

The background of the page is a large, close-up photograph of a soap bubble. The bubble is in sharp focus, showing vibrant, iridescent colors of purple, blue, green, and yellow. Inside the bubble, a reflection of a building with a traditional East Asian architectural style, including a tiled roof and a lantern, is visible. The background behind the bubble is dark and out of focus.

TRANSPARENCY REPORT

FOR THE 52 WEEKS ENDED 4 JULY 2014

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REGULATIONS

We have prepared the Transparency Report in respect of the period ended 4 July 2014 (the report) and in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 issued by the Professional Oversight Board of the Financial Reporting Council. The report also includes those matters specified to be included in the Transparency Report by the Audit Firm Governance Code (the Code), issued by the Institute of Chartered Accountants in England and Wales (ICAEW) in January 2010. Our statement on compliance with the provisions of the Code and our report on how we have applied in practice each of the principles of the Code are given in Appendix A.

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

INTRODUCTION FROM THE MANAGING PARTNER

I am very pleased to introduce BDO LLP'S Transparency Report for 2014.

Our vision is to be the leader for exceptional client service. Excellence in quality, empowered people and our values are the foundations on which this is built. We have a clear strategy centred on mid-market leadership with a number of straightforward, but ambitious, goals to be achieved over the coming years .

2013/14 saw us conclude integration activity following our merger with PKF. The merger not only supported our ambitions in the mid-market, but also gave us the size and breadth to compete more effectively in the public interest market.

Excellence in quality relies very much on tone at the top and firm culture. We listen to feedback from regulators about BDO and the wider profession and implement action plans to address their recommendations. This year also saw the formation of a Public Interest Committee, chaired by an Independent Non-Executive, to reflect best practice in the Audit Firm Governance Code and to build on the work we were already undertaking in this area. We will continue to invest in quality, particularly in audit, both in our people and in technology, in order to enhance quality and the consistency of application of procedures. I am confident that our approach bears scrutiny alongside the very best.

In a wider context and given the critical role of audit to capital markets, the profession needs to be highly regulated and we manage our audit business on this basis. Audit quality is a standing item on the agenda of the Leadership Team and the Audit Stream Executive and we recently updated our approach to partner's individual risk and quality ratings to enhance the linkage with remuneration.



We are conscious also of increasing public interest and scrutiny. The work of the Competition and Markets Authority, the EU and regulators internationally has shone a light on the structure of the audit market, audit quality and auditor independence. We are broadly supportive of the changes being implemented and anticipate greater opportunities to provide audit or non-audit services to public interest entities. They themselves are looking more strategically at the provision of these services in order to balance having enough audit firms available so tenders are competitive with the need to ensure the provision of non-audit services is not unduly disrupted by audit firm rotation.

We are proud of the experience we provide to our people, but we know there is always room for improvement. A current focus is on inclusion and gender balance and during the year we agreed a number of measures to chart future progress.

We also renewed our commitment to our values following a firm-wide consultation programme to review and refresh these. They are central to all we do. At a time when behaviour is under scrutiny, we have also enhanced our training on professional ethics and rolled it out to partners and employees across all service lines. Partners and directors have also undergone further specific training on the ICAEW Code of Ethics.

In this report you can read about our commitment to delivering quality and how this is supported by our structure and governance.

SIMON MICHAELS
MANAGING PARTNER

3 October 2014

A COMMITMENT TO QUALITY — REPORT FROM THE CHAIRMAN OF THE RISK AND QUALITY COMMITTEE

2.1 DELIVERING QUALITY

Excellence in quality is driven by the behaviour and skills of our people and the support and infrastructure that the firm provides. All our teams (both client facing and in support roles) focus on bringing together all the elements needed to deliver quality. On any individual engagement, this involves tailoring the inputs and processes to deliver the required level of quality. In addition, the firm creates the right environment and provides the necessary infrastructure to deliver quality. This is summarised in our Quality Framework.



Drivers of quality	Attributes	Firm-wide factors	Individual engagement factors
Culture of the firm	Values and ethics	<ul style="list-style-type: none"> • Our values <ul style="list-style-type: none"> - Honesty and integrity - Mutual support and respect - Professional and personal client relationships - Empowerment and personal responsibility • Our culture • Our leadership. 	<ul style="list-style-type: none"> • Partner engagement • Acceptance and continuation • Independence • Ethical requirements.
	Transparency	<ul style="list-style-type: none"> • Our governance • Our public reporting • Our public policies. 	<ul style="list-style-type: none"> • Open contracting • Communication • Listening programmes.
Skills and personal qualities of our people	Empowerment	<ul style="list-style-type: none"> • Knowledge sharing • Promotion and reward policy • Our people's commitment • Commercial and personal skills training. 	<ul style="list-style-type: none"> • Performance evaluation • Project management • Review and consultation.
	Compliance	<ul style="list-style-type: none"> • Our recruitment • Our technical training • International strength and depth • Breadth of specialist skills. 	<ul style="list-style-type: none"> • Engagement, planning, performance and conclusion • Sector knowledge • Professional scepticism.
Effectiveness of process	Process	<ul style="list-style-type: none"> • Our methodology • Our process tool(s) • Our quality control • Our infrastructure. 	<ul style="list-style-type: none"> • Risk based • Specialist support • Internal technical support • Depth and clarity of reporting.

2.2 RISK MANAGEMENT AND INTERNAL CONTROL

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

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

2.3 TOP TEN RISKS

In 2013-14, the firm has introduced a risk management framework, based on the top ten risks of the firm as agreed by the Leadership Team. This system of risk management has replaced the Commercial Controls Framework that was used in previous years and is designed to ensure that appropriate systems of control are in place to address the key risks faced by the firm. Each service stream and PMD applies the risk management framework as appropriate to their own area of operation, reporting into the R&Q Committee as required. Action plans are drawn up and implemented to strengthen process and controls when changes in risks or new risks are identified.

The top ten risks of the firm determined by the Leadership Team are as follows:

1. Client acceptance and scope
2. Regulatory compliance
3. Delivering technical excellence to avoid service failure or litigation risk
4. Financial performance and investment
5. Regulatory change
6. Data loss /IT architecture/business continuity
7. Reacting to market trends
8. Talent and succession
9. International network
10. Protecting client monies.

2.4 INTERNAL AUDIT

During the current year an enhanced Internal Audit presence has been introduced, with dedicated resource used to develop and implement a three year Internal Audit plan, based primarily on the firm's top ten risks. Internal Audit reviews conducted in the year included both service stream and PMD-specific reviews. The Internal Audit function reports to the Risk and Quality Committee.



A COMMITMENT TO QUALITY — REPORT FROM THE CHAIRMAN OF THE RISK AND QUALITY COMMITTEE



2.5 EFFECTIVENESS OF THE FIRM'S SYSTEM OF INTERNAL CONTROL

As described above, we have reviewed and updated our system of internal control during the year. Year one of our three year Internal Audit plan has been delivered, with reports being presented to the R&Q Committee setting out the recommendations raised to address any weaknesses identified in the firm's system of internal control. One of the key elements of implementing and maintaining a sound system of internal control is the resolve of management to implement recommendations for improvement. As such, the three year Internal Audit plan includes a follow up exercise each year to independently verify that recommendations raised by Internal Audit, or as a result of any other internal or external reviews, have been implemented in full and in a timely manner.

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

IAIN LOWSON
HEAD OF RISK AND QUALITY

3 October 2014

REPORT FROM THE CHAIRMAN OF THE PUBLIC INTEREST COMMITTEE



3.1 INTRODUCTION

BDO has had independent non-executives (INEs) since 2008 when Lesley MacDonagh and Lord David Currie were appointed to the firm's Leadership Team (BDO's main operating board). When the Audit Firm Governance Code (the Code) was subsequently published, the terms of reference reflected the aims of the Code: to assist in promoting continuing confidence in the market for the audit of listed companies.

Following the merger between BDO and PKF in April 2013, my appointment replacing David Currie in October 2013, and to reflect the increasing importance that the public interest is playing in the firm's strategy and operations, the decision was taken to constitute a Public Interest Committee (PIC or the Committee) with me as Chairman. The terms of reference, which specifically focus on public interest matters, may be found on page 36.

In addition to myself and Lesley MacDonagh, the Committee also includes David Isherwood, the firm's Ethics Partner, who has provided valuable additional insight in relation to current issues as well as raising specific matters for discussion at the Committee.

The Committee has met three times since its formation and focused initially on the quality processes and procedures in place and confirming that the partner remuneration process rewards quality work.

In addition we have received reports on whistleblowing, crisis management procedures, tax policy and the impact of the new rules on audit tendering.

But the role of the INEs is wider than that of just serving on the Public Interest Committee. I have used the opportunity of this report to highlight our role as members of the Board and also a channel for external stakeholders.

3.2 QUALITY

BDO has a Risk and Quality Committee (R&Q Committee), which meets monthly. The R&Q Committee is chaired by the Head of Risk and Quality and attended by the Managing Partner, heads of stream and members of the risk team. I am also a member of the R&Q Committee.

The major topics reported to the R&Q Committee (and shared with the Leadership Team and Public Interest Committee) are discussed below:

- **Risk management framework** – In late 2013, the firm concluded a comprehensive review of the major risks facing each of the streams and the processes in place to mitigate them. A planned series of presentations by stream leaders to the R&Q Committee commenced in 2014. The majority of stream leaders have now presented to the R&Q Committee, thus providing an additional level of challenge. As a member of the R&Q Committee I have been impressed by the open way in which issues have been raised and the challenge provided by all attendees.
- **Cold reviews** – The firm performs reviews of work previously undertaken not only in its audit practice (which is required by regulation) but also across its entire portfolio. The processes for a number of streams have been subject to review by the firm's internal audit review team as well as reviews on behalf of the international network. These reviews, together with the challenge from the Head of Risk and Quality and from the members of the R&Q Committee, provide comfort that these processes are robust and aid the firm in identifying issues.

But identifying issues to resolve is only the start. Remedying issues identified and ensuring that recurring problems are reduced or eliminated must remain a key focus of the firm.

We have received presentations on the reviews, lessons learned and recommendations made. While achieving a review with no issues identified must remain the goal, we have been impressed by the way in which the firm has sought to learn from the findings of these reviews.

REPORT FROM THE CHAIRMAN OF THE PUBLIC INTEREST COMMITTEE



- **Other** – The committee has also received regular reports on potential disputes and on its insurance arrangements. While these must remain confidential we have been impressed by the care with which each case is treated and the open manner in which they have been reported and discussed with the INEs.

3.3 REMUNERATION POLICY

Having a sensible remuneration policy is fundamental to the working of a professional services firm. Whilst it needs to reward the firm's people for their achievements in winning work and supporting, managing and developing others, it must be constructed to ensure that good quality work (and the behaviours that underpin this) is rewarded. It must also reflect where the high quality standards have not been met. More detail of the partner remuneration policy can be found in Appendix D (page 38).

