is incorporated in England and Wales (company number 4040598) and whose registered office is at 50, Cannon Street, London, EC4N 6JJ.

RSM International Limited does not itself provide professional services to clients but acts as a member services organisation. Client services are delivered by the independent member firms of RSM International, each of which is a separate and independent legal entity. Member firms are not members of an international partnership or legal partners with each other. No single member is responsible for the services or actions of another. Although many member firms take the RSM name, there is no common ownership between these firms or ownership of them by RSM International Limited.

The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

Requirements of member firms

RSM member firms agree to adopt and align with the following policies and procedures as a requirement of membership:

- RSM Quality Assurance and Risk Containment Policies and Procedures
- RSM Orb audit methodology
- RSM Ethics and Independence Policies
- RSM Assurance Services Training and CPD Policies
- RSM Member Firm Inspection Programme Policies and Guidelines
- RSM Anti-bribery and Corruption Policies and Procedures
- RSM IT and Data Security Privacy Policies

Funding

The cost of coordinating the RSM International network is funded by member firms. Each year the International Board of Directors approves the budget for the coming year. Substantially all budgeted income is derived from annual membership fees paid by member firms. The fees for member firms are calculated in accordance with an approved funding formula that takes into account a number of factors including the member firm revenues and their level of net referral fees.

Management and governance

The organisational structure of RSM International is aimed at executing the RSM global strategy – The Power of Focus – and providing member firms with the platforms to develop business together in a high-quality manner. The structure also reflects the network's geographic coverage, ensuring representation from all key regions.

International board of directors

RSM International is an organisation with the infrastructure and resources needed to establish common standards and quality assurance programmes, as well as to facilitate effective management of transnational work by its member firms.

Governance of RSM International is comprised of representatives of member firms who form the International Board of Directors. Members of the Board, which currently comprises 11 Directors, are elected in accordance with the provisions set out in the Articles of Association for the Company. The Directors elect a Chairperson and appoint a Chief Executive Officer. The Board sets the international strategy of RSM International and acts in the interest of the network as a whole.

The current Chair of the International Board of Directors is Brian Eaton from RSM South Africa. The full time CEO is Jean Stephens who leads the Global Executive Office in London and whose responsibilities include the implementation of short and long-term organisational strategies for the growth and development of the network.

RSM International's commitment to quality

Quality is the absolute cornerstone for RSM International and as such every member firm is required to meet a number of obligations in relation to quality. To ensure consistent practices and standards among member firms, RSM International has developed a number of global methodologies, policies and practices which are compliant with International Standards (where applicable). These have been developed by specialists and leaders at member firms and the Global Executive Office, under the oversight of the RSM Transnational Assurance Services Executive Committee.

Every member firm is required to conduct an internal inspection over the quality of services delivered and compliance with network policies and procedures as well as their own incremental policies and procedures each year. RSM International organises global observations of these inspections on a cyclical basis, not to exceed every three years. If a firm's annual inspection or the cyclical global observations highlight significant non-compliance, a follow-up review is scheduled to check progress on issues raised. Significant non-compliance can result in a number of sanctions being imposed on the firm, including up to termination of the firm's membership in RSM International.

RSM International key statistics



Global Revenue
\$5.74bn



People
43,000



Offices
810



Countries
120+

Commitment to quality

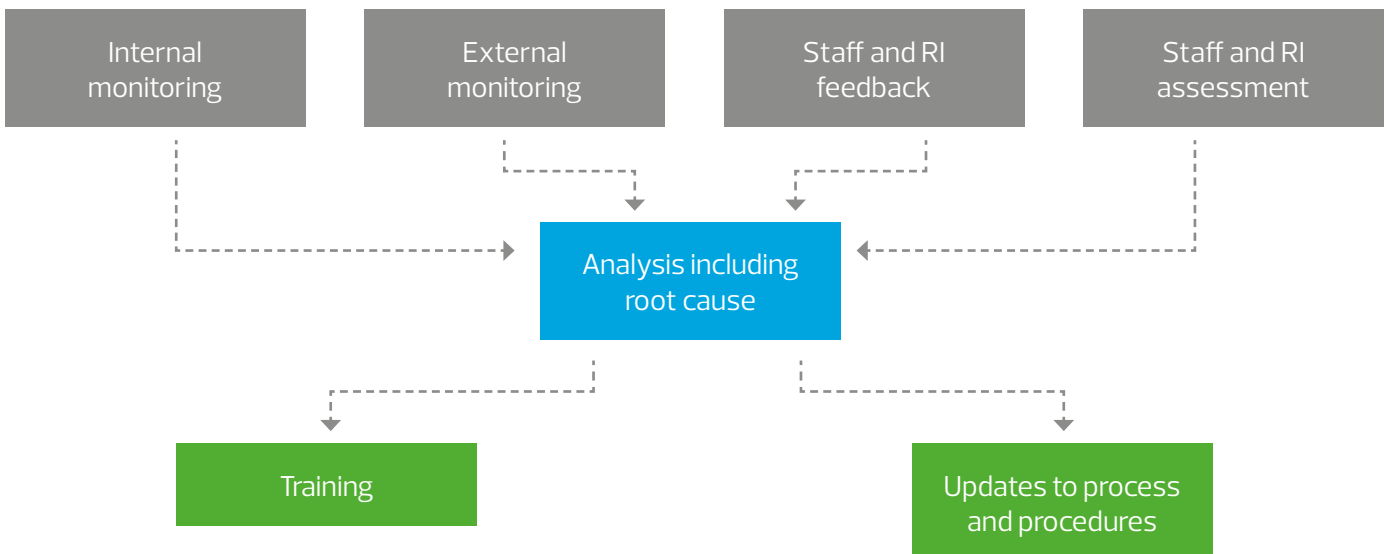
RSM UK Audit LLP's primary objective is the maintenance and enhancement of audit quality which leads to a sustainable and profitable business.

Our commitment is underpinned by our emphasis on professional and decisive leadership, IT capability and investment, effective training and personal development, the operations of the Quality Assurance Department (QAD) and being responsive to the findings of the firm's regulators. We are continually striving to improve our internal monitoring procedures and our response to external monitoring.

