

LARKING GOWEN

TRANSPARENCY REPORT 2015

BACKGROUND TO THE REPORT

In accordance with the Statutory Auditors (Transparency) Instrument 2008, issued by the Professional Oversight Board, we submit our transparency report for the year ended 31 March 2015. The Instrument came into force on 6 April 2008 and requires the publication of certain information by statutory auditors that have made an audit report on the annual accounts of a public interest entity during the financial year of that statutory auditor.

This report, which covers the financial year ended 5 April 2015, is Larking Gowen's fifth transparency report.

1. Legal structure and ownership

The practice, Larking Gowen, includes the partnership Larking Gowen and a limited company Larking Gowen Limited each providing statutory audit services as well as a range of other accounting services including taxation and general business advice. A further company, Larking Gowen Corporate Finance Limited, provided corporate finance services and certain associated accounting services in the period. The parent of the two companies, Larking Gowen Holdings Limited, is also audit registered, although it is dormant and provides no professional services.

The partnership currently has 22 partners. Larking Gowen Limited is owned by certain of the Larking Gowen partners. The firm operates from offices in Norwich and Ipswich and has a further seven offices in Norfolk, Suffolk and Essex. There are no overseas branches.

The public interest entity audit which prompts this report was conducted by Larking Gowen Limited. Due to common systems in operation, the report is compiled in respect of the practice Larking Gowen as a whole, except where otherwise indicated.

2. MHA

Larking Gowen is one of eight members of MHA. MHA is an independent association of accountancy firms from across the UK which exists to provide clients with an extended range of services and expertise together with a broader geographical coverage.

With effect from 7 October 2014, the MHA association became a member of the International Accounting Network, Baker Tilly International. We do not believe that there are any wider implications arising from MHA's membership of the BTI network for Larking Gowen as an independent member of the UK association.

Prior to that date the MHA association was a member of Morison International, a global association of independent accountancy and business advisory firms.

Each member firm of MHA remains wholly independent and retains its own identity locally whilst representing the association in its respective region.

3. Governance and management

The main elements of the firm's governance structure are as follows:

1. A chairman (David Whitehead), elected from the equity partners, acts as a focal point for pastoral care of individual partners.
2. A managing partner (Jon Woolston) is elected by the partners to act as the main operational executive. The managing partner appoints two further partners to act as a Management Board (Brian Pring and Philip Moy). The primary objective of the Management Board is the pursuit of the firm's business plan. That plan, approved by the partners, is formulated, reviewed and revised where necessary by a Strategic Management Committee (SMC). The SMC consists of four elected partners (Mark Curtis, Mark Balfour, Julie Grimmer and Ian Fitch).

Since April 2015, the firm is organised into four divisions being Corporate, Business & Private, Agriculture and Tax Advisory Group

4. Internal quality control systems

Larking Gowen's quality control system is designed to ensure that the firm and its personnel comply with professional standards and applicable legal and regulatory requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances. The firm's system of quality control includes policies and procedures addressing each of the elements within the International Standard on Quality Control (UK and Ireland) 1 - ISQC 1:

Leadership responsibilities for quality within the firm

The firm's Management Board assume ultimate responsibility for the firm's systems of quality control. Operational responsibilities for the firm's quality control system are assigned to the firm's Audit Compliance Principal (Julie Grimmer) and the Audit Monitoring Partner (Steve Rudd), who report to Management Board. Policies are communicated to audit staff via the firm's intranet, Audit Forum (a group of nominated audit specialists in relevant departments across the firm, led by the ACP & AMP) and at regular in-house training sessions.

Ethical requirements

The firm's Ethics Partner (David Whitehead) advises on specific ethical questions as necessary. The firm has developed an Ethics Manual, based on the Mercia Manual, which contains its general and specific policies on the application of the APB Ethical Standards. This is contained on the firm's intranet and is included in regular staff training.

Acceptance and continuance of client relationships and specific engagements

New appointments are only accepted by audit engagement partners who have due regard to the ethical standards and also consider whether the firm has sufficient skills and resources to perform the audit. This may require obtaining detailed information regarding a potential client before a decision can be made. The detailed matters considered are contained in our standard documentation. These points are reconsidered each year during audit planning.

Human resources

Our policy is to recruit and promote audit staff of a suitably high calibre.

All partners and staff are subject to annual appraisals which include performance evaluations and compliance with CPD policies. No RI, nor audit staff member is remunerated on the basis of selling non-audit services to audit clients.