We have reviewed the instructions and documentation used as part of the annual performance review, reward and counselling process. We have also met with both the Senior Partner and the Managing Partner to understand in more detail the process undertaken, and the relationship between the Leadership Team (which makes recommendations as to the profit share that should be awarded) and the Partnership Council, which challenges and ultimately approves the approach adopted.

3.4 OTHER MATTERS

In addition to the areas of focus we have received the following briefings and reports:

- **Whistleblowing process** – We received a report on the firm's whistleblowing policy from the Head of Risk and Quality. While the whistleblowing process is well-established, we recommended that the information available for individuals could be enhanced and also receive more publicity. The firm has agreed to take this forward.
- **Living wills and crisis management procedures** – Following the financial crisis there has been regular dialogue regarding the consequences of a major audit firm leaving the market, a matter that was emphasised by the House of Lords Economic Affairs Committee in their 2011 report. Subsequent to this report, BDO, along with other major audit firms, has been working alongside the FRC and the Government to ensure that adequate plans are in place to mitigate the potential consequences for audit clients, investors, and the wider public interest should a major firm withdraw from the market, suffer a lack of confidence or a severe financial shock.

We have reviewed the procedures put in place by the firm. While there can be no guarantee that the processes will work as envisaged, we believe that the firm is doing all that it can to ensure the continuity of service should an event cause significant operational difficulty for the firm.

- **Tax policy** – The firm has explained its approach to taxation matters; both in relation to the delivery of tax services to clients, (including managing reputational risk), and in relation to the firm's contribution to the current tax debate on various aspects of tax policy taking place in the public arena. The firm has published, on its website, a number of overarching principles which set out how the firm approaches the provision of tax services.

Our principles when providing tax services.

We will keep this area under review as the debate unfolds.

- **Auditors** – We have met with the external auditors, PricewaterhouseCoopers, to give them the opportunity to share any concerns they may have or recommendations for improvement.

3.5 THE ROLE OF THE INES

As noted above, as well as serving as the majority of the Public Interest Committee, Lesley and I sit on the firm's Leadership Team, the primary operating board of BDO, and I attend monthly meetings of the R&Q Committee. Lesley is involved in assessing proposed partnership candidates, and is also an active member of the inclusion steering group. Lesley chairs Leadership Team meetings.

This wider brief gives us an insight into the way the firm is run and the tone at the top, and enables us to challenge the firm's leadership and also ensure that key decisions have been considered from a public interest standpoint.

The meetings we have attended have reinforced our view that the firm remains committed to its public interest role and recognises the importance of the work it undertakes both as regards its direct clients, but also the community more widely.

Externally, we have attended meetings with the Financial Reporting Council and in particular have given our comments on the workings of the Audit Firm Governance Code as the FRC reviews its application. We have also attended meetings with investors to understand their perspective. We are keen to expand our stakeholder dialogue and would welcome further meetings should these be of interest.

As noted above, this is the first report of the Public Interest Committee per se (although the issues now within the remit of the PIC have previously been considered by different groups within BDO). We have identified the areas we would wish to develop over the course of the following year as being communication with stakeholders, the practical effects of the changes to the listed audit market, and how risk and quality is managed internationally by the network.

We would welcome any comments on this report and any input that readers may have in developing our work.

SIMON FIGGIS
CHAIRMAN OF THE PUBLIC
INTEREST COMMITTEE

3 October 2014



4 DELIVERING AUDIT QUALITY



4.1 AN INTRODUCTION FROM THE HEAD OF AUDIT AND ASSURANCE

Our commitment

Audit remains at the centre of our business and represents one third of our revenue. It is as an audit firm that our brand is most closely associated and it has a defining influence on our culture. There continues to be an industry wide debate about the implications of 'audit as a minority sport' within accounting firms but for us audit remains at the centre of what we do.

Our commitment is to deliver the highest quality work and we continue to seek ways in which we can improve. This is not simply to reflect the demands of our regulators but respond to the need for a high level of assurance from both the direct buyers of audit services (those charged with governance) and from investors who are the ultimate client of auditors. Buyers of audit services are grappling for a way of objectively measuring audit quality. The reforms of the Financial Reporting Council and the Competition Commission (now

the Competition and Markets Authority) have unquestionably created a more liquid audit market amongst the UK's largest corporates but buyers are struggling to be able to define and measure quality. The reports of the regulators on the individual firms are one measure. A more balanced overall view would undoubtedly include the scepticism and robustness of the auditor's mind-set and the extent to which the audit committee members clearly understood the issues raised and were able to engage in constructive debate.

Skills of the individual

One of the cornerstones of our approach to audit quality is the skills of the individual. We continue to invest significantly in the financial reporting and auditing knowledge of all our people. Some training is mandatory and some is elective where it is specifically relevant to the individual's client base. We have identified improvements we can make and will focus in the forthcoming year on improving the detailed understanding of companies' control environments. We aim for all of our audit engagements to be planned with a clear and detailed understanding of the entity's operations and controls.

Risk-based audit approach

A second cornerstone is a risk-based audit approach that requires this detailed understanding of the entity's operations and controls, where the focus of the audit work is directed towards the key risks. The introduction of enhanced auditor reporting is a welcome development here and will allow users to gauge whether the auditors are focusing on the right things.

Investment in innovation

We plan to continue our investment in innovation and specifically in analytical tools that allow us to more effectively identify outlier transactions. These tools are developing quickly and we aim to have market leading applications supporting our approach. However it is critical that these are embedded in the audit engagement teams and not part of a separate, specialist team. This is something we will invest in significantly over the next 12 months.

Communication

Whilst the principal output of an audit is the report, it is in our view critical to audit quality to ensure that communication with audit committees is of the highest level. Every year we seek to improve our documents with the aim of reducing clutter and communicating in plain English ensuring audit committee members (even those who are not accounting experts) are able to understand the issues and engage in meaningful debate thus fulfilling their critical role in good governance and financial reporting.

We are confident that we continue to produce high quality audit work however the focus on improvement needs to be relentless. It also needs to be driven from those on the front line wanting to be the best auditors they can be. The tone at the top is important but unless every one of our 1,200 audit staff engage positively with the message, it will be diluted; the importance of winning hearts and minds cannot be overstated. We are therefore shifting our focus towards support and education, and celebrating excellence whilst continuing to penalise those who fail to meet the high bar.

SCOTT KNIGHT
HEAD OF AUDIT AND ASSURANCE

3 October 2014

4.2 QUALITY DELIVERED THROUGH THE RIGHT PROCESSES

Maintaining quality standards is the key focus of the BDO International Audit Steering Committee and its subgroups, as well as the network's regional audit advisers, who are active in visiting member firms and assisting in technical matters.

Furthermore, at the beginning of 2013 the network launched its Audit Quality Framework that provides a mechanism for BDO Member Firms to develop the action steps to drive audit quality.

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

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

4.2.1 ENGAGEMENT PERFORMANCE

Client and engagement acceptance

Robust client and engagement acceptance procedures play a pivotal role in our ability to deliver a professional and quality service.

Before we enter into a relationship with any prospective client, and throughout our relationship with any client, we gain and document knowledge about the client and the risks to the firm of our association with them.

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

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

Our global audit approach

Audit approach and tool

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

The network's state-of-the-art audit software, APT, continues to be regularly enhanced as new technologies and audit practices emerge. 2013 saw the release of a further improved version that extends the use of APT to other assurance engagements beyond core audit.

Underpinning the content of the APT is the BDO audit manual (the manual). The manual describes the basic principles and audit approach that the BDO Member Firms have agreed to apply to both national and international engagements. We have added our own domestic guidance to supplement the manual for use in the UK.

Together, the BDO audit approach and APT deliver a range of benefits including:

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



4 DELIVERING AUDIT QUALITY

Supervision and review

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

The RI, through a review of the audit documentation and discussion with the engagement team, satisfies themselves that sufficient and appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued, and that the audit has been carried out in accordance with the firm's policies and procedures. The RI is ultimately responsible for ensuring that all material or potentially material matters or issues raised during the audit are satisfactorily resolved and documented in the working papers.

An engagement quality control review is performed for audits of public interest entities and other high risk engagements. This review is performed by an audit partner other than the RI. The Engagement Quality Control Reviewer (EQCR) possesses the level of knowledge and competence related to accounting, auditing, and financial reporting required to serve as the person who has overall responsibility for the same type of engagement, and be knowledgeable and familiar with the audited entity's industry, but will be independent from the audit team. The EQCR cannot be actively involved in making ongoing decisions relating to the engagement and will not be involved in performing the engagement.

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

Consultation and support

The national audit stream is supported by TSG and the Risk Management Unit (RMU).

TSG, reporting to the Head of Risk and Quality, is responsible for the following:

- Developing our audit approach and guidance to ensure compliance with auditing standards
- Maintaining the firm's technical manuals relevant to the audit stream and communicating developments to the firm's partners and employees
- Helping maintain the firm's audit practice to the highest standards prevailing in the profession
- Consulting with local office partners and other professionals seeking technical advice
- Overseeing the firm's audit technical initial professional development (IPD) and continuing professional development (CPD) programmes.

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

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

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

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

4.2.2 AUDIT QUALITY INDICATORS

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

We set out the identified metrics:



Comments	
Metrics from partner and employee surveys	
1. I am encouraged to perform a high quality audit	As described below, the firm seeks regular feedback from partners and employees. It is the firm's intention during 2015 to introduce a number of questions aimed at seeking feedback on whether the firm provides adequate training, resources and leadership in relation to audit quality.
2. I have sufficient time and resource to deliver quality audits	
3. I receive enough training and development to enable me to deliver quality audits	
Metrics on external investigations	
Number of cases in the last 12 months in which the:	
4. FRC's conduct committee has found against the firm or one of its members	We have no such findings against the firm
5. Disciplinary committee of any other regulatory body has found against the firm or one of its members	We have no such findings against the firm
Metrics on engagement performance reviews	
6. Results of firm's internal audit quality reviews	The results of our internal reviews along with a description of our Audit Quality Assurance Review process and a definition of the grades awarded are given in section 4.
7. Results of the FRC's Audit Quality Review Team reviews on the firm	Our last review by the FRC's Audit Quality Review Team took place in Autumn 2012. Further details can be found in Appendix B.
8. Annualised percentage of responsible individuals subject to firm's internal engagement performance reviews	This information can be found within section 4.2.3.
Metrics on investment	
9. The extent of training undertaken per person in the Assurance practice	See section 4.3.3.
10. Investment in research and development on assurance	In July 2014, we introduced measures to capture qualitative and quantitative measures of the time spent on certain aspects of research and development activities in respect of assurance.
Metrics on investor liaison	
11. Qualitative description of investor liaison	We are taking steps to have greater interaction with the investor community.

