



TRANSPARENCY REPORT

For the 53 weeks ended 5 July 2013

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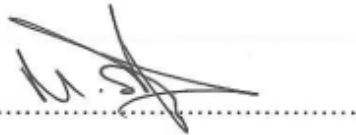
Regulations

Consequent to the adoption of the EU's 8th Directive on transparency reporting, the Professional Oversight Board published the Statutory Auditors (Transparency) Instrument 2008 in April 2008. These regulations require auditors of public interest entities to publish on their websites annual transparency reports and set out minimum requirements that such reports must meet, including information about themselves, systems of quality control and independence procedures and practices.

The following pages set out how we have addressed those areas covered by the Statutory Instrument. By providing information that is intended to assist in better understanding how our firm operates we believe that we meet the spirit as well as the letter of those requirements. We also believe that, by demonstrating the strength and quality of our audit processes and practices, this will contribute to a high level of confidence and trust both with our stakeholders and the wider business community.

Our statement on compliance with the provisions of the Audit Firm Governance Code (the Code) and our report on how we have applied in practice each of the principles of the Code is given in Appendix A.

Approved by Leadership Team on 17 September 2013



Mark Sherfield
Chief Operating Officer

1. INTRODUCTION

I am pleased to introduce our fifth annual transparency report for 2013.

The audit profession is seeing a continued emphasis on quality and independence. In driving positive change in corporate reporting and the market structure we operate in, we are proud to be at the forefront of this change.

This year, our merger with PKF (UK) LLP, saw us complete the first strategic, proactive merger in the UK accounting industry in 15 years. It's not only in the UK that we have seen a merger with PKF; over the last 12 months or so BDO merged with PKF teams in China and in Australia.



BDO is all about our clients and our merger with PKF has brought together two firms with real commitment to delivering exceptional service to every single one of those clients - old, new and soon to be. Merging with a firm of the quality and size of PKF has created one of the strongest firms focused on the mid-market, with the breadth and depth to work with ambitious businesses that want exceptional service and access to impressive UK and worldwide networks.

Both firms have long and proud histories. The merged firm is an opportunity for us to build on our respective successes and become a leading force in the market. Generating revenues approaching £400million, we are proud of a transformed regional network, employing 3,500 people across 23 UK locations. We've got talented people, an ambition to grow from this position of strength and firm financial foundations.

As a firm we are committed to quality across the organisation. It is, and will remain, central to our strategy: empowered people delivering exceptional client service.



.....
Simon Michaels
Managing Partner

17 September 2013

2. MESSAGE FROM THE HEAD OF AUDIT

There is, rightly, an increased focus on audit, both as regards its purpose and its quality. This is a legitimate matter of interest to our stakeholders and remains central to our commercial operations.

The need for quality in auditing is a 'non-negotiable' amongst our people. We directly link audit quality to reward within our business.

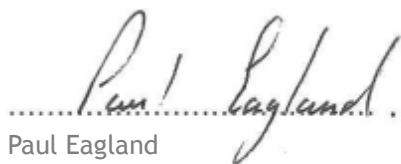
In our view, whilst quality clearly embraces technical excellence it is also a matter of culture. For example, our strategy: exceptional client service, delivered by empowered people, ensures we focus on less tangible (but no less important) service and delivery aspects of quality.

This last year has seen an unprecedented public and media interest in auditing and its role. The global debates on the effectiveness and relevance of audit, particularly in the light of the financial crisis of 2008, and the unsatisfactory competitive landscape of the audit profession are slowly coalescing. As I write this the UK Competition Commission (the Commission) has published its provisional remedies and is close to publishing its final report. Whilst the Commission has not addressed the fundamental question of how many firms are needed in the wider audit market beyond just the FTSE350, overall these remedies go a long way in setting a background against which firms will be capable of competing more fairly. We already act for some 30% of the FTSE 350 in one capacity or another, and we will be investing to ensure we grow our presence as auditors in that market; we will, however, continue to invest in our traditional mid-market heartland.

I genuinely hope that legislation in Europe follows the lead set by the Commission providing at least some consistency internationally.