The firm aims to attain the highest standard of professional conduct through the cumulative effect of:

- internal quality control procedures (at the point of delivery of the engagement);
- internal quality assurance by 'cold' reviews of engagements and of RIs' and staff's competence;
- the external quality monitoring by the firm's regulators;
- assessment of all RIs and staff;
- feedback from staff and RIs;
- analysis to identify any root causes of issues identified; and
- continuous training and informing of all RIs and staff, regularly updated.

The Management Board and the AMT use audit quality indicators to monitor quality both internally and externally.



Quality and culture

It is vital that the firm is constantly assessing its messaging and the behaviour of staff to ensure that quality culture permeates throughout the firm. The Management Board, PIC and AMT look for signs that any aspects of culture need redressing and the Ethics team promotes and monitors adherence to independence and integrity. Further details on our Ethics team, policies and procedures and training are detailed in the Ethics and independence section.

All partners and staff are provided with access to the employee guide which sets out the firm's code of conduct. The employee guide contains information covering all aspects of day to day working life and is available on the intranet as a reference tool, ensuring that both partners and staff always act in a professional manner.

In April 2019 we launched our new Global Audit Methodology, RSM Orb. This enhances, and continues to provide, a method for emphasising some of the firm's key audit values including exercising judgement, scepticism, understanding the client and providing a service relevant to them.

Staff and partners are recognised and rewarded for their contributions to quality:

- RSM has an instant recognition scheme: High Fives. These celebrate our colleagues' achievements in line with RSM's five core values, including excellence and integrity;
- top performer's bonuses are available to those employees who consistently perform and make a significant impact on the business which includes the contribution to audit quality; and
- QAD nominates RIs and managers for an audit quality award based on the reviews undertaken during the period.

The AMT continues to implement the actions raised by the 2018 FRC Audit Culture Thematic Review.

- Audit specific behaviours, which link to the firm's core values, have been identified and will be rolled into the staff appraisal process in 2020.
- Over the past year, the new global audit methodology, student training programmes and audit workshops have been used as tools to reinforce that a good audit is of significant societal value.
- How quality is taken into account during RI and Partner promotions has been formally documented.

- The firm has continued to promote an open and honest culture providing many communication channels to management to discuss audit quality issues.
- The firm continues to address the challenges created by the wider firm being multi-disciplinary and taking specific actions to address them. Ethics guidance and training are provided to all staff and partners within RSM UK Holdings Limited.

The AMT continues to work with the RSM UK Holdings Board to define a firm wide purpose statement.

Dialogue with stakeholders

RSM UK Audit LLP has a range of stakeholders including clients, partners, staff, parent company shareholders, investors, regulators and the government.

Our PIC has, for many years, engaged with the FRC and the Chairman of the PIC talks to the Department for Business, Energy & Industrial Strategy on a regular basis. Every year our PIC run a roundtable to which clients, parent company shareholders and investors are invited.

The dialogue we have with staff and RIs is described in the remainder of the report. It is vitally important to us that we communicate regularly with personnel on a variety of topics including quality and get their feedback in return.

Whistleblowing

The intranet sets out the whistleblowing policy, which applies to all partners and staff across all service lines. It encourages the reporting of instances of malpractice, dishonesty or unsafe or unhealthy working practices. Individuals who make reports in good faith are protected against dismissal or any form of victimisation. Reports can be made to the individual's line manager or to other named parties or to a confidential email helpline. Reports are investigated by an independent person, as sensitively and speedily as possible. Awareness of the whistleblowing policy is promoted via mandatory training for all partners and staff. The content and effectiveness of the firm's whistleblowing policy is kept under review by the PIC.

Quality and our methodology

RSM's audit policies and procedures are designed to ensure that our audit engagements comply with relevant regulatory requirements and professional standards.

1 April 2020 marked the first anniversary of the implementation of RSM Orb, our global audit methodology. The use of the methodology is now widespread across the international network, enabling us to deliver co-ordinated and consistent as well as insightful audits. Whilst the methodology has a robust framework, it provides sufficient flexibility to adapt to developments in artificial intelligence, data analytics and regulatory changes and we have embraced this opportunity to drive further improvements to audit quality and audit efficiency.

Software

The methodology is supported by the firm's own computerised audit software which enables the planned audit work to be tailored, based on the team's documented risk assessment. Whilst its functionality, along with the inbuilt controls and structured workflows, promotes discipline and compliance with International Standards on Auditing, it allows audit teams to focus on the exercise of judgement and evidence their scepticism and challenge of management leading to well-documented, effective and robust quality audits.

Planning

Our audit methodology requires a detailed understanding of the business, the industry in which it operates and the systems and controls which it has in place. Our regular contact with management throughout the financial year ensures that we are aware of key developments and provides an opportunity for management to be informed of and act upon relevant technical and regulatory changes. These exchanges inform the development of the audit strategy and the production of an audit plan that is based on a detailed risk assessment, enabling focused testing to be performed and an effective and efficient audit to be carried out. The audit plan is revisited and revised, where necessary, during the course of the audit as the audit team responds to their findings.

RIs have access to the audit staff resource planning tool, Retain. This enables them to view the availability of all staff, and their particular specialisms, and ensure that the selected engagement team have the appropriate skills and expertise for a particular engagement.

Fieldwork

We use a range of techniques in carrying out our audit testing including substantive analytical procedures, tests of controls and tests of details. The use of data analytics software is encouraged irrespective of which of these more traditional routes is taken and is supported by our computerised audit software which provides guidance on how to use data analytics software to perform specific tests. Training and the sharing of good practice in this area is a continual process which is supported by champions at manager and user level.

The exercise of professional scepticism is an essential feature in a quality audit and our culture encourages audit teams to consult and to challenge their own, their colleagues' and the client's assumptions and conclusions during the performance of the audit, and to document the resolution of matters arising. A broad spectrum of experts in auditing, accounting, IT, taxation, valuations and financial instruments are on hand to consult, assist or use when obtaining sufficient appropriate audit evidence on a complex technical matter.