4 DELIVERING AUDIT QUALITY

4.2.3 RESPONSIBILITY FOR AUDIT QUALITY

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

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

The Head of Audit and Assurance and the Head of Risk and Quality have regular communications with audit partners on audit quality issues, including conference calls.

Internal Audit Quality Assurance Reviews

Our quality control system includes an annual programme of inspections of audit files (the Audit Quality Assurance Review). This is designed by the Audit Stream Executive and approved by the Leadership Team. Its purpose is to monitor compliance with the firm's policies, procedures and standards and to ensure that audit work complies with professional standards.

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

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

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

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

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

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

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

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

A conclusion is drawn on each audit file reviewed as to whether the audit working papers were acceptable or required significant improvement.

An audit file is of an acceptable standard where only minor weaknesses are found, none of which are considered significant.

An audit file is assessed as requiring significant improvement where:

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

The findings from the 2013 inspection cycle are as follows:

2013 Review Statistics	
Proportion of RIs reviewed	65%
Number of audit engagements reviewed	84
Proportion of acceptable files	81%

A number of the actions taken in response to the findings from external reviews explained in Appendix B complement the actions taken with regard to internal reviews.

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

RIs assessed as requiring significant improvement are subject to follow-up reviews.

A key aspect of the annual inspection programme is to identify areas where improvements are needed and to feed the

findings back. There are three aspects to this. First, members of the audit team whose file has been reviewed are made aware of areas for improvement. Where an RI's audit file is assessed as requiring significant improvement he or she meets with the Head of Risk and Quality to discuss the findings and the actions they will be undertaking. This will result in the preparation of action plans to ensure corrective action is taken. Depending on the nature of the deficiencies this may result in action plans for members of the team more widely or for the audit stream within their office.

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

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

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

Thematic reviews

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

The decision to undertake a thematic review is taken by the Audit Stream Executive in consultation with the Head of Risk and Quality and the Head of Audit and Assurance. The reviews themselves are undertaken by the Quality Assurance Director and staff from TSG. In the past 12 months we have undertaken reviews in the following areas:

- The effectiveness of implementation of our audit methodology and Audit Process Tool following the merger
- Auditing of cash flow statements.

Further thematic reviews are in progress as follows:

- Group audit approach
- How reviews are done
- EQCR documentation
- Impairment reviews
- Materiality
- Audit of revenue
- Use of control testing
- Journals.

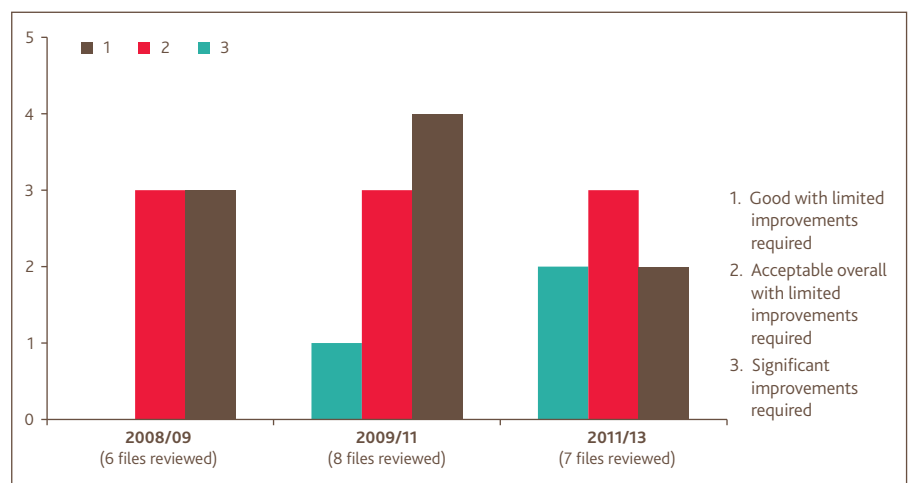
The findings of thematic reviews are considered in aggregate rather than individually, and reviews are not graded.

As a result of the thematic reviews completed over the last 12 months we gained assurance that our methodology is being applied appropriately but with improvements needed in certain areas. Action plans are being drawn up to address the root causes of these findings. The review of cash flow statements identified the need for greater training and additional guidance. This training and guidance is currently being developed.

External Audit Quality Reviews undertaken by the FRC

The FRC's Audit Quality Review (AQR) team has already commenced its biennial review, which will result in a public report setting out the principal findings arising from the inspection in respect of the two year period to 31 March 2015. The firm will then begin a one year reporting cycle as recommended by the Competition Commission in October 2013. The last completed visit by the AQR took place in Autumn 2012. The public report in respect of the two years to 31 March 2013 is available on the FRC website (www.frc.org.uk).

The results of the 2013 review, and the comparative results for earlier inspections, are as follows:



4 DELIVERING AUDIT QUALITY

The firm was disappointed with the results of the 2013 review, in particular the two files graded three. Following receipt of these findings the firm's Leadership Team increased considerably its level of oversight and engagement on audit quality matters and made audit quality a standing item on the agenda for its monthly meetings. On two of the audits requiring significant improvements, the AQR identified that the review by the EQCR was not thorough enough, and while the AQR noted that we had taken steps to address findings in previous inspections, the AQR found these steps were not wholly effective in our work in disclosures and related party transactions.

Other findings included concerns regarding the audit evidence in relation to valuations and the planning and supervision of group audits.

Updated guidance and procedures have been introduced regarding the involvement of valuations specialists and guidance and training implemented on the conduct of group audits.

Following receipt of the findings from the AQR, we reviewed and strengthened our pool of approved EQCRs. The EQCRs referred to in the AQR report received direct feedback in addition to the EQCR training included in the mandatory workshops held for all Responsible Individuals in the Autumn of 2013. All EQCRs were also required to complete e-learning on the role of the EQCR in March 2014. In the 2014 internal reviews we will evaluate the involvement of the EQCR in the audit. As noted earlier in this section, our programme of thematic reviews includes a review of EQCR documentation.

These and the other findings as set out in the FRC's report received significant and sustained attention from the Leadership Team.

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

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

These are included in Appendix B together with our response.



FRC Audit Quality thematic inspections

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

In the last year the firm has participated in the following thematic:

- Materiality
- Fraud risks and laws and regulations
- Banking audits.

The results of the first two of these can be found on the FRC website (www.frc.org.uk). The last thematic, on banking audits, has yet to be published.

We have communicated the results of the first two to our audit stream as part of our overall process of audit improvement. We have also enhanced our guidance, for example, by developing sector specific guidance on fraud risks.

Other external reviews

ICAEW Audit Monitoring Visits

The Quality Assurance Department (QAD) of the ICAEW monitors all firms registered for audit with ICAEW and, as part of this function, undertakes a number of visits to firms every year.

QAD is currently undertaking its 2014 audit review of the firm. The last audit review visit by the QAD took place in Autumn 2012.

The overall conclusion from the last review was that the firm had maintained a good standard of audit work based on the ten

files reviewed with very few findings across the files. QAD found seven files to be satisfactory, and the other three files to be generally acceptable, with only a small number of improvements required. None of the files reviewed required significant improvement. Action plans were put in place to deal with the matters that did arise.

International network

We are subject to periodic Quality Assurance Reviews (QARs) on behalf of the international network. The last review took place in May 2014 and the results were as follows:

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

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

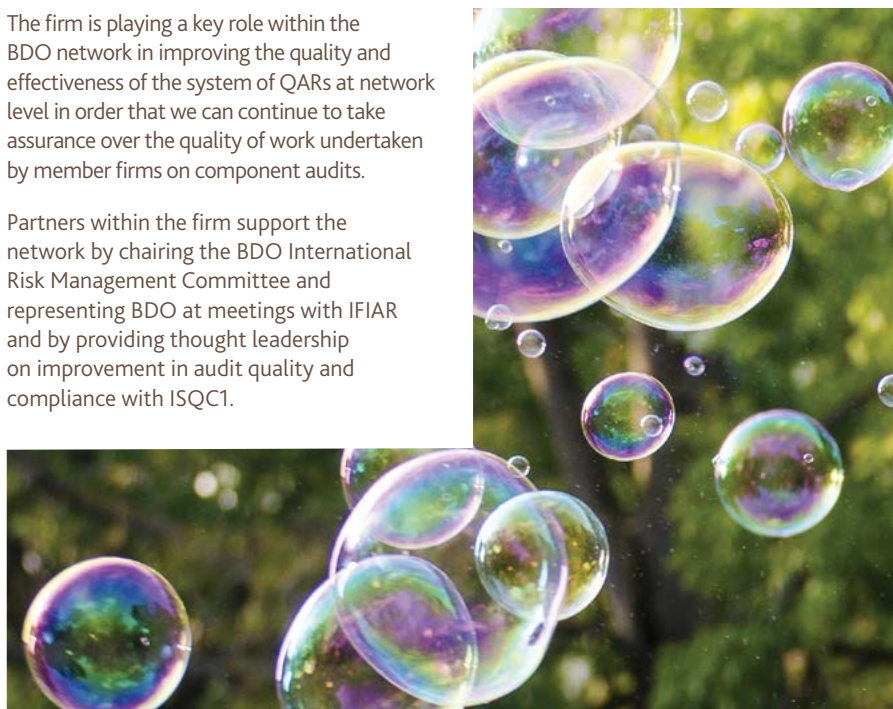
Partners within the firm support the network by chairing the BDO International Risk Management Committee and representing BDO at meetings with IFIAR and by providing thought leadership on improvement in audit quality and compliance with ISQC1.

4.2.4 MANAGEMENT STATEMENT ON EFFECTIVENESS OF FUNCTIONING

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

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

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



4 DELIVERING AUDIT QUALITY

4.3 QUALITY DELIVERED THROUGH THE RIGHT PEOPLE

Our people are a critical factor in our ability to provide exceptional client service and deliver quality work. To ensure that we have sufficient people with the capabilities, competence, and ethical standards necessary to provide quality work in accordance with professional and legal requirements, we have established clear policies and procedures addressing the following areas:

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

4.3.1 OUR VALUES

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

- **Honesty and Integrity**
Be transparent, genuine and fair. Operate with the highest degree of personal and professional integrity.
- **Empowerment and Personal Responsibility**
Work with confidence, flexibility and freedom. Understand that trust and responsibility go hand-in-hand.

- **Mutual Support and Respect**
Value and support each other. Maintain an inclusive working environment where teamwork and relationships matter.
- **Professional and Personal Client Relationships**
Understand the person as well as the business. Build relationships based on respect, trust and exceptional service.