The competition position, whilst vital, is tangential to audit quality. There remain fundamental barriers to audit quality which are inherent in the legal and professional framework in which we operate. Audit (and assurance) can only be effective if the underlying reporting to which it is applied is sound and relevant to users. At the moment it falls short. Financial reporting is seen as complex and inconsistent. Worthy attempts to counter these issues (such as the revisions to narrative reporting) are outweighed by the negative effects of other initiatives (such as new remuneration disclosure rules).

The use of IFRS and the extent of the identity of stakeholders are now open debates. Open, healthy debate is good; however, it must have a purpose. I am concerned that we may still be busy having these debates when investors (and other stakeholders) have concluded that annual reports and audits no longer form a central element in their decision-making process. We will be pressing for resolution.



Paul Eagland
Head of Audit

17 September 2013

3. 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).

On 28 March 2013, the firm acquired the business and relevant assets of PKF (UK) LLP ('PKF') and the enlarged firm trades as BDO LLP.

At 5 July 2013, there were 255 members.

A service company, BDO Services Limited, employs staff 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 and BDO Isle of Man are separate partnerships that are aligned to BDO LLP and operate within BDO LLP's territory.

Business structure

At 5 July 2013 our business operated from 23 locations nationwide. Our business is structured along both geographical and service lines.



Our newly merged firm offers services in three main areas: Audit, Tax and Advisory. Our Advisory business offers a comprehensive range of services:

- Mergers and Acquisitions
- Transaction Services
- Business Restructuring
- Management Consulting
- Global Outsourcing
- Forensics
- Risk Advisory Services (Internal Audit)

These business streams have dedicated teams of partners and professional staff nationwide tailoring high quality business solutions for their clients.

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

The firm has a 13.3% interest in 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. On 28 March 2013, BDO Limited acquired the trade and assets of PKF Channel Islands Limited and the enlarged business trades as BDO Limited.

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.

4. NETWORK

BDO LLP is a member firm of the BDO network.

The BDO network aims to deliver exceptional client service through:

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

Description of the network

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

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

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. 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 six 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. The Global Leadership Team meets monthly.

International committees comprising professionals from BDO Member Firms and/or of 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

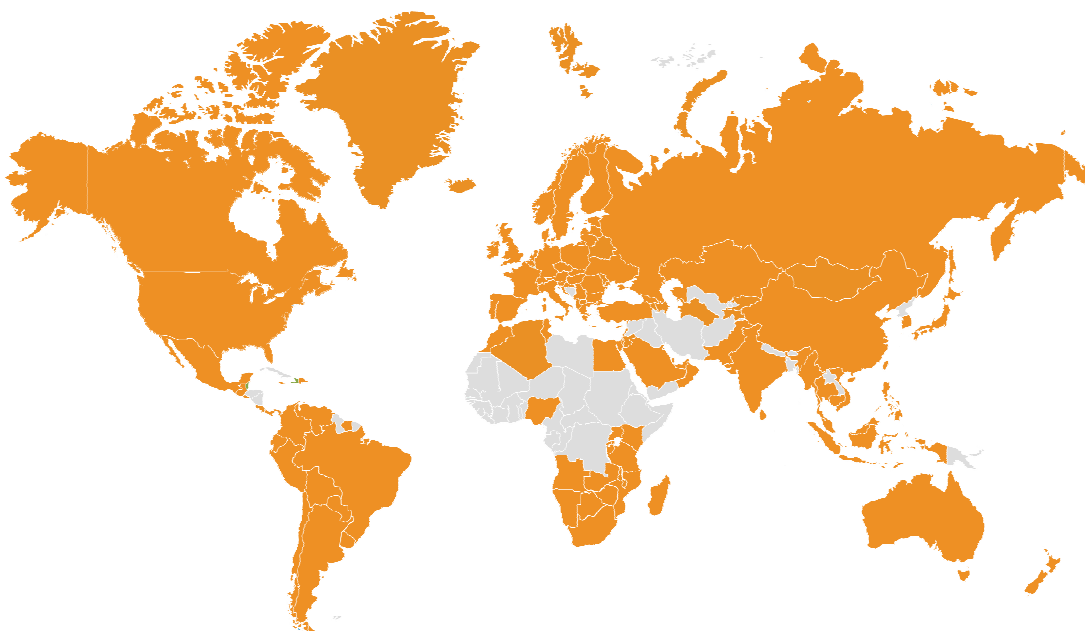
The committees are complemented by various other sub-groups, task forces and working parties.