Review

Each audit team member is responsible for considering the quality of his or her work before signing it off. In addition, with the exception of the RI, the work of every team member is reviewed and signed off by another, more senior, person.

Additional engagement quality control reviews by colleagues who are independent of the audit team are required in certain circumstances, for example where there is a public interest, where the client is deemed to represent potentially high reputational risk to the firm, where a long-standing relationship exists, or where the RI is being mentored.

Independent second opinion reviews are also conducted when an enhanced audit report is to be issued or a modified audit opinion, emphasis of matter or material uncertainty is being contemplated. Such reviews are always conducted by appropriately qualified and experienced personnel and our computerised audit software and embedded templates ensure that all these quality controls are applied and evidenced.

RSM was appointed as auditor to the Lighthouse Group of companies for the year ended 31 December 2018. During the proposal process it became clear to the Audit Committee that RSM would be most likely to be able to deliver an effective and proactive service in comparison with their peers who we had asked to propose and the RSM team demonstrated clear expertise in the financial services distribution sector. They promised me a Partner led approach and has certainly delivered on this, I have built a good working relationship with the Partner and the team and we received a robust audit, delivered by a quality team at a fair price.

Lighthouse Group plc, Peter Smith, Group Finance Director

Quality and specialist audits

The audit practice maintains a system of internal authorisation for RIs and managers. RIs are required to record a minimum number of hours to audit engagements. The AMT monitor the hours recorded by RIs and take appropriate action where considered necessary. A failure to record the minimum hours required can result in the loss of audit authorisation.

Given the diverse nature of our audit client base, RSM UK Audit LLP requires RIs and managers to hold specific authorisations to carry out work on specialist audit engagements, including those of listed entities, FCA regulated entities, charities and pension schemes. This ensures that only those individuals with the requisite skills, experience and training can undertake such specialist audits.

Appropriate training is a pre-requisite before audit staff can be utilised on specialist audit engagements.

Quality and mentoring

New RIs and RIs engaging in new specialist areas are subject to formal mentoring arrangements. The role of the mentor is to provide technical, commercial and personal support to the RI, to act as a sounding board and share the benefit of their practical experience in dealing with difficult situations.

Occasionally RIs may give up their audit authorisation or have it removed/suspended by the firm. In such circumstances, a period of time may be required for the RI to complete any audits that are in progress. To ensure that quality is not compromised, the AMT consider, on a case by case basis, whether the RI should be mentored and for how long.

Mentors are selected from an approved pool of appropriately experienced RIs by the AMT based on recommendations from the relevant RCP ensuring that they have enough time to commit to the process and independence is maintained.

In certain circumstances an internal quality assurance review must be performed, and satisfactorily completed, before mentoring arrangements can cease.

Quality and training

Learning and development are key to the delivery of a quality audit and maintaining a quality culture. Our national learning and development programme ensures that:

- all new joiners attend a mandatory audit induction course;
- all qualified audit personnel attend a core programme of audit and financial reporting training;
- partners and staff receive training according to their specific roles and specialisms;
- partners and staff receive complementary skills training to ensure that their technical knowledge is applied effectively to each audit; and
- students' professional training is complemented with a core programme covering financial reporting, audit, business awareness, tax and personal skills.

For further detail on Learning and Development, please see the Training, recruitment and personal development section.

Quality Assurance Department

Audit quality is the responsibility of all partners and staff. Internal quality assurance review systems must be adequate, appropriate, and make a contribution to audit quality. This function is delivered by the Quality Assurance Department (QAD). QAD is a separate, independent department and is responsible for checking compliance with the firm's procedures and giving feedback to promote continuing improvement in the quality of work.

The QAD team states on the firm's intranet that it aims to be:

- comprehensive in its coverage and scope of reviews;
- consistent in application of review procedures;
- critical in identification of areas for improvement;
- constructive in communication of review findings; and
- cooperative in arranging and performing reviews.

The monitoring procedures applied by QAD are in accordance with the International Standard on Quality Control (UK). The QAD team carries out reviews of audit files, either in physical visits to offices or remotely, and also reviews 'whole firm' matters such as the audit manual, training programme, CPD records, appraisals and ethical compliance, and internal controls, such as internal authorisation, aud-IT or Orbit access and financial management.

QAD has a programme of taking high performing audit staff on secondment, to give them experience of Quality Assurance (QA) work and a deeper understanding of audit quality, which they then disseminate in their office after the secondment. In the 14 years since QAD was established as a separate department, there have been 26 secondees from the audit practice, from 16 different offices. A number of them have then progressed to senior positions, including four appointed as RIs.

A small number of QA file reviews are carried out by independent RIs from the audit practice or members of NATS or Learning & Development, to assist in their understanding of the QA process and to give insight into typical findings. These reviews are performed under close supervision by a permanent member of the QAD team.

Process

The use of IT by QAD is extensive and the consistency of review procedures is ensured by the deployment of dedicated QAD team members, the use of file review work programmes, peer review by QAD colleagues and the pre-issue review by the Head of QAD of all reports.

Audit file review notes are issued in writing to the RI and manager and then written responses are obtained before a meeting with them. This means that there is already a consensus about the findings and then the meeting can focus on constructive discussion of root causes, learning points and future actions.

After the meeting, the RI and manager are asked to provide finalised written responses and then they each produce or update a personal action plan. This approach combines collective effort with personal responsibility and accountability, in accordance with the Companies Act 2006 and the Audit Regulations.

Where QAD considers that an inappropriate audit opinion may have been given, it refers the case to the Audit Technical Committee of NATS, who decide whether the opinion is inappropriate and, if so, what action should be taken.

At the conclusion of the file review(s) for each RI and manager, QAD uses a risk-based approach to determine the interval before their next QA review. If it is decided that an interval of six months is needed, to galvanise improvement, the individual is duly notified.

QA file review findings are published on the intranet in a series of positive reminders about the firm's procedures. QAD team members have regular meetings with their Training and Technical counterparts, so that QA findings are used in training course material and in enhancements to the audit manual and Orb-IT.

Monitoring and reporting

The proportion of QAD reviews to audit engagements is approximately 1:30. QAD achieves a high coverage of offices and RIs, with physical visits to each office on a frequent basis. QA file reviews cover a mixture of client types and sizes, including the various specialist audits such as listed companies, charities, pension schemes, social housing and education.

The Head of QAD provides a bi-monthly written report to the AMT, setting out any current concerns and obtaining prompt responses and actions as necessary. The Head of QAD also produces a quarterly written report to the Management Board and the AMT and an annual summary report to the Board, with an abbreviated version published on the intranet.

QAD provides feedback to RAMPs and RCPs about each RI and manager reviewed and this information is then used within the appraisal process as necessary.

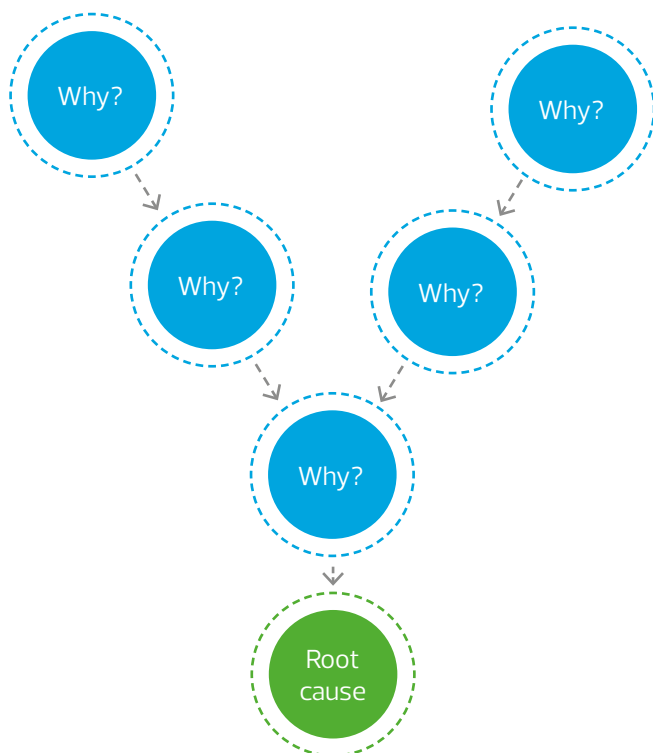
Each of the five audit regions has a QAD team member allocated to it, who meets at least every quarter with the RCPs and the AOCs to assess progress being made in the implementation of action plans and to discuss other audit quality issues and initiatives.

The quarterly RI regional meetings are attended by one of the QAD team members and each meeting includes a section devoted to audit quality.

Quality and root cause

As well as the root cause analysis which forms part of each QA file review, the firm analyses the root causes underlying audit quality issues. A working party has considered the firmwide factors which has resulted in a number of measures including:

- the Audit Workshops in 2019, mandatory for all audit partners and staff, having a number of sessions on the theme of professional scepticism and the appropriate documentation of it;
- a conference for all RIs held in February 2020, covering the findings from recent regulatory and QAD reviews and including practical discussions of root causes and actions needed to address them;
- reviewing the key competencies used to appraise all audit staff to ensure that they contain specific audit behaviours which will enhance a quality culture. This involved a review by NATS and focus groups with audit staff; and
- enhancing the root cause methodology by including post audit team interviews around root causes, conducted by someone outside of audit management with experience of obtaining face to face client feedback.



Quality and monitoring

The Management Board and AMT has established Audit Quality Indicators (AQIs) to monitor audit quality.

Staff survey

The AMT issue a bi-annual staff quality survey to continue to ensure that quality remains top of the agenda and that staff and partners receive the correct resource, time and training to deliver quality audits.

In our 2020 partner and staff survey:

- 99 per cent said they were conscious of how important quality is to the faculty and the firm;
- 96 per cent of respondents felt that they were encouraged to perform high quality audits and that RSM values quality;
- 90 per cent of respondents felt that they had access to the resources they needed to deliver a quality audit; and
- 90 per cent said the training in the types of business they audit and financial reporting helps them deliver quality audits.

Other culture measures

Each year, QAD reviews a high proportion of RIs. This year, 45% of RIs received an internal quality assurance review. This was lower than normal as the firm was transitioning to the new methodology and files needed to be completed. At the request of the AMT, QAD instead carried out live file reviews of audits in progress, so that early feedback could be provided about any implementation issues for the new methodology and software. During the year, there were visits to 21 out of 28 audit office locations. In addition, the number of listed company or AQR-scope audits reviewed in the year was 16.

Training is essential to delivering audit quality. Every audit qualified member of staff received an average of 52.5 hours of training which included 37.5 hours of technical training.

We expect RIs to spend the majority of their time performing audit work, leading to consistent, quality audits. This year, 89% of the RIs total chargeable hours were spent on audit.

RIs are required to produce and maintain a personal action plan which details what they need to do to improve the quality of their engagements. Managers are also encouraged to produce a personal action plan. 95% of RIs and 74% of managers had personal action plans as at 31 March 2020.

Internal monitoring

After a file review, if QAD feels significant improvement is needed, the RI will be reviewed again within six months. During the year ended 31 March 2020 6% of RIs needed follow up reviews.

Ensuring an ethical culture permeates the firm is of the utmost importance. In our quality survey, 95 per cent of staff agreed that adhering to a strong ethical code is key to having a profitable, quality business. This year there were no ethical breaches reported to the Ethics Partner.

QAD have also provided the following qualitative observations:

- individual RIs and managers were found to have made progress against the points in their personal action plans;
- where QAD reported concerns to the AMT, National Audit Technical Services or the Ethics Partner, prompt and appropriate action was taken; and
- in particular, where these concerns were judged to require action to remove internal authorisation or apply mentoring, this was duly implemented.

External monitoring

The latest ICAS monitoring inspection took place in September and October 2019 and their report was issued to the firm on 13 February 2020. Reports from ICAS are for the use of that body as the firm's licensor and thus confidential.