4.3.2 INCLUSION

The successful achievement of our inclusion agenda is a key part of our overall strategy. It is to be celebrated that workforces are becoming more diverse, both within BDO and beyond. At BDO we believe inclusion is critical to creating a sustainable and measurable difference to business performance and culture, which is why we are focusing on making sure our people are valued and feel valued; we passionately believe in the commercial and moral case for inclusion.

We are proud of the employment experience that we provide, but there is always room for improvement: the simple fact is that those in senior positions across many professional services firms don't reflect the make-up of wider society, our clients or the wide range of people that we successfully attract in the early stages of their career.

A culture of sustained inclusivity cannot be achieved overnight, and it cannot be done by one or two individuals or by single initiatives that spotlight a particular issue for a period of time only for it to disappear once our focus changes. The Leadership Team is committed to setting the tone at a firm-wide level and initiating a collective response to bring about change over a sustained period of time. Inclusion has a permanent place on all Leadership Team

meetings and the inclusion steering group meetings are chaired by our Chief Operating Officer (COO) Mark Sherfield, and attended by our Senior Partner, Mark Bomer, as well as one of our Independent Non Executives, Lesley MacDonagh. We are also committed members of the 30% Club and Opportunity Now, and have signed up to the Government's 'Think, Act, Report' initiative.

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

BDO and social mobility

As with other aspects of inclusion, social mobility is a key factor in our strategy for a sustainable future. In 2014 we were proud to become a founding member of the Access Accountancy initiative in partnership with a number of firms and professional bodies, which aimed to improve the social mobility for talented students from disadvantaged backgrounds and was designed to respond to the challenges posed by the Social Mobility and Child Poverty Commission. Part of our overall commitment to Access Accountancy has been to increase our number of work-experience placements (as part of an overall target of 3,750 additional placements across all members of the Access Accountancy project).

Additional efforts and achievements in support of the profession's increasingly important social mobility agenda include:

- Expanding our long-established school leaver programme, providing opportunities for students who are unable – or choose not – to commit to the burden of university tuition fees. We have committed to boosting our school leaver intake so it forms a greater proportion of our overall trainee intake next year and in 2014 we won 'Best Level of Support' and 'Best Training' awards at the All About School Leavers Awards.
- Taking part in a range of mentoring and internships with organisations specifically targeting inner city schools and students from less advantaged backgrounds, including SEO London, Career Academies, Pure Potential, The Brokerage, Access Professions and Financial Skills Partnership.
- Launching a summer school for A-level students that helps to bridge the gap between students who have previously had access to work experience and those who have not.
- Introducing 'Insight Days' to allow school pupils from a host of state schools and colleges to spend time in our offices right across the country, helping to familiarise themselves with a professional work environment, recruitment processes and the accountancy profession.
- Sponsoring the ICAEW Business, Accounting and Skills Education (BASE) programme, during which our professionals act as mentors to students as they learn about the industry via a series of regional and national competitions.

Achieving gender balance

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

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

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

4.3.3 ENABLING OUR PEOPLE TO DELIVER AUDIT QUALITY

Resource management

We recognise that for us to deliver a quality audit it is ultimately the ability, placement and commitment of our people that really makes a difference. Our ability to attract the right number of high quality people into the audit stream and at the right time is of utmost importance. To help us do this, we plan our resource requirements some 12 to 18 months in advance by factoring in current and future client service needs. In a competitive employment market it is never easy to second guess resource needs but we are able to use innovative secondment programmes in addition to traditional recruitment methods outlined below to help build-in that flexibility. As a truly national firm we are also in a fortunate position to be able to share our people resources enabling us to maximise usage as resource needs change.

Recruitment

The post-recessionary bounce in the service sector side of the UK economy has meant that along with other firms we are on a constant search for talent. We are proud of our rigorous approach to selection at both our trainee and experienced hire levels – seeking out people who can provide the best fit within the leadership, exceptional client service and business and personal behavioural framework that we have developed as a firm.

A framework is however just a framework; for it to be brought to life we need to bring into the business the right people for each and every role. Whether we are considering new trainees entering the audit profession for the very first time or seeking out experienced hires operating at a manager level – all groups need to possess the skills, talent and drive to be able to deliver to our high expectations.

4 DELIVERING AUDIT QUALITY

For those joining us through our graduate and school leaver routes we assess potential trainees using a combination of:

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

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

Performance development

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

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

their 360 degree feedback. As if to underline the importance we attach to living our values, during 2014 we are also providing opportunities for a formal upwards feedback of how all our partners are performing against our newly refreshed values. People follow people, they don't just follow titles, so we have continued to actively provide opportunities for less formal tools in areas such as mentoring, career conversations and coaching opportunities.

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

Capabilities and competence

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

- AQR/QAD inspection reports
- Thematic inspections
- Changes in regulations or standards
- Our own Annual Quality Assurance Review.

Our Technical Standards Group (TSG) also liaises with local stream training contacts, the Audit Stream Executive (ASE) and Risk Management team to help identify additional areas of development for auditors at all levels.



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

Professional development

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

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

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

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

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

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

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

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

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

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

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

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

Global training

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

Career development and progression

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

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

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

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



5 GOVERNANCE



5.1 THE BDO GLOBAL NETWORK

BDO LLP is a member firm of the BDO network.

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

The BDO network aims to deliver exceptional client service through:

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

The global aggregated turnover for BDO member firms (including their exclusive Alliances) for the year ended 30 September 2013 was in excess of \$6.4bn. At 30 September 2013, the BDO network comprised 104 voting member firms, operating in 144 countries with 1,264 offices. At 30 September 2013, the BDO network had over 56,000 partners and employees.

Further details of the structure and governance of our international network are available in Appendix C.

5.2 THE UK FIRM

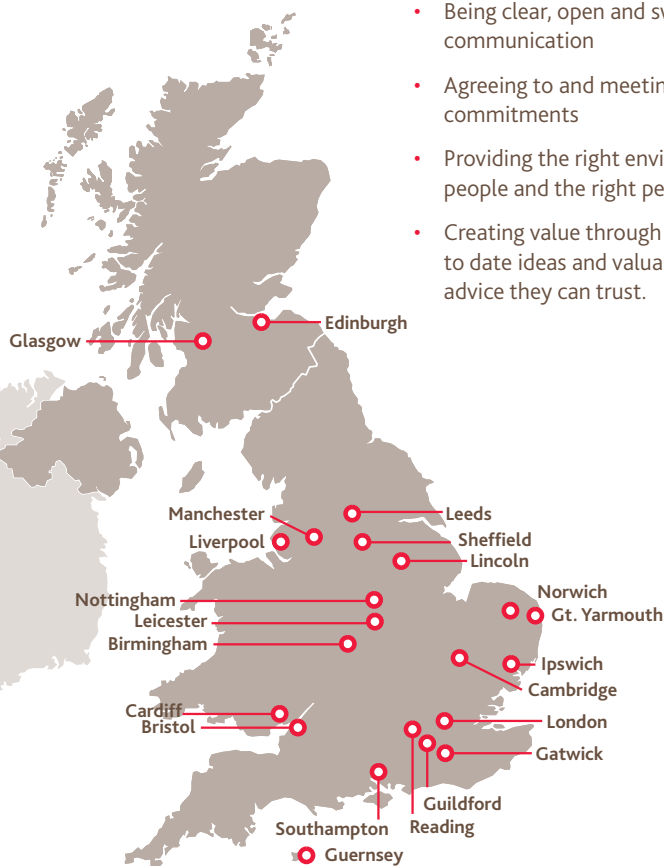
Legal structure and ownership

BDO LLP (the LLP or the firm) is a limited liability partnership, incorporated in the UK and is owned by its members (who are often referred to as partners). At 4 July 2014, there were 240 members.

At 4 July 2014 our business operated from 22 locations nationwide. Our business is structured into both geographical strategic business units (SBUs) and service lines (streams). Our practice management departments (PMDs) support the SBUs and streams.