Size of network

The global aggregated turnover for BDO Member Firms (including their exclusive Alliances) for the year ended 30 September 2012 was in excess of \$6.0bn. At 30 September 2012, the BDO network consisted of 104 member firms, operating in 138 countries with 1,204 offices. At 30 September 2012, the BDO network had almost 55,000 partners and staff.

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.

An International Liaison Partner in each member firm facilitates international referrals and the smooth running of projects and relationships to ensure clients receive an integrated service. At a national level, Country Co-ordinating Partners provide in-depth knowledge of the people and issues in individual countries.

Operations carried out centrally

At the direction of the Global Board, the CEO and the Global Leadership Team, operations including but not limited to those noted below are carried out centrally for the BDO network:

- Register, maintain and defend BDO's intellectual property rights
- Enter into worldwide agreements on behalf of BDO Member Firms, such as software licenses
- Develop and maintain BDO Audit Approach and software
- Coordinate the involvement of the BDO network in various large audit network groupings and international professional bodies
- Coordinate and submit network responses to certain consultations by regulators and policy makers in areas such as audit regulation, proposed technical standards, accounting issues generally and corporate governance
- Develop, organise and run training in audit, tax, advisory, human resources and IT
- Facilitate and support strategic secondments between member firms

- Organise and run conferences (international and regional)
- Carry out pre-admission reviews of candidate member firms
- Carry out quality assurance reviews
- Conduct the BDO Member Firm accreditation process
- Support member firm business lines (audit, accounting, tax and advisory) through international committees, global and regional Heads and Advisers
- Provide BDO Member Firms with access to IFRS support including BDO IFR (International Financial Reporting) Advisory Services
- Maintain and promote the BDO intranet and BDO international website
- Develop a corporate visual identity and an online brand centre with guidelines, templates and material for member firm publications and
- Publish and distribute the international directory of BDO Member Firms.

Sole recourse

Complementing the seamless international service we can offer international clients, via the BDO network, is a suite of 'sole recourse' protections designed to improve contracting arrangements on international assignments. Sole recourse was recommended by BDO International and, subject to local rules, is being adopted by member firms. Sole recourse was adopted by BDO LLP in October 2011. Pursuant to the sole recourse arrangements, clients' contracts and sole responsibility rests with the main contracting firm. In the event of any claims caused by a BDO sub-contractor, these are managed by the main contractor with any disputes with the BDO sub-contractor separately resolved. In this way, clients are not burdened with unnecessary additional contracts and have the confidence in knowing that any client service issues or claims can be resolved swiftly with their local relationship manager.

5. GOVERNANCE STRUCTURE OF THE UK FIRM

The Audit Stream is an integrated part of the firm and is subject to the same governance structure as all other business streams as follows:

Leadership Team

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

The Managing Partner appoints the Leadership Team. The Leadership Team is approved by the Partnership Council. The BDO/PKF Merger Agreement provided for the appointment of two former PKF partners to the Leadership Team until 30 June 2016. The Leadership Team at 5 July 2013 comprised the following members:



**Simon Michaels -
Managing Partner**

Simon's role is to lead BDO in the UK with overall responsibility for setting and delivering the strategy, running the business and ensuring we have the quality

reputation and clients that enable us to motivate and retain the best people. He has overall responsibility for building our brand and reputation and communications. Simon led the recent merger negotiations on behalf of BDO. He also represents the firm on the BDO International Global Board. Simon has been a partner for 15 years and Managing Partner since 5 July 2008. Simon was re-elected to serve as Managing Partner for a second four year term with effect from 1 October 2012.