Reports produced by the FRC Audit Quality Review team (AQR) have been shared with the relevant clients. The AQR reviewed four audit files in 2019 and the results were not reported publicly. The firm has responded to the findings and already implemented a number of actions.

ICAS investigated one case during the reporting period. RSM UK Audit LLP has accepted the subsequent sanction of a severe reprimand and a fine. There were no other cases during the reporting period in which the disciplinary committee of any other regulatory body made an adverse finding against the firm or any of its members.

The Management Board is closely involved with all regulatory visits and reviews all findings and recommendations in detail. Our audit training, practices and processes are under constant review and are changed as necessary following regulator feedback, including any cases in which a regulator

has found against the firm or its members. The progress in implementation of any actions is, and will continue to be, monitored by QAD.

Governance monitoring

The Management Board and the PIC have assessed the robustness of our governance systems against the following criteria. All were complied with in the year ended 31 March 2020.

1. The PIC to meet at least three times a year.
2. The RSM UK Audit LLP Management Board and the PIC to be consulted about the Transparency Report content and to review the report before publication.
3. All RSM UK Audit LLP Management Board members to attend every Board meeting.
4. To ensure that the RSM UK Audit LLP Management Board has representation from a Partner who does not undertake a management role within the faculty.

Client feedback

We regularly carry out face to face interviews with our clients which are conducted by personnel who have not been involved with any aspect of the service. Each client interview is reviewed by the RAMP and any issues on audit quality or service are addressed with the RI and the team. When particular themes emerge, these are discussed and addressed by the AMT and the Management Board.

Annually, the reviews conducted are looked at and assessed for the feedback on quality in delivery, staff competence and integrity. 48 reviews were conducted during the year ended 31 March 2020. The Management Board are satisfied that the audit teams are delivering a quality service whilst maintaining their independence.

Key themes



Excellent understanding of businesses and their challenges



Expertise, passion and empathy for sectors



Professional and positive relationships



Challenging, thorough and rigorous audits



Personable, approachable and responsive teams



Well organised and executed audit process



Strong Partner leadership and interaction with the Board



Junior onsite team very impressive



Audit provides an external benefit to the board, bank, investors and stakeholders

Areas for improvement



Better briefing of new team members if continuity is not possible



More sector insight publications



More communication outside planning



Speedier completion process

As a membership association we need an auditor who can ensure there are no surprises. The RSM team demonstrates a strong understanding of how we operate and allows our audit to be extremely transparent, which ultimately gives our membership the overview they expect. The team are always polite, accommodating and fantastic at giving advice, particularly in technical areas. Having an efficient audit team makes life so much easier.

Association of Colleges, Peter Brophy, Director of Finance



Training, recruitment and personal development

Development of partners and staff is core to the provision of high quality audits.

Training

We have an experienced audit technical training team who work closely with NATS, QAD and the AMT to ensure that an appropriate programme of courses is provided for all audit partners and staff.

Our training is a blend of classroom and digital delivery and we continue to invest in learning technologies to ensure our training is innovative and engaging.

During the year ended 31 March 2020, we ran an Audit Workshop which was mandatory for the entire audit faculty. This course focused on the need for professional scepticism across the entire audit team and used an ICAEW video scenario 'Without Question' in sessions throughout the day. The Audit Workshop also revisited areas of our audit methodology and had a session on data analytics.

As well as the core audit courses, all qualified staff in the audit faculty receive mandatory training on Financial Reporting and Company Law. An IFRS Practical Workshop was held in January 2020 for supervisors and above looking at the practical implications of IFRS 9/15/16 and a digital refresher of the Triennial review UK GAAP requirements was delivered.

Partners and qualified staff are provided with further training according to their specific roles and areas of specialism. For Listed RIs and Managers we ran a training day which included sessions on Ethics and Audit Quality.

All new RIs attend a mandatory induction course which:

- is led by the Head of Audit to demonstrate the importance of the role and the issues discussed;
- includes an interactive presentation by the Head of QAD on the meaning of 'Responsible Individual';
- gives particular emphasis to ethics and professional scepticism;
- brings home key issues through live case studies;
- features a member of the Audit Technical Committee, General Counsel and the Head of Compliance demonstrating the significance of providing quality technical advice and the level of support provided by the firm; and
- provides a session on mentoring presented by an experienced mentor.

There is a mandatory core programme for audit students, expanding on their college studies in the areas of financial reporting, audit, business awareness, tax and personal skills. They also receive training in any specialist areas they are involved in such as charities, pensions and listed companies. Ethical issues, professional scepticism and audit quality are key themes throughout their training.

Partners and staff also attend courses designed to improve their management skills, as we recognise that high levels of ability in these areas help to ensure that audits run smoothly and effectively and relevant technical knowledge can be applied at the appropriate stage of the audit. In addition, there are personal development courses for managers, senior managers, directors and partners.

Recruitment

Through our HR and Development policies and processes and our outstanding training programme, we ensure we attract talented individuals and provide them with the development and skills they need to fulfil a long and committed career with RSM.

Our recruitment practice ensures we reach as many talented individuals as possible through our presence at universities, colleges and schools as well as through hiring directly. Our selection methodologies focus on testing the full range of skills and qualities that we believe are essential to succeed as an auditor within RSM.

Appraisal

We have invested significant time and energy into ensuring staff know what is expected of them at every stage of their career so that they know how to progress. Having clear competencies for staff at each level also means our clients can be assured of the same level of service regardless of location. Every employee has regular feedback and appraisal. There are audit assignment feedback forms, as well as the appraisal form, and appraisals are conducted twice yearly.

The appraisal form requires all team members to incorporate reference to any QAD and external regulator findings through the year and action is taken in relation to these. Individuals are also expected to provide their line manager with a copy of their CPD record at the time of appraisal. Quality reviews are undertaken on a regular basis to ensure our line managers are equipped with the skills they need to conduct meaningful appraisals.

At the point at which employees are nominated for promotion to Director or Partner, further references are sought from QAD and NATS. No nomination is progressed to formal assessment unless it receives support from these departments.

Promotions and senior recruitment

Richard Lewis was promoted to Partner on 1 April 2020.