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

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

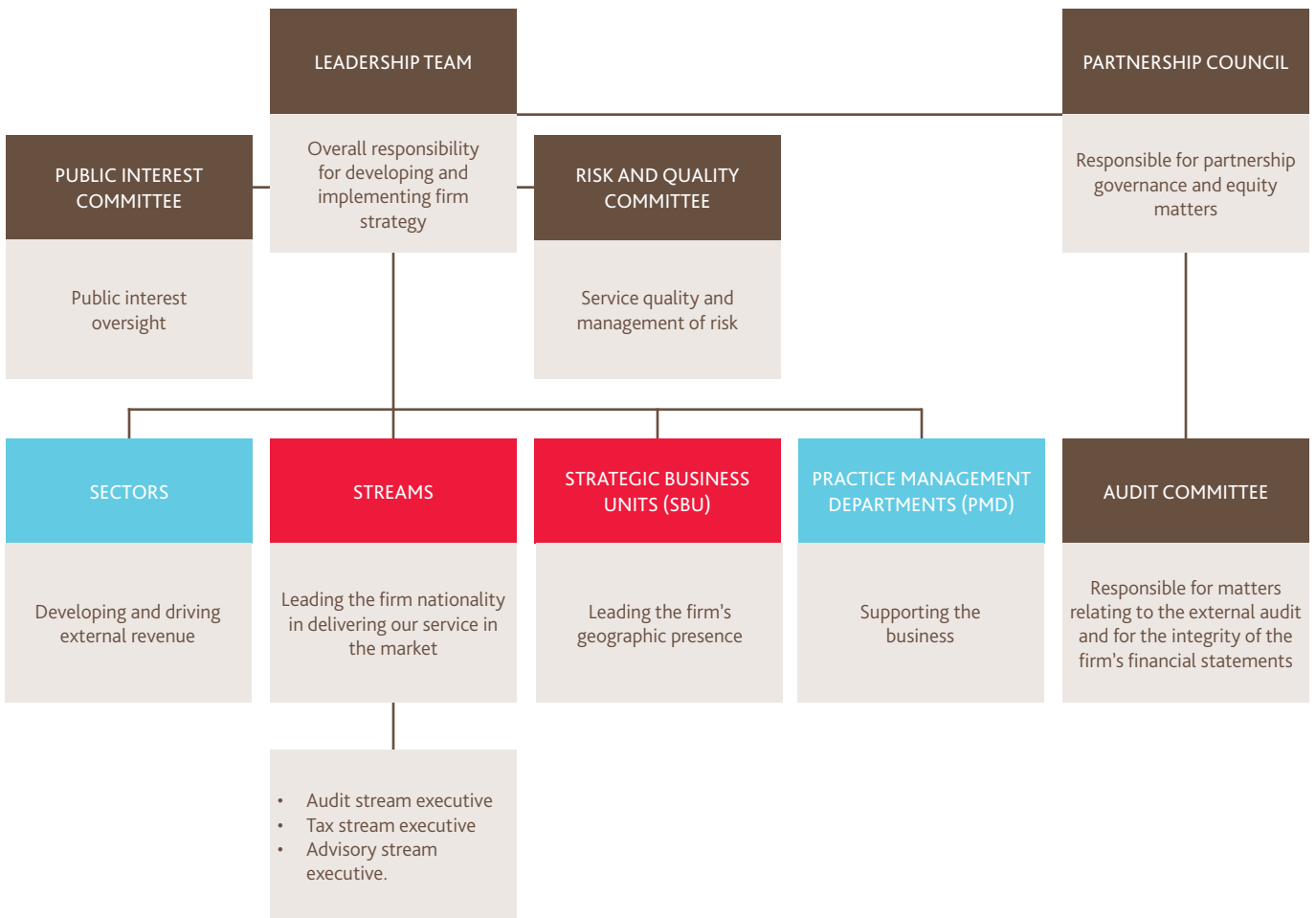


5 GOVERNANCE

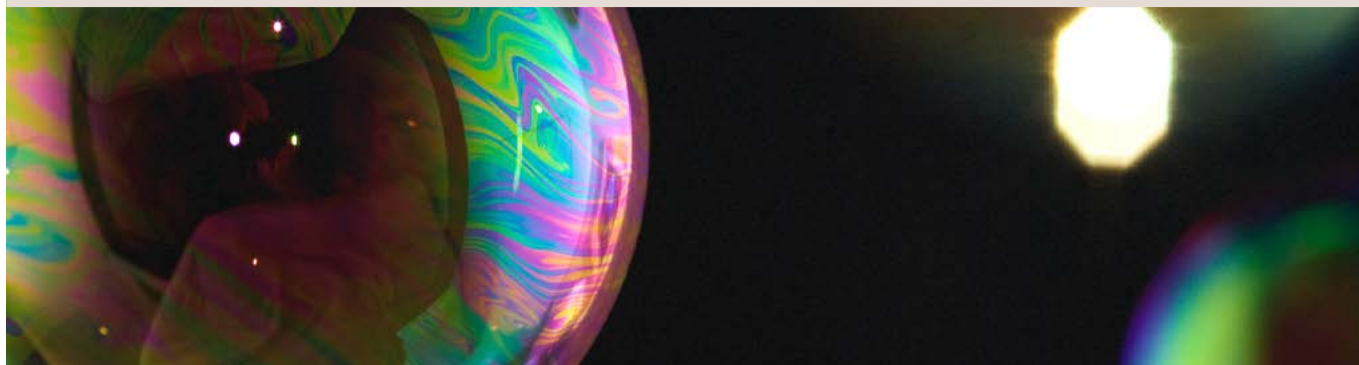
Governance structure of the UK firm

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

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



Body	Composition	Responsibilities
Leadership Team	<ul style="list-style-type: none"> Elected Managing Partner Seven executive members appointed by managing partner Two Independent Non-Executives (INEs). 	<ul style="list-style-type: none"> Provides strategic and operational leadership with emphasis on the firm's services to its clients.
Public Interest Committee	<ul style="list-style-type: none"> Two INEs Ethics Partner The Managing Partner ordinarily attends as an observer and as appropriate to the agenda. 	<ul style="list-style-type: none"> Considers public interest matters that affect the firm with a goal of enhancing stakeholder confidence in the public interest aspects of the firm's activities Forms part of the firm's performance assessment regime.
Partnership Council	<ul style="list-style-type: none"> 12 elected partners Senior Partner Managing Partner Two representatives from the Leadership Team who may attend by invitation of the Managing Partner. 	<ul style="list-style-type: none"> Equity and governance matters including the accountability and oversight of management.
Audit Committee	<ul style="list-style-type: none"> Four members of the Partnership Council. 	<ul style="list-style-type: none"> Meets with the external auditors and management to provide a forum for the external auditors' reporting Assesses and monitors the independence of auditors. Reviews and monitors the integrity of the firm's financial statements Considers the effectiveness of the internal controls maintained and monitored by management as well as reviewing management's prioritisation of key operational risks.
Risk and Quality Committee	<ul style="list-style-type: none"> Head of Risk and Quality One INE Managing Partner Heads of Streams Head of International Advisory and Risk and Quality Head of Practice Protection Head of Risk Management Unit Head of Technical Standards Group (TSG). 	<ul style="list-style-type: none"> Ensuring appropriate strategies and plans are drawn up, implemented and monitored to ensure the effective management of risk and the delivery of quality services consistent with the firm's strategy.
Audit Stream Executive	<ul style="list-style-type: none"> Head of Audit and Assurance Head of TSG Operations Director for the National Audit Stream Six partners from a range of sectors and regional offices. 	<ul style="list-style-type: none"> Ensures audit quality remains at the top of our agenda Develops and delivers the national audit stream strategy Monitors commercial and regulatory activity in the audit market Supports practitioners to be successful in the market, creating a culture of consultation and support Sets audit stream policies and procedures Provides oversight of quality, licensing and rotation.



6 ETHICS AND INDEPENDENCE



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

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

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

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

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

APPENDICES



APPENDIX A

AUDIT FIRM GOVERNANCE CODE STATEMENT OF COMPLIANCE

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

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

LEADERSHIP

A.1 Owner accountability principle

Decisions made by the Leadership Team are reviewed by the Partnership Council. There are specific matters that are reserved for decision by the Partnership Council and certain matters which are reserved for decision by all partners.

Our Transparency Report gives further details on the Leadership Team, the Partnership Council and other governance structures.

We have formal processes for ongoing performance evaluation of the firm's governance structures and management team and their members.

A.2 Management principle

The Leadership Team provides strategic and operational leadership to the firm.

VALUES

B.1 Professionalism principle

The Leadership Team and the whole firm are committed to quality work, the public interest and professional judgement and values. Along with the firm's management, the Head of Risk and Quality reinforces the appropriate 'tone at the top' by instilling professional and ethical values in the firm.

We have an internal code of conduct which employees are expected to comply with. More details on our values can be found at www.bdo.uk.com/about-us/internal-values.

B.2 Governance principle

We remain committed to applying the principles and provisions of the Code and continue to review our detailed structures and governance procedures to consider whether they meet the spirit and the requirements of the Code.

B.3 Openness principle

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

INDEPENDENT NON-EXECUTIVES

C.1 Involvement of independent non-executives principle

We appointed Independent Non-Executives (INEs) in July 2008.

In 2013, we established a Public Interest Committee (PIC) to consider public interest matters that affect the firm, and to enhance stakeholder confidence in the public interest aspects of the firm's activities, including those activities in the firm's business that are not otherwise effectively addressed by regulation. The firm's INEs form the majority of the PIC, one of whom takes the role of Chairman. Further details on the terms of reference and composition of the PIC can be found on page 36. A report from our PIC can be found in section 3.

The INEs met with the Partnership Council during the year to discuss matters relating to their remit under the Code.

Appendix D (page 36) gives further details about the INE's appointment, duties and the support available to them.

C.2 Characteristics of independent non-executives principle

Our INEs comply with the same independence requirements as our partners and employees.

Individuals are chosen to ensure they have sufficient experience and expertise to command the respect of the partners. Biographical details of our INEs are given in Appendix F of our Transparency Report.

C.3 Rights of independent non-executives principle

The INEs have formal contracts covering their duties. They are also covered by our professional indemnity insurance and have sufficient resources to undertake their duties including having access to independent professional advice at the firm's expense, if needed.

We have formalised procedures by which fundamental disagreements between the INEs and the firm are resolved. Further details of the procedures are given on page 36. Where ultimately the disagreement cannot be resolved and results in the resignation of the INE they have the right to report this resignation publicly.

OPERATIONS

D.1 Compliance principle

We have policies and procedures in a series of manuals and internal online guidance designed to ensure that we comply with professional standards and applicable legal and regulatory requirements.

Our procedures for managing potential and actual conflicts of interest are explained in Appendix I.

We welcome independent inspection of our audit process and the findings and observations from these inspections assist us in achieving our shared objective of improving audit quality.



D.2 Risk management principle

Section 2 of our Transparency Report includes further details on:

- The internal audit function's activities
- The reviews performed by the firm in 2013/14.

During 2013/14, an enhanced internal audit function has been introduced, with a three year internal audit plan being developed, based on the top ten risks of the firm. The internal audit function is the primary mechanism by which the effectiveness of the firm's system of internal control is reviewed and tested.

Year one of the plan has been delivered in full, with reports being presented to the Risk and Quality Committee setting out the recommendations raised to address any weaknesses identified in the firm's system of internal control.

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

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

D.3 People management principle

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

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

D.4 Whistleblowing principle

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

Further information on our whistleblowing policy is given in Appendix I.

REPORTING

E.1 Internal reporting principle

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

E.2 Financial statements principle

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

E.3 Management commentary principle

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

APPENDIX A

AUDIT FIRM GOVERNANCE CODE STATEMENT OF COMPLIANCE

E.4 Governance reporting principle

This statement forms the required statement under E.4. Our Transparency Report for the 53 weeks ended 4 July 2014 includes those disclosures required by Code Provisions in the following sections:

Provision	Description	Reference to Transparency Report
A.1.2	The firm should state in its transparency report how its governance structures and management team operate, their duties and the types of decisions they take.	Section 5 - Governance Appendix D - Governance structure - UK firm
A.1.3	The firm should state in its transparency report the names and job titles of all members of the firm's governance structures and its management team, how they are elected or appointed and their length of service, meeting attendance in the year, and relevant biographical details.	Appendix D - Governance structure of the UK Firm Appendix F - Members of the Firm's governance structure at 4 July 2014 Appendix G - Leadership and governance meetings attendance in the year ended 4 July 2014
C.2.1	The firm should state in its transparency report its criteria for assessing the impact of independent non-executives on the firm's independence as auditors and their independence from the firm and its owners.	Appendix D - Governance structure of the UK firm
D.1.3	The firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest.	Section 6 - Ethics and Independence Appendix I - Ethics and Independence
D.2.2	The firm should state in its transparency report that it has performed a review of the effectiveness of the system of internal control, summarise the process it has applied and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary.	Section 2.5 - Report from the Chairman of the Risk & Quality Committee (page 4)
D.2.3	In maintaining a sound system of internal control and risk management and in reviewing its effectiveness, the firm should use a recognised framework such as the Turnbull Guidance and disclose in its transparency report the framework it has used.	Section 2.5 - Report from the Chairman of the Risk & Quality Committee (page 4)

E.5 Reporting quality principle

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

DIALOGUE

F.1 Firm dialogue principle

We recognise that dialogue between audit firms and stakeholders is essential in order for the firm to keep abreast of shareholder opinion. Representatives of the firm have met informally with representatives of listed companies and their shareholders during the year. The firm ensures that it is well represented on panels and working groups relating to our profession and the wider economic environment. Senior representatives of the firm meet frequently with our domestic and international regulators and members of the UK Government, both individually, and collectively. Typically these groups include representatives from the investor community. Discussions concerning the future developments of audit and the audit report have been of particular relevance this year and partners from the firm have met with a number of key institutional shareholders in order to understand their needs and help the firm play its part in shaping the future.

In addition to our proactive measures to increase dialogue, our senior partners and INEs continue to engage with stakeholders who would like to understand more about our approach to the Code, audit quality, or indeed any other matters affecting the audit profession.



APPENDIX B

OUR RESPONSE TO AQR'S OBSERVATIONS ON BDO LLP

AQR key messages	Response
Ensure that the firm demonstrates its commitment to enhancing audit quality by implementing changes to its audit procedures and processes in response to deficiencies identified in quality reviews at the earliest opportunity.	The firm's Audit Stream Executive (ASE) keeps control logs of deficiencies identified in audit quality reviews and ensures that improvements to audit procedures are made. The Leadership Team has put in place a monitoring process to ensure that deficiencies identified in quality reviews have resulted in changes to our audit procedures.
Encourage individual partners to demonstrate their personal commitment to audit quality by being more receptive to dealing with deficiencies identified in quality reviews.	All Partners are required to have specific quality objectives, performance against which is discussed and agreed in the next periodic performance review. Part of the performance review process includes constructive engagement on how partners have dealt with quality issues. Every individual partner is graded for risk and quality purposes as either "meets requirements" or "needs improvement". A failure to properly acknowledge or deal with quality issues is identified in annual performance review documentation and may have an effect on compensation.
Monitor the effectiveness of actions taken in cases where individual audits have been found by external or internal quality reviews to require significant improvement and to address recurring issues identified by such reviews.	All Responsible Individuals graded as 'requires significant improvement' in our internal audit quality assurance reviews are subject to follow up reviews. In addition, major audits are subject to a review of various aspects of the audit as the audit progresses by experienced staff from the Technical Standards Group. As noted on page 13, we have introduced a programme of thematic reviews addressing certain themes arising from external and internal quality reviews.
Take action to improve the effectiveness and timeliness of Engagement Quality Control Reviews.	The improvements we made to improve the effectiveness and timeliness of Engagement Quality Control reviews are described on page 14.
Further emphasise the need for appropriate scepticism by audit teams in relation to key assumptions made by management and other areas in which significant judgment has been applied.	Professional scepticism is now a key theme in all of our training and guidance. Audit staff understand the importance of scepticism and how it should be applied and documented. In particular, specific guidance on scepticism has been published, specific communications have been issued by the Head of Audit to the audit stream and a workshop on scepticism was included in the September 2013 Audit Summit for audit partners, directors and managers.
Review the firm's audit strategy and remove any references that focus on, or could be interpreted as focusing on, the cross selling of non-audit services to audited entities. Ensure that audit partners are aware of this change and that performance evaluation and remuneration decisions will not reflect success in selling other services to audited entities.	References to cross selling of non-audit services were removed from the firm's strategy when it was updated in 2013. In order to ensure that this change was communicated to partners it was emphasised in the National Audit Stream Roadshows run in the Summer of 2013. Guidance on the performance review forms emphasises the importance of ensuring compliance with the Ethical Standards. Remuneration is determined by the Leadership Team who fully appreciate that success in cross selling other services to audited entities must not be rewarded.
Monitor action taken to address the significant deficiencies identified in the firm's ethical processes and guidance and ensure that resources are appropriate and sufficient to identify and respond to threats to independence in an appropriate and timely manner.	A full review was undertaken of policies and procedures in this area. In order to avoid a recurrence of these issues the firm: <ul style="list-style-type: none"> • Introduced new robust and detailed documentation for all assignments • Undertook a full training programme for all streams to ensure an understanding of our responsibilities with regard to the Ethical Standards. Monitoring of these improvements will be undertaken in the 2014 internal audit quality assurance reviews.

AQR observations on the firm's policies and procedures	Response
Tone at the top – communications being in line with Ethical Standards	<p>The messages which were not fully compliant with Ethical Standards have been removed from central communications.</p> <p>The importance of audit quality and independence was addressed in the National Audit Stream Roadshows presented to each office in Summer 2013 and attended by audit partners and staff.</p>
Reference to quality in partner and staff appraisals	<p>Following a comprehensive review of the partner and staff performance review process undertaken in 2013, all partners and staff are required to have specific quality objectives, performance against which is discussed and agreed in the next periodic performance review.</p> <p>Partners are graded for risk and quality purposes as either "meets requirements" or "needs improvement".</p>
Mandatory training for audit managers	<p>The firm acknowledges the importance of a structured programme of mandatory training for senior members, including managers, of the audit stream and now runs a monthly program of e- learning, calls and assessments covering a wide range of technical subjects for seniors, managers, directors and partners of the audit stream.</p> <p>In the Autumn of 2013 audit partners, directors and managers attended a mandatory two-day Audit Summit where the focus was audit quality and technical training.</p> <p>Later this year, all audit partners, directors and managers will be required to attend mandatory workshops to deal with a variety of areas including audit, financial reporting and corporate governance.</p>
Prohibited entities list	<p>As the FRC noted we had already put in place more robust procedures at the time the report was issued. This includes positive confirmations by all RIs on a quarterly basis that the information we hold is correct.</p> <p>The firm has recently developed further additional procedures requiring each new partner to be interviewed prior to admission by the member of the Leadership Team responsible for Risk and Quality to ensure they understand the firm's requirements, inter alia, in this area.</p>
Approval of non-audit services	<p>In January 2013, the firm strengthened its policies and procedures for the approval of non-audit services for entities we audit. In April 2013, we issued more comprehensive documentation to specifically address the management of ethical issues.</p>
Lack of conclusion on matters raised in annual declarations	<p>With effect from the 2013 annual declaration process, there are now follow up consultations with the Ethics Partner or Head of Risk and Quality as appropriate to conclude any matters raised on a timely basis. The conclusion of matters is now formally documented.</p>
Internal quality review findings	<p>In order to ensure a high level of consistency and quality in our internal quality review process the firm implemented the following procedures in 2013:</p> <ul style="list-style-type: none"> • Training for all reviewers prior to the commencement of the annual review • A review of all internal quality review reports by the Quality Assurance Director and, in some cases, the Head of the Technical Standards Group and the Head of Risk and Quality.

APPENDIX C

GOVERNANCE STRUCTURE – BDO INTERNATIONAL NETWORK

BDO LLP is a member firm of the BDO network.

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

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

The BDO network aims to deliver exceptional client service through:

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

SIZE OF NETWORK

The global aggregated turnover for BDO Member Firms (including their exclusive Alliances) for the year ended 30 September 2013 was in excess of \$6.4bn. At 30 September 2013, the BDO network comprised 104 voting member firms, operating in 144 countries with 1,264 offices. At 30 September 2013, the BDO network had over 56,000 partners and employees.

LEGAL AND STRUCTURAL ARRANGEMENTS IN THE NETWORK

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

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

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

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

GOVERNANCE OF THE NETWORK

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

The Council comprises one representative from each voting member and represents the members of BDO International Limited in general meeting. The Council approves budgets, appoints the Global Board and approves any changes in the Articles and Regulations of BDO International Limited. The Council meets annually.

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

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

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

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

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

KEY FEATURES OF THE MEMBER FIRM NETWORK AGREEMENT

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

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



APPENDIX D

GOVERNANCE STRUCTURE – UK FIRM

LEGAL STRUCTURE AND OWNERSHIP

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

At 4 July 2014, there were 240 members.

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

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

Business structure

At 4 July 2014 our business operated from 22 locations nationwide. Our business is structured into both geographical strategic business units (SBUs) and service lines (streams). Our practice management departments (PMDs) support the SBUs and streams.

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

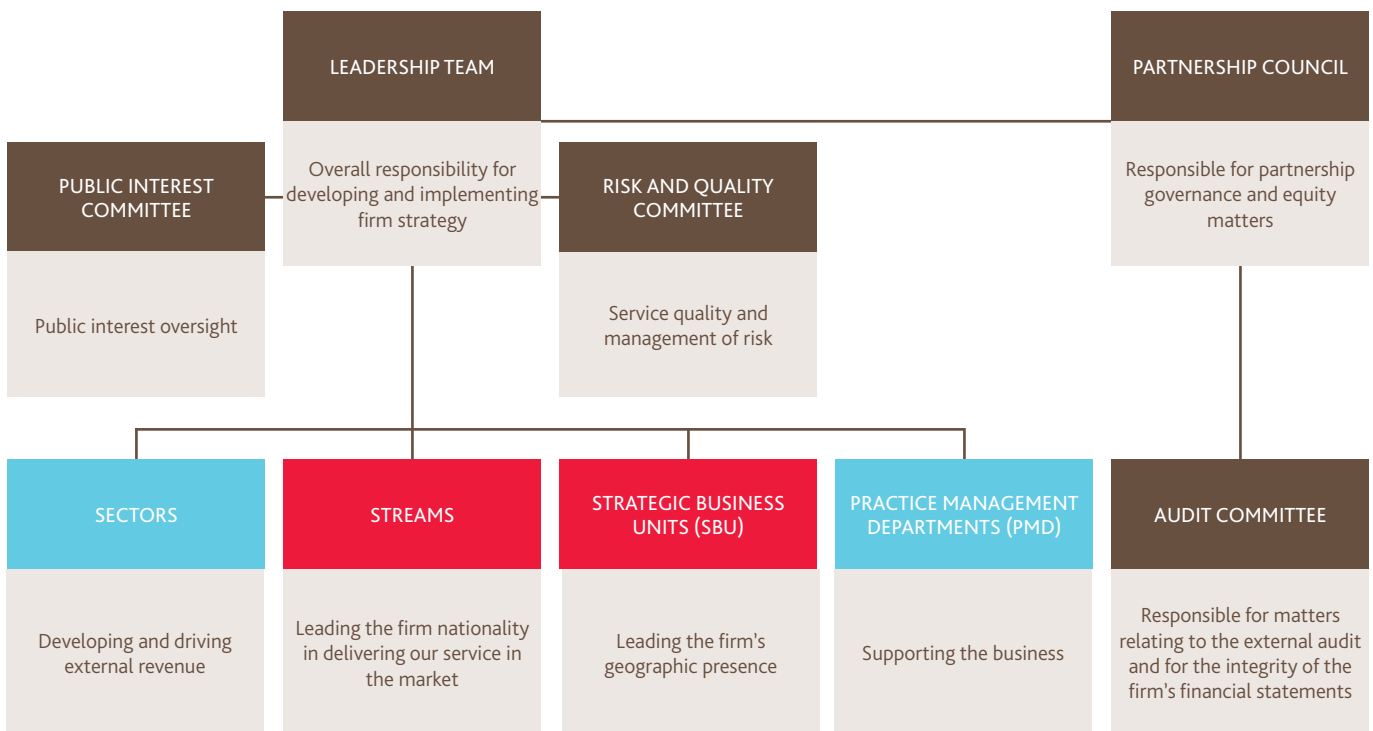
The firm has a wholly owned subsidiary, BDO Corporate Finance (Middle East) LLP, registered in the Dubai International Financial Centre and authorised and regulated by the Dubai Financial Services Authority. BDO Corporate Finance (Middle East) LLP provides corporate finance advice and other specialist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

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

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



GOVERNANCE STRUCTURE OF THE UK FIRM



Managing partner and leadership team

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

The Managing Partner appoints the Leadership Team. The Leadership Team is approved by the Partnership Council. In addition to the Managing Partner, the Leadership Team comprises seven executive members together with two Independent

Non Executives (INEs) who add value to the firm by bringing independent challenge and improved governance.