**Paul England - Head of
Audit and Tax**

Paul ensures the development and execution of the national strategy, quality, technical/knowledge sharing and best practice/efficiency for tax

and audit; and takes responsibility for the growth and development of the two streams. Paul is also responsible on the Leadership Team for the financial performance of London Audit and Tax and Markets, Sales and Clients (MSC). He is a tax partner based in the London office. Paul has been a partner for 18 years and has served on the Leadership Team since 5 July 2008.



**Martin Goodchild -
Head of Regions**

Martin was appointed to the Leadership Team on 29 March 2013 following the merger with PKF. He is responsible for the financial performance of the audit and tax

streams in the regions and for the development and oversight of strategy for the regional offices. He was the Managing Partner of PKF (UK) LLP and led the merger negotiations on behalf of PKF. He is based in London.



**Jeff Jones - Head of
Advisory**

Jeff is responsible for the financial performance of Corporate Finance, Business Restructuring and Forensics and promoting the development of advisory cross-stream

working and our position in the market. In addition, Jeff works alongside the Chief Operating Officer on the people agenda. He is a business restructuring partner based in the London office. Jeff has been a partner for 13 years and has served on the Leadership Team since 1 April 2009.

**Gervase Macgregor - Head of International Advisory and Quality and Risk**

Gervase is responsible for quality and risk and regulatory matters together with advisory client service matters. He

is a forensic services partner based in the London office. Gervase has been a partner for 23 years and has served on the Leadership Team since 5 July 2008.

**Mark Sherfield - Chief Operating Officer (COO)**

Mark supports the Managing Partner and oversees business planning across the firm, operational efficiency and improvement, and

integration of the practice management departments (PMDs). He has responsibility for our people agenda, with the Head of HR and the Head of Talent, Development and Resourcing reporting in. Mark also has operational responsibility for the IT PMD. Mark has been a partner for 14 years and has served on the Leadership Team since 1 January 2010.

**Calum Stewart - Finance Partner**

Calum was appointed to the Leadership Team on 29 March 2013 following the merger with PKF (UK) LLP. He is responsible for partnership finance matters and has

operational responsibility for the finance and facilities PMDs. Calum was the finance partner for PKF. He is based in London.

The Leadership Team provides strategic and operational leadership to the firm. It met formally 10 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. Public interest matters are also dealt with by the Leadership Team.

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.

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 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 Leadership Team. Where ultimately the disagreement cannot be resolved and results in the resignation of the 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 Section 10.

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.

The firm allows for two independent non executives (INEs) as members of the Leadership Team who add value to the firm by bringing independent challenge and improved governance. One post

is held by Lesley MacDonagh who has been an INE at the firm for five years and a member of the Leadership Team since October 2010. The other post was held by Lord David Currie until 30 October 2012 when he resigned to take up appointment as Chair of the new Competition and Markets Authority (CMA). Simon Figgis has been appointed to fill the current INE vacancy with effect from 1 October 2013. One of the INEs is selected to chair Leadership Team meetings and this is currently undertaken by Lesley MacDonagh. In Lesley's absence, Leadership Team meetings are chaired by the Managing Partner. Simon Figgis will be a member of the Risk and Quality Committee.

**Lesley MacDonagh - INE**

Lesley has 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 chaired the Leadership Team meetings at BDO since October 2010.

**Simon Figgis - INE**

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 earlier this year, 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.

On 28 March 2013 at completion of the merger between PKF (UK) LLP and BDO LLP, the Audit Firm Governance Code ceased to apply to PKF and Ian Davies and Alan Jenkins resigned as independent non-executives of PKF.

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 strategic business unit (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.



The Senior Partner at 5 July 2013 was Mark Bomer. Mark has been a partner for 13 years.

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 once a 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. Until 30 June 2016, three of the elected partners and one of the Leadership Team representatives are drawn from former PKF partners. Only the elected partners have voting rights. Other than the former PKF partners nominated until 30 June 2016, elected partners are elected for a four year term, with a maximