

LARKING GOWEN

TRANSPARENCY REPORT 2016

BACKGROUND TO THE REPORT

In accordance with the Statutory Auditors (Transparency) Instrument 2008, issued by the Professional Oversight Board, we submit our transparency report for the period 1 April 2015 to 30 April 2016.

This report, which covers the period 1 April 2015 to 30 April 2016, is Larking Gowen's sixth transparency report.

1. Legal structure and ownership

The practice includes the partnership Larking Gowen and a limited company Larking Gowen Limited each of which provided statutory audit services as well as a range of other accounting services including taxation and general business advice in the period. A further company, Larking Gowen Corporate Finance Ltd, provided corporate finance and associated accountancy services in the period however in December 2015 these activities were transferred in full to the Larking Gowen Partnership and the company ceased to trade.

As part of a group reorganisation and simplification the dormant Larking Gowen Corporate Finance Limited and Larking Gowen Holdings Limited (also not trading), were liquidated in March 2016.

The partnership currently has 24 partners. Larking Gowen Limited is owned by certain of the Larking Gowen partners. The firm operates from main offices in Norwich and Ipswich and has a further seven offices in Norfolk, Suffolk and Essex. There are no overseas branches.

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

2. MHA

Larking Gowen is one of eight members of MHA. MHA is an independent association of accountancy firms from across the UK which exists to provide its clients with an extended range of services and expertise together with a broader geographical coverage. Each member firm of MHA remains wholly independent and retains its own identity locally whilst representing the association in its respective region.

The MHA association is a member of the International Accounting Network, Baker Tilly International. We do not believe that there are any wider implications for Larking Gowen arising from MHA's membership of the BTI network as Larking Gowen is an independent member of MHA. Arrandco Investments Ltd is the registered owner of the UK trademark for Baker Tilly and its associated logo.

3. Governance and management

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

1. A chairman (David Whitehead), elected from the equity partners, acts as a focal point for pastoral care of individual partners.
2. A managing partner (Jon Woolston) is elected by the partners to act as the main operational executive. The managing partner and three further partners (Philip Moy, Julie Grimmer and Grant Pilcher) form the firm's Board. The Board's primary responsibility is to determine the strategic focus of the firm and to oversee the implementation of the firm's Business Plan. The Business Plan is subject to periodic review and approval by the partners.

For internal reporting purposes the firm is organised into four divisions being Corporate, Business & Private, Agriculture and Tax Advisory.

4. Internal quality control systems

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

Leadership responsibilities for quality within the firm

The firm's Board assumes ultimate responsibility for the firm's systems of quality control. Operational responsibilities for the firm's quality control system are assigned to the firm's Audit Compliance Principal (Julie Grimmer) and the Audit Monitoring Partner (Charlie Savory, previously Steven Rudd to 31 March 2016) who are assisted by the firm's Audit Forum (a group of nominated senior audit specialists from across the firm). The ACP and AMP report to the Board and policies are communicated to audit staff via the firm's Audit Forum and at regular in-house training sessions.

Ethical requirements

The firm's Ethics Partner (Richard Proctor, previously David Whitehead to 31 March 2016) advises on specific ethical questions as necessary. The firm has an Ethics Manual, based on the Mercia Manual, which contains its general and specific policies on the application of the APB Ethical Standards. This is contained on the firm's intranet and is included in regular staff training.

Acceptance and continuance of client relationships and specific engagements

New appointments are only accepted after considering potential ethical threats and whether the firm has sufficient skills and resources to perform the audit. This includes appropriate sector specific knowledge and experience for more specialised areas.

Human resources

Our policy is to recruit and promote audit staff of a suitably high calibre. All our RIs are qualified with the ICAEW.

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

Engagement performance

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

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

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

Monitoring

Cold file reviews are performed on a risk assessed basis across the RIs. Any audit assignment may be selected for review, but the sampling method aims to ensure that any area previously identified as a weakness is covered. A suitably qualified external cold file reviewer is engaged to conduct the reviews. In February 2016, the review was conducted by an senior experienced auditor via our UK association MHA.

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

Statement on effectiveness of the internal quality control system

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

5. Independence procedures

In addition to the policies and procedures set out above on quality control, all partners and staff make a declaration of fit and proper status on joining the firm and on an annual basis thereafter. Fit and proper declarations are monitored by the Audit Monitoring Partner. Where circumstances change in the year, reports are made to both the relevant RI and the Audit Monitoring Partner. As part of the Fit & Proper assessment, all partners and staff are required to make an annual declaration of their own (and associates') financial interests.

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

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

6. Continuing professional development

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

- Internal technical training - delivered regularly by technical specialists and Audit Forum. During 2015, all auditors undertook an e-learning programme to ensure their detailed knowledge of FRS 102.
- An annual audit training day delivered by an external training organisation.
- At least one other relevant external course.

7. External Monitoring

The Quality Assurance Directorate ("QAD") of the ICAEW undertook a monitoring visit for both the Larking Gowen partnership and Larking Gowen Limited in September 2015.

8. Public interest entities

The firm issued audit reports on public interest entity Tex Holdings PLC (Premium listing on the London Stock Exchange) on:

21 April 2015 and 21 April 2016.

9. Financial information for the year (6 April to 5 April)

	2015/16 £,000	2014/15 £,000
Revenues from work on statutory audit work and directly related services	2,075	2,044
Revenue from non-audit services to audit clients	1,777	1,563
Revenue from non-audit services to non-audit clients	<u>12,856</u>	<u>11,775</u>
Total of the above	<u>16,708</u>	<u>15,382</u>

10. Basis of remuneration of partners

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

28 June 2016