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

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

The Managing Partner maintains an ongoing dialogue with the wider firm through regular business updates on strategy and development to all partners and employees

(including a formal six monthly update on the performance of the business) as well as periodic engagement sessions, giving individuals at all levels the opportunity to raise questions and issues directly with him.

Following a formal review of how best practice in relation to the Audit Firm Governance Code has developed, a formal Public Interest Committee (PIC) was created. Further details on the terms of reference of the PIC are given on page 36. The annual report from the PIC can be found in section 3.

APPENDIX D

GOVERNANCE STRUCTURE – UK FIRM

Public Interest Committee

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

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

The PIC's public report can be found in section 3 of this Transparency Report. The PIC also report internally to the firm's Partnership Council and Leadership Team, as appropriate.

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

Independent Non-Executives

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

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

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

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

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

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

Senior Partner

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

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

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

Partnership Council

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

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

Audit Committee

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

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

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

Risk and Quality Committee

The Risk and Quality Committee (R&Q Committee) met bi-monthly. At the R&Q Committee meeting on 8 October 2013, it was agreed that the R&Q Committee would meet once a month. The R&Q Committee has responsibility for ensuring appropriate strategies and plans are drawn up, implemented and monitored to ensure the effective management of risk and

the delivery of quality services consistent with the firm's strategy. This includes understanding and monitoring all the risks facing BDO as a business (be they strategic, reputational, financial, operational) and for scrutinising the processes in place within the business for managing and mitigating these risks. Additionally, emphasis is placed on ensuring the firm, in conducting its activities, has due regard to ethics and properly takes the public interest into consideration.

The R&Q Committee is responsible for:

- Promoting a risk management and quality culture throughout the firm based on ethical standards, laws and professional regulations and standards, best practice and professional scepticism
 - Monitoring and evaluating the exposure and risk profile of the activities of the firm and assessing the firm's appetite for risk
 - Ensuring that the firm has a comprehensive map of risk to the business
 - Monitoring changes in risk profile and ensuring appropriate responses are initiated
 - Reviewing and evaluating the resources devoted by streams and the firm, centrally, to risk and quality
 - Reviewing and evaluating the risks arising from the development of new or amended services
 - Monitoring whether all areas of service delivery meet the required levels of quality and following up where necessary
 - Monitoring the success of implemented plans against requirements and making changes where necessary
- Monitoring compliance with professional standards and regulations and the firm's policies and guidelines through cold review programmes and other procedures and reviewing cold review programme results to identify opportunities for improvement and focus
 - Approving significant risk and quality policies and material changes of such policies
 - Promoting effective management of practice protection issues (claims and regulatory investigations)
 - Sharing knowledge and best practice on risk and quality matters across the firm.

Audit Stream Executive

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

The role of the ASE is to:

- Ensure audit quality remains at the top of our agenda
- Develop and deliver the national audit stream strategy
- Monitor commercial and regulatory activity in the audit market
- Support practitioners to be successful in the market
- Set audit stream policies and procedures
- Create a culture of consultation and support
- Provide oversight of quality, licensing and rotation.



APPENDIX D

GOVERNANCE STRUCTURE – UK FIRM

Partner group meetings

Certain matters are specifically reserved for decision by all partners. Arrangements for voting are laid down by the Members' Agreement and reckonable votes (which reflect profit sharing entitlements) are determined by the Partnership Council at each annual profit sharing review. The partner group meets at least once per year and the most recent all partner group meeting took place in December 2013.

During June 2014 the Leadership Team met with all partners through a series of six meetings with groups of about 50 partners each, and this was an integral part of the process of ongoing engagement regarding our strategy and operational performance and priorities.

**PARTNER REMUNERATION****Members' profit shares**

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

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

A number of criteria are used in assessing the performance of each partner. These include quality and risk management, delivering exceptional client service, technical excellence, growing and developing our people, contributing to the firm's financial success and growing our brand and reputation. Partners are subject to annual performance development reviews which include feedback on the quality of the relevant partner's work and 360 degree feedback from staff and peers. The performance development review includes a risk and quality grading by the relevant stream executive. If a partner receives a risk and quality grading of 'requires improvement' it will have a direct impact on their remuneration. In forming these gradings for Audit Partners, the Audit Stream Executive draw upon factors such as: the results of external and internal audit file reviews and other ad-hoc reviews, attendance or involvement in training courses, additional responsibilities such as Engagement Quality Control Reviewer roles, and other individual initiatives contributing towards firm-wide quality. Audit partners are not remunerated by reference to the sale of non-audit services to entities they audit.

Capital, loans and drawings

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

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

Salaried partners do not subscribe capital or loan requirements.

FINANCIAL PERFORMANCE

REVENUE	2014 £m	2014 %	2013 £m	2013 %
Audit	131	33%	106	34%
Advisory	158	40%	120	38%
Tax	103	27%	86	28%
Total	392	100%	312	100%
Audit and directly related services	131	33%	106	34%
Non-audit work – entities audited by the firm	50	13%	44	14%
Non-audit work – entities not audited by the firm	211	54%	162	52%
Total	392	100%	312	100%
Operating profit - Audit	28		20	

Note: Unless stated otherwise, all disclosures above are unaudited

* Including our Belfast Firm which operates under a licence.

The results of BDO LLP for 2013 include those of PKF (UK) LLP for the 14 weeks from the date of acquisition.

Audit comprises statutory audit work and directly related services.

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



APPENDIX F

MEMBERS OF THE FIRM'S GOVERNANCE STRUCTURES AT 4 JULY 2014

LEADERSHIP TEAM

The executive members of the Leadership Team at 4 July 2014, all of whom are based in the London office, are:



SIMON MICHAELS

MANAGING PARTNER

Simon's role is to lead BDO in the UK with overall responsibility for strategy, building our brand and reputation and ensuring that the correct tone at the top is set in relation to risk and quality, growth and investment.

He represents the firm on the Global Board of BDO International Limited and has oversight of partner development and performance. Simon was elected to serve as Managing Partner with effect from 5 July 2008 and was re-elected during 2012 for a second term which expires on 30 September 2016.



PAUL ENGLAND

HEAD OF PROFESSIONAL SERVICES AND TAX

Paul ensures the development and execution of national strategy for all professional services including P&L, sales and people plans, risk and quality, technical/knowledge sharing/best practice and business models.

He is responsible for going to market, including Markets, Sales and Clients (MSC) and sectors. He is also responsible for the tax P&L and development and delivery of related strategy, including sales and people plans. Paul is a tax partner and has served on the Leadership Team since 5 July 2008.



MARTIN GOODCHILD

HEAD OF PRACTICE PROTECTION

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

JEFF JONES

HEAD OF ADVISORY

Jeff is responsible for the development and delivery of Advisory strategy, risk and quality and supports development of advisory cross-stream working including sales and people plans.

His direct reports are the Heads of Advisory streams who ensure development and execution of national strategy and business models/P&Ls. Jeff has served on the Leadership Team since 1 April 2009.



SCOTT KNIGHT

HEAD OF AUDIT AND ASSURANCE

Scott has responsibility for the development and delivery of Audit and Assurance strategy, including sales and people plans, risk and quality, technical/knowledge sharing/best practice and business model/P&L.

He is an audit partner and was appointed to serve on the Leadership Team on 1 April 2014.



GERVASE MACGREGOR

HEAD OF INTERNATIONAL ADVISORY AND QUALITY AND RISK

Gervase is responsible for setting the firm-wide risk framework and policies, provision of education and ensuring adherence. He represents the firm on the BDO International Advisory Leadership Group and chairs the BDO International Risk Committee.

He is a forensic services partner and has served on the Leadership Team since 5 July 2008.



APPENDIX F

MEMBERS OF THE FIRM'S GOVERNANCE STRUCTURES AT 4 JULY 2014



MARK SHERFIELD

CHIEF OPERATING OFFICER (COO)

Mark works alongside the Managing Partner, Head of Professional Services and Finance Partner in the operational running of the firm and is responsible for people leadership and PMD budgets and performance.

He is specifically responsible for HR, L&D and IT. He chairs our inclusion steering group. He has served on the Leadership Team since 1 January 2010.



CALUM STEWART

FINANCE PARTNER

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



LESLEY MACDONAGH

INDEPENDENT NON-EXECUTIVE

Lesley had an impressive legal career at the international law firm, Lovells (now Hogan Lovells). She was the first female managing partner of a top ten law firm, and during her terms as Managing Partner, the firm doubled in size and expanded to 27 locations around the world, becoming the sixth largest law firm in the world. Lesley has had a portfolio of non-executive directorships which has included Segro (formerly Slough Estates) and Bovis Homes Group plc (both FTSE listed companies). Lesley is currently a non-executive director of the University of Law, the first 'for profit' university, and is on the board of Speechly Bircham, the City-based law firm. Lesley has been an INE at the firm for six years and has chaired the Leadership Team meetings at BDO since October 2010. In Lesley's absence, Leadership Team meetings are chaired by the Managing Partner. Lesley is a member of our inclusion steering group.



INDEPENDENT NON-EXECUTIVES

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

SIMON FIGGIS

INDEPENDENT NON-EXECUTIVE

Simon Figgis has a distinctive mix of accountancy and business advisory experience. Joining KPMG (then Peat Marwick) in 1977, his career spanned audit, corporate finance, transaction services and litigation support advice. When Simon retired from KPMG he was Head of Audit Quality and Risk Management, overseeing quality in 19 countries across Europe and the Middle East. He has led significant global audits including FTSE 100 companies across various sectors, such as consumer and industrial markets, aerospace and defence and business services. He is also a non-executive member of the Army Independent Assurance Committee, and a Trustee of the Marine Society & Sea Cadets. Simon was appointed as an INE on 1 October 2013 and chairs the Public Interest Committee and is a member of the Risk and Quality Committee.



APPENDIX F

MEMBERS OF THE FIRM'S GOVERNANCE STRUCTURES AT 4 JULY 2014

PUBLIC INTEREST COMMITTEE

The Public Interest Committee at 4 July 2014 comprised the following members:

Name	Title
Simon Figgis (Chair)	Independent Non-Executive
Lesley MacDonagh	Independent Non-Executive
David Isherwood	Ethics Partner

SENIOR PARTNER

The Senior Partner at 4 July 2014 was Mark Bomer. Mark was elected as Senior Partner with effect from 21 June 2011 and was re-elected during the year for a second term, which expires on 30 September 2018.

He is a member of our inclusion steering group and is our representative at the 30% Club and its professional services sub-group, which are committed to seeing more women on the boards of UK companies.

PARTNERSHIP COUNCIL

The Partnership Council at 4 July 2014 comprised the following members:

Name	Title
Mark Bomer (Chair)	Senior Partner
Simon Michaels	Managing Partner
Additional Leadership Team representatives:	
Paul Eagland	Head of Professional Services and Tax
Martin Goodchild	Head of Practice Protection
Elected Partners:	
Solly Benaim	Audit Partner
Ian Bingham	Tax Partner
Richard Citron	Tax Partner
Malcolm Cohen	Business Restructuring Partner
Stuart Collins	Audit Partner
Gary Hanson	Audit Partner
David Pooler	Tax Partner
Dermot Power	Business Restructuring Partner
Martha Thompson	Business Restructuring Partner
Wendy Walton	Tax Partner
Matthew White	Audit Partner Chair of the Audit Committee
Rhodri Whitlock	Audit Partner



AUDIT COMMITTEE

The Audit Committee at 4 July 2014 comprised the following members:

Name	Title
Mark Bomer	Senior Partner
Matthew White (Chair)	Audit Partner
Stuart Collins	Audit Partner
Gary Hanson	Audit Partner

RISK AND QUALITY COMMITTEE

The R&Q Committee at 4 July 2014 comprised the following members:

Name	Title
Iain Lawson (Chair)	Head of Risk and Quality
Paul Eagland	Head of Professional Services and Tax
Simon Figgis	Independent Non Executive
Martin Goodchild	Head of Practice Protection
Jeff Jones	Head of National Advisory
Scott Knight	Head of Audit and Assurance
Nicole Kissun	Head of Technical Standards Group
Gervase MacGregor	Head of International Advisory and Risk and Quality
Pauline McGee	Head of Risk Management Unit
Simon Michaels	Managing Partner



APPENDIX G

LEADERSHIP AND GOVERNANCE MEETING ATTENDANCE IN THE YEAR ENDED 4 JULY 2014

		Leadership Team	Partnership Council	Public Interest Committee	Audit Committee	Risk and Quality Committee ¹
Number of meetings held:		11	13	2		10
Name	Position	Number of meetings attended				
Simon Michaels²	Managing Partner	11	11			9
Paul Eagland	Head of Professional Services & Tax	10	10			7
Martin Goodchild	Head of Practice Protection	10	12			9
Jeff Jones	National Head of Advisory	11				9
Scott Knight	Head of Audit and Assurance (Appointed 01/04/2014)	4				4
Gervase Macgregor	Head of International Advisory and Risk and Quality	10				4
Mark Sherfield	Chief Operating Officer	10				
Calum Stewart	Finance Partner (Stood down from R&Q Committee on 08/10/2013)	10				1
Simon Figgis	Independent Non-Executive (Appointed 01/10/2013)	8		2		9
Lesley MacDonagh	Independent Non-Executive (Chair of Leadership Team)	10		2		
Mark Bomer	Senior Partner	10	13			
Solly Benaim	Audit Partner		13			
Ian Bingham	Tax Partner		12			
Richard Citron	Tax Partner		12			
Malcolm Cohen	Business Restructuring Partner		13			
Stuart Collins	Audit Partner		11			
Gary Hanson	Audit Partner		13			
Terry Jones	Tax Partner (Stood down 30/11/2013)		8			
David Pooler	Tax Partner (Appointed 06/01/2014)		4			
Dermot Power	Business Restructuring Partner		13			
Martha Thompson	Business Restructuring Partner		13			
Wendy Walton	Tax Partner (Appointed 07/04/2014)		2			
Matthew White	Audit Partner (Chair of Audit Committee)		13			
Rhodri Whitlock	Audit Partner		10			
Don Williams	Audit Partner (Stood down 07/04/2014)		9			
David Isherwood	Ethics Partner			2		
Iain Lowson³	Head of Risk & Quality (Chair of R&Q Committee)					9
Pauline McGee	Head of Risk Management Unit					10
Nicole Kissun	Head of Technical Standards Group					9

1 As part of the merger, the membership of the Risk & Quality Committee was revisited

2 The Managing Partner attends Public Interest Committee meetings by invitation. During the year he attended both Public Interest Committee meetings.

3 The Head of Risk & Quality attends Leadership Team meetings by invitation. During the year he attended eight Leadership Team meetings in part.

PUBLIC INTEREST AUDITED ENTITIES

A list of public interest entities as at 1 September 2014 is set out below. For the purposes of this transparency report, public interest entities are defined as 'an issuer'.

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

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

Audit clients listed on a EU regulated market		
Acencia Debt Strategies Limited	Albion Development VCT PLC	Albion Enterprise VCT PLC
Albion Income & Growth VCT PLC	Albion Prime VCT PLC	Albion Technology & General VCT PLC
Albion Venture Capital Trust PLC	Alpha Pyrenees Trust Limited	Alpha Real Trust Limited
Alpha Tiger Property Trust	Amati Global Investors VCT 2 plc	Amey Lagan Roads Financial Plc
Amicus Horizon Finance PLC	Anglo Eastern Plantations PLC	Better Capital PCC Limited
Bisichi Mining plc	British Smaller Companies VCT	bwin.party digital entertainment plc
Castings PLC	Chrysalis VCT Plc	City of London Group Plc
Crown Place VCT PLC	Diamond Resorts International Inc	Downing Planned Exit VCT 2011 plc
Downing Planned Exit VCT 6 plc	Downing Planned Exit VCT 7 plc	Downing Planned Exit VCT 8 plc
Downing Planned Exit VCT 9 plc	Downing Structured Opportunities VCT 1 plc	Downing Three VCT PLC
Downing Two VCT PLC	Duncannon CRE CDO 1 Plc	Eco City Vehicles Plc
Elderstreet VCT plc	Empiric Student Property Plc	Endeavour SCH plc
Eurocastle Investments Limited	European Real Estate Investment Trust Limited	Fishawack plc
Fordgate Commercial Securitisation No 1 plc	Funding for Homes Ltd.	Greencoat UK Wind plc
Greka Drilling Limited	Gresham Computing Plc	Gresham House plc
Hargreave Hale AIM VCT 1 PLC	Hargreave Hale AIM VCT 2 PLC	Haynes Publishing Group plc
Hazel Renewable Energy VCT 1 plc	Hazel Renewable Energy VCT 2 plc	Income & Growth VCT plc
IP Group Plc	Juturna (European Loan Conduit No 16) Plc	Kyiv Finance Plc
Law Debenture Corporation	Malina Financing 2013-1 plc	Mallett Plc
Meridian Hospital Company Plc	Mobeus Income & Growth VCT 2 plc	Mobeus Income & Growth VCT 4 plc
Mobeus Income & Growth VCT plc	Morpheus (European Loan Conduit No 19) Plc	NATS (en route) PLC
North Midland Construction plc	Octopus AIM VCT plc	Octopus Second AIM VCT plc
Pacific Quay Finance plc	Persus (European Loan Conduit No 22) Plc	Peterborough (Progress Health) Plc
Petra Diamonds Limited	PICTS PLC	Playtech Plc
Proven Growth & Income VCT plc	Proven VCT plc	Radamantis (European Loan Conduit No. 24) plc
Randgold Resources Limited	River and Mercantile Group Limited	Social Impact VCT plc
Soho House UK Limited	Solar Financing 2012-1 Plc	Sopheon Plc
Sustainable Communities for Leeds (Finance) Plc	Telecom Plus plc	The Cayenne Trust plc
Titon Holdings plc	Tomco Energy Plc	Triad Group Plc
Tritax Big Box REIT Plc	Triton (European Loan Conduit No.26)	Ulysses (European Loan Conduit No.27)
Unicorn AIM VCT PLC	Urban & Civic Plc	Ventus 2 VCT plc
Ventus VCT plc	Wereldhave Property Corporation plc	White City Property Finance PLC

APPENDIX I

ETHICS AND INDEPENDENCE

INTEGRITY, OBJECTIVITY AND INDEPENDENCE

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

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

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

International conflict of interest checks are performed using the network's computerised, bespoke conflict checking system. The system initiates conflict checks for either separate countries, group of countries or worldwide, logs responses and keeps a detailed audit trail for future use. If a conflict is identified, RMU assists with conflict resolution. Solutions are tailor made to each situation. Where appropriate we seek informed consent and if required ensure that teams, the location of those teams and the servers used for the work are kept separate. Chinese walls and the use of a wall partner are other tools used to manage conflicts. Where in our opinion, a conflict is not manageable, or where it cannot be managed to the satisfaction of all parties then we decline to act.



FINANCIAL, BUSINESS, EMPLOYMENT AND PERSONAL RELATIONSHIPS

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

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

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

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

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

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

LONG ASSOCIATION WITH THE AUDIT ENGAGEMENT

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

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

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

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

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

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

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

Partners, staff and their immediate family members may only accept a gift, favour, or other personal material benefit from any client (or clients' officers or employees) or introducers of work to the firm or any other organisation or individuals including suppliers to the firm who may benefit or be seen to benefit from their relationship with the firm if it satisfies the criteria set out in the firm's gifts policy.

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



APPENDIX I

ETHICS AND INDEPENDENCE

NON-AUDIT SERVICES PROVIDED TO ENTITIES AUDITED BY THE FIRM

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

The provision and approval of non-audit services is specifically reviewed at an engagement level as part of the firm's Audit Quality Assurance programme that involves examining a selection of audit files.

WHISTLEBLOWING

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

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

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

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

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

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

INTERNAL REVIEW OF INDEPENDENCE PRACTICES

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

- An annual declaration undertaken by all partners and staff, a sample of which are reviewed by RMU. All exceptions are reviewed and investigated by RMU.
- The Audit Quality Assurance programme examines a selection of audit files on an annual basis as explained in section 4.
- Regular and ad hoc monitoring activities targeting specific aspects of audit independence.

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



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