We welcomed the following new Partners to the business: Pete Adams, Rachel Fleming, Neil Griggs, Andrew Mason, Katie Morrison and Alastair Nuttall. These Partners were recruited to strengthen our audit capacity in specific locations and increase our breadth and depth of skills nationally eg in the listed and financial services sectors.

In addition, we welcomed Mitul Raja as Audit Director.

We also had 28 promotions and 11 recruitments to Audit Manager during the year.



Personal development

Development of our people is something which RSM is passionate about. We offer a wide range of personal development courses and assessment centres, all of which are designed to support individuals as they progress through their career.

Students within the firm complete the From New to Blue Programme which consists of five courses typically attended over three years. This suite of courses has been designed to ensure that students are equipped with the skills they need to succeed. Alongside our ongoing student development programme, we offer eligible students the opportunity to complete their Duke of Edinburgh Gold Award. This is a fantastic opportunity for both personal and professional development.

The Transition to manager development programme is designed to prepare potential future managers for their first step into a management role. The programme is one of continuous development supported by the line manager consisting of three core residential development courses and incorporates on the job learning, computer-based training and completion of a transition to manager portfolio.

For our emerging leaders we have the high potential assessment centre. The purpose of the assessment centre is to provide high potential individuals with assessment and feedback on their leadership styles, personal qualities and strengths. Following attendance at the high potential assessment centre each individual will work with one of our learning and development managers to create a detailed and tailored development plan.

Following attendance at the high potential assessment centre, those displaying leadership potential are invited to join our leadership programme. This aims to ensure that our high potentials have the knowledge, skills, network and confidence to fulfil a future leadership role within the firm. It consists of four modules, run over a two-year period and covers a range of leadership skills.

Senior managers and directors who display the potential to become partners attend the Partner potential development programme, designed to provide the best possible preparation for the role of partner and beyond. The programme includes attendance at the Partner potential assessment centre followed up with comprehensive, competency-based feedback, executive coaching and mentoring in order to support development towards partnership.

We also offer a wide variety of additional training and development initiatives to support individuals. Our personal and management development courses provide a variety of courses that allow employees to tailor their own development based on their personal needs both in their current role and as they progress through different roles during their career. These courses are designed and delivered by our in-house learning and development managers using accelerated learning techniques. Residential training includes line management, managing work and managing relationships. There is also an array of one-day courses including presentation skills, time management, appraisal skills and business development courses.

The firm is committed to developing a mentoring culture and supporting our mentors and mentees to make this relationship work. We believe that everyone deserves to have someone in the business in addition to their line manager guiding and supporting their career journey. Alongside this coaching is utilised to unlock the potential in our people to maximise their performance and contribute to the future success of the firm. We undertake on-the-job coaching to build skills and abilities in existing roles, development coaching to support future progression and behavioural coaching to achieve long term, significant change through enhanced self-awareness.

We offer a number of secondment opportunities to clients, industry, different internal faculties and international secondments. These secondments contribute to an individual's personal development by providing the opportunity to build internal and external relationships and create networking and business development opportunities. Secondments give employees a greater depth of experience and understanding of clients and our business, which can be drawn upon on their return.

Partner remuneration and appraisal

It is our firm belief that audit quality is best improved by imbuing in partners the ethos that audit quality is at the core of all that we do.

A partner's performance is assessed by reference to his or her individual role, contribution and adherence to standards.

The partner group comprises both national and general partners with similar, but not identical, remuneration structures. Both national and general partners receive a notional basic (market) salary and are eligible to participate in the partner bonus plan. Elements of the bonus can be awarded at local office, regional or national level.

National partners are also participants in an additional bonus pool which comprises the residual profits for the year (after notional salaries and bonuses). This is based on a variable 'lock step' mechanism. The remuneration of general partners (who comprise over half of the partner group) is charged directly to the relevant trading LLP within which they operate. National partner remuneration costs are charged to RSM UK Group LLP, the corporate member of the trading LLPs.

In addition, all partners are eligible to become shareholders in RSM UK Holdings Limited and accordingly will receive dividends when declared and paid.

An appraisal system is applied to all partners and, in the case of audit partners, audit quality criteria must be considered, both in the review of past performance and in the objectives for the following year. Other criteria included within the appraisal system are business development, client development, technical skills, management skills, staff development and financial performance. The relative importance attached to each of these criteria is dependent upon the partner's role within the firm but the appraisal system and the partner's objectives are designed to play to a partner's particular strengths.

For audit partners, success in selling non-audit services to the entities they audit is specifically excluded from performance evaluation criteria and from decisions on remuneration. Contributions to improving audit quality, on the other hand, are specifically included in the criteria for assessing and remunerating audit partners.



Ethics and independence

The firm devotes a high degree of resource to ethics.

Ethics materials and personal advice are readily available to staff at all levels, covering the external ethical obligations to which the firm is subject (such as the 'FRC Revised Ethical Standard 2019 (RES)', and the Institutes' Codes of Ethics), as well as its own ethical policies. There are three key tools available to staff: the 'Ethics Toolkit' (an intranet-based, one-stop facility for all staff); computer-based learning for those engaged in audit and non-audit activities; and access to advice from the Ethics Partner or a member of the Ethics Team on request, at any time of day.

Staff receive regular short messages on ethics via front page intranet news alerts on topical issues, such as inducements, and conflicts of interest, intended to showcase any major developments in the ethics space and looking at ethical issues which are tending to arise within RSM and in other firms over the year.

We are continuing to work on a 'tone at the top' project. We have looked at a number of theories of ethics, their justifications, applicability to our context and 'working value' to practising staff and Partners, and how best we cause ethical imperatives to be disseminated throughout the firm.

Ethics Partner, Ethics Team and Panel

Ensuring firm compliance is the Ethics Partner, the Ethics Panel and the Ethics Team. Audit is represented on the Ethics Panel by the Head of Audit. The Ethics Panel was set up to act as a custodian of the ethical policies, to keep them contemporarily relevant, and to assess the ethical 'tone at the top' of the firm across all of its multi-disciplinary activities.

The Ethics Partner keeps members of the Panel informed on operational and policy related issues and briefs its members on his expectations across all of the service lines. The Terms of Reference of the Panel acknowledge the Ethics Partner's entitlement to determine any matter related to the taking on, continuation of, and disengagement from an audit engagement for ethical reasons, an entitlement emphasised by the Ethics Partner's own Terms of Reference. The Ethics Partner prepares and distributes the agenda for Panel meetings and liaises with the firm's Public Interest Committee (the body that oversees the firm's compliance with the Audit Firm Governance Code).

Responsibility for decisions on the operational application of the firm's ethical policies lies with the Ethics Partner, assisted

by the Ethics Team. It is the Ethics Partner's function to act as the ultimate arbiter of the application of the ethical codes to any given set of circumstances and all partners and audit staff are apprised of the need to consult the Ethics Team on any issue, particularly of interpretation, that they are unclear about.

In addition to the above, there are internal reviews of independence practices and 'thematic focuses' on key issues. Each year, a summary report in relation to the 'fit and proper' and the independence declarations that all principals and staff need to make is provided to the Ethics Partner.

Policies and procedures

The firm has well-established systems and procedures in place to help safeguard the objectivity of staff and avoid conflicts of interest, whilst complying with ethical and other applicable standards.

Partners and staff are required to declare financial interests held by themselves, members of their immediate or close family or in their capacity as trustee in any client or affiliate.

Similarly, policies are in place providing guidance on business and other relationships with clients, and the purchasing of goods and services in the normal course of business. The annual declarations completed by staff, partners and consultants are monitored for any change in such relationships.

Compliance with the firm's audit rotation policy is monitored and is applied to all audit partners and senior members of staff involved in an audit.

There are clear guidelines for dealing with 'inducements' (gifts, hospitality and sponsorship) so that any self-interest threat is avoided and objectivity is not impaired. The firm has a clear and extensive gifts and hospitality policy in place to determine whether or not a gift or hospitality should be accepted and it is kept refreshed and measured against regulator and third party expectation.

RSM UK Audit LLP services the small and medium-sized enterprise sector whose individual enterprises benefit from having access to the services that the RSM group provides. Though clients benefit from the availability of expertise across the RSM group, access to non-audit services is

subject to compliance with the RES and, in particular, the firm's insistence that the remuneration of audit staff cannot be determined by reference, even in part, to non-audit fees provided to audit clients. Contingent fees are not permitted for any project where the firm is required to give an independent opinion and to do so would be inconsistent with the RES.

Client acceptance and continuation procedures are extensive and intended to identify any particular circumstances of a given client that might cause an insuperable threat to auditor independence. In such a situation, the firm will not take on or continue the engagement. Before engagement, all potential assignments are subject to completion of an on-line Client and Engagement Acceptance Programme, including a Conflict Threat Assessment, designed to identify any such threats in discharging a particular engagement together with details of any necessary safeguards required to be applied. Details of the threats and safeguards are reviewed and approved by the relevant assurance partner prior to the acceptance and commencement of the engagement.

Within each QA file review, checks are made by QAD on identifying threats to auditor independence and other conflicts of interest, or other potential non-compliance with the RES, and on the completeness of the associated reporting to those charged with governance in the Audit Plan and subsequent Audit Findings Report.

If a QA review finds an instance of apparent non-compliance with the RES, any necessary actions are agreed with the individual(s) concerned and the AMT. The details are then reported to the Ethics Partner, to consider whether any further action is required.

Staff Training

Mandatory relevant computer-based training (CBT) programmes are periodically required to be completed by all staff, with 100% completion rate achieved. Whilst this training should act as a refresher to staff, most CBTs include an assessment which staff are required to pass to register their completion. Any failure results in a repeat assessment, with a fresh set of questions, until a pass is achieved.



Risk management

All staff and partners are expected to embody the values of the firm with regard to risk and follow correct procedures. The promotion of risk mitigation is a key theme at audit workshops and RI meetings.

Principal risks facing RSM UK Audit LLP

The principal risks are those which could significantly impact our professional reputation and/or financial strength:

Areas of principal risk	Description	Mitigation
Client acceptance and continuance	Reputation risk and financial risk of engaging with clients who cannot pay our fees or who have inappropriate behaviour	The Board has established procedures for identifying high risk clients and those requiring upward referral through tiers of management, ultimately to the Board, as increased assessed risk is identified. In general, RSM UK Audit LLP is not active in high audit risk environments.
Client service quality	Risk of losing clients through poor audit quality	The Board has established policies, procedures and training to ensure staff and partners deliver quality audits. These are monitored and reviewed as necessary.
Legislation and regulation	Reputational and regulatory risks of staff and partners not complying with applicable laws and regulations	The audit market is increasingly subject to detailed and complex regulation. As well as providing extensive and regular training to all persons engaged in audit work, RSM UK Audit LLP has long-established and comprehensive processes and procedures which require compliance with all applicable laws and regulations and independent monitoring of such compliance. RSM UK Audit LLP is also subject to external monitoring by the FRC and ICAS.
Ethical compliance	Reputational and regulatory risks of staff and partners not applying the ethical standards appropriately	RSM UK Audit LLP is required to comply with Ethical Standards for Auditors and, individual members, with those of their professional body. RSM UK Audit LLP's Ethics Partner is supported by an ethics team and the culture of ethical behaviour is underpinned by regular training.
Litigation	Financial and reputational risks ensuing from a claim against the firm	The application of quality and risk management controls minimise the risk of litigation. In the event of a claim, RSM UK Audit LLP has appropriate professional indemnity insurance in place.
IT systems	Loss of management and client records	The vast majority of RSM UK Audit LLP's records are stored electronically and its audit process is fully computerised. The group's IT faculty has established multiple data storage locations and other measures to protect against data loss and minimise the risk of system penetration or failure.
People	Failure to retain, upskill and recruit appropriate people for the delivery of the firm's business plans	The Board and the AMT regularly review resources to ensure that they are: fit for the current circumstances; capable of achieving any planned developments; and are providing progression opportunities.

RSM UK Audit LLP risk assessment

The INEs are conversant with the risks declared in the annual financial statements. They are satisfied that the Management Board and the AMT are continuing to mitigate those risks by identifying any issues and reviewing processes aimed at minimising failure.

Effectiveness of system of internal control

Our internal controls are designed to manage, rather than eliminate, the principal risks to the business or, in the case of financial controls, the risk of material misstatement in RSM UK Audit LLP's financial statements.

Process

RSM UK Holdings Limited has established an internal Risk Advisory Group which is led by the group Chief Operating Officer and comprises members from its Compliance, Legal and QA teams. Their work is to look at risk matters and internal controls within the group and advise and support management to improve risk management strategy, operations and internal controls.

A Risk Register has been compiled. Any issues which are relevant to RSM UK Audit LLP are raised with the Management Board who discuss and review them with the PIC. The risk register covers all material controls, including financial, operational and compliance controls and risk management systems.

RSM UK Audit LLP statement on internal controls

RSM UK Audit LLP has, within the year, reviewed any issues raised by the Risk Advisory Group or QAD, in its reviews of any RSM UK Audit LLP internal controls. Actions have been or are being taken as necessary. The Management Board, the AMT and the PIC are satisfied that the internal quality control systems are functioning effectively.

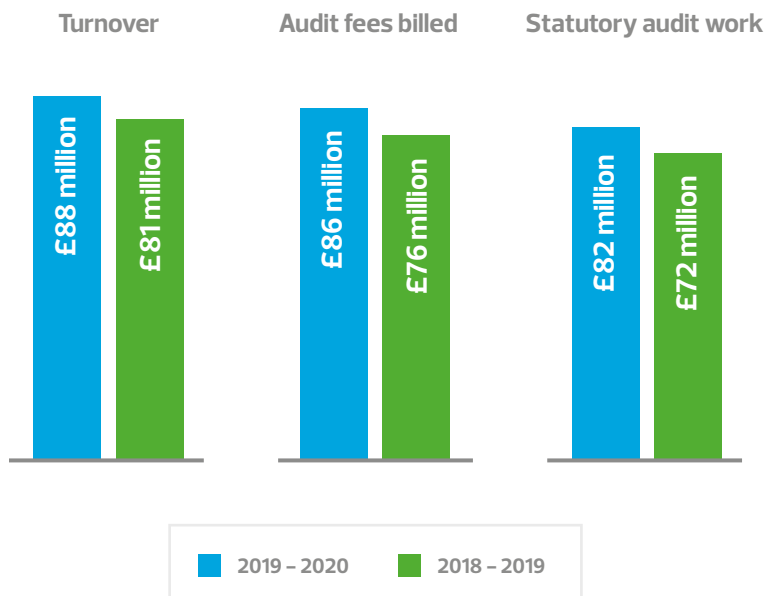


Client and financial information

Audit clients within AQR scope as at 31 March 2020 where RSM UK Audit LLP issued an audit report in the period 1 April 2019 to 31 March 2020.

Alpha Schools (Highland) Project plc	Manolete Partners plc	Retail Charity Bonds plc
City of London Investment Group PLC	Phoenix Spree Deutschland Limited	Saxon Weald Homes Ltd
CML Microsystems plc	Premiertel plc	SQN Secured Income Fund plc (was The SME Loan Fund plc formerly GLI Alternative Finance plc)
Ideagen plc	Puma VCT 10plc	Treatt plc
Incommunities Treasury plc	Puma VCT 11 plc	Walsall Housing Group Ltd
The PRS REIT plc	Puma VCT 12 plc	WHG Treasury plc
Knights Group Holdings plc	Puma VCT 13 plc	Yellow Cake plc
London and Associated Properties plc	4D Pharma plc	

Financial information for the financial year ended 31 March 2020



The turnover of RSM UK Audit LLP represents amounts chargeable for professional services provided during the period. It comprises the net chargeable amount of time spent by the partners and staff of RSM UK Audit LLP in providing audit and assurance services; an allowance for time spent on audit and assurance services by partners and staff of other RSM group entities; an allowance for time spent by the partners and staff of RSM UK Audit LLP on services provided by other RSM group entities; and disbursements.

Audited accounts for year ended 31 March 2019

RSM UK Audit LLP's most recent audited accounts, for the year ended 31 March 2019 can be found at <https://www.rsmuk.com/financialstatements2019>. This provides the information required in the Voluntary Code of Practice on Disclosure of Audit Profitability. The 2020 financial statements are currently being audited and will then be available on our website.



rsmuk.com

The UK group of companies and LLPs trading as RSM is a member of the RSM network. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm each of which practises in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction. The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 50 Cannon Street, London EC4N 6JJ. The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

RSM Corporate Finance LLP, RSM Restructuring Advisory LLP, RSM Risk Assurance Services LLP, RSM Tax and Advisory Services LLP, RSM UK Audit LLP, RSM UK Consulting LLP, RSM Employer Services Limited, RSM Northern Ireland (UK) Limited and RSM UK Tax and Accounting Limited are not authorised under the Financial Services and Markets Act 2000 but we are able in certain circumstances to offer a limited range of investment services because we are members of the Institute of Chartered Accountants in England and Wales. We can provide these investment services if they are an incidental part of the professional services we have been engaged to provide. RSM Legal LLP is authorised and regulated by the Solicitors Regulation Authority, reference number 626317, to undertake reserved and non-reserved legal activities. It is not authorised under the Financial Services and Markets Act 2000 but is able in certain circumstances to offer a limited range of investment services because it is authorised and regulated by the Solicitors Regulation Authority and may provide investment services if they are an incidental part of the professional services that it has been engaged to provide. Baker Tilly Creditor Services LLP is authorised and regulated by the Financial Conduct Authority for credit-related regulated activities. RSM & Co (UK) Limited is authorised and regulated by the Financial Conduct Authority to conduct a range of investment business activities. Whilst every effort has been made to ensure accuracy, information contained in this communication may not be comprehensive and recipients should not act upon it without seeking professional advice.