Engagement performance

The firm operates a computer-based audit methodology based on an externally produced audit system to ensure compliance with Clarity ISAs.

All audit work, other than that of an RI, is reviewed by a more experienced engagement team member.

In addition, the firm's procedures require review of higher risk audits at planning and completion by either a technical specialist or a second RI (EQCR) or both. Specific areas of audit risk may also prompt a second RI consultation review prior to finalisation.

Monitoring

Cold file reviews are performed on a risk assessed basis across the Senior Statutory Auditor (SSAs). Any audit assignment may be selected for review, but the sampling method aims to ensure that any area previously identified as a weakness is covered. A suitably qualified external cold file reviewer is engaged to conduct the reviews. In 2014 SWAT carried out this external review which included the firm's public interest audit.

Annually, the firm undertakes a full whole firm review of audit related matters as required by Audit Regulations, following the "Whole Firm Audit Compliance Review" guidance issued by ICAEW. The review covers matters including registration compliance, procedures, working papers, technical material, ethics, independence, quality control, PII, CPD and training.

Statement on effectiveness of the internal quality control system

Based on the detailed report of the Audit Monitoring Partner setting out findings from the whole firm compliance review together with both internal and external cold file reviews, the Management Board confirms that it is satisfied with the operation of the firm's internal quality control system.

5. Independence procedures

In addition to the policies and procedures set out above on quality control, all partners and staff make a declaration of fit and proper status on joining the firm and on an annual basis thereafter. Fit and proper declarations are monitored by the audit monitoring partner. Where circumstances change in the year, reports are made to both engagement partner and audit monitoring partner. All partners and non-principal RIs are also required to make an annual declaration of their own (and associates') financial interests to the Partnership Secretary, who, in turn, provides details to the Audit Monitoring Partner.

The firm's policies and procedures on independence are set out in the firm's procedures and ethics manuals which are based on the Mercia Practice Assurance and Ethics Manuals supplemented by additional internal procedures. The manuals are designed to provide a comprehensive handbook and include specific policies on long association with a client, overdue fees, communication with clients, provision of non-audit services and other factors such as consideration of going concern where an RI's client relationship may be considered to put independence at risk. Independence practices are periodically reviewed by the Audit Committee. Compliance with policy is tested as part of the annual whole firm compliance and audit cold file reviews. The Audit Committee make any consequential policy revisions following these annual reviews.

As an example, our policy on overdue fees is not to commence an audit until the fees from the previous audit have been paid. Where anything other than a trivial amount of other professional fees for an audit client is long overdue, the Ethics Partner will review whether we may continue with the appointment and the adequacy of the safeguards proposed in the particular circumstances.

6. Continuing professional development

As well as the requirements of individuals' professional bodies, Larking Gowen sets minimum requirements for partner and staff CPD, tailored to the requirements of their role. All staff record and report on their CPD activities as part of the annual appraisals, which themselves are designed to identify training needs for the following year. As a minimum each auditor is required to attend:

- Internal technical training - delivered regularly by Larking Gowen technical specialists and audit committee. During 2015, all auditors are undertaking an e-learning programme to ensure their detailed knowledge of FRS 101/102.
- An annual firm-wide audit training session delivered by an external training organisation.

- At least one other external course.

7. External Monitoring

The Quality Assurance Directorate ("QAD") of the ICAEW undertook a monitoring visit for Larking Gowen Limited in June 2012. QAD previously visited both Larking Gowen (partnership) and Larking Gowen Limited in November 2009. The firm was pleased by the reassurance as to the quality of financial statements and audit work that came out of the reports and closing meeting notes at both visits. A QAD audit visit for both the partnership and Larking Gowen Limited is scheduled to occur in September 2015.

8. Public interest entities

The firm issued an audit report on public interest entity Tex Holdings PLC (Premium listing on the London Stock Exchange) on 17 April 2014.

9. Financial information for the year

	2014/15	2013/14
	£,000	£,000
Revenues from work on statutory audit work and directly related services	2,044	2,115
Revenue from non-audit services to audit clients	1,563	941
Revenue from non-audit services to non-audit clients	<u>11,775</u>	<u>10,903</u>
Total of the above	<u>15,382</u>	<u>13,959</u>

10. Basis of remuneration of partners

Partners are remunerated solely out of the profits of the firm with each partner being responsible for funding their pension and other benefits. Each partner's share is determined by reference to responsibility, seniority, equity points and by annual performance appraisal. The performance element of remuneration is determined by the firm's remuneration committee. The committee is made up of a group of equity partners elected by all partners in the firm.

30 June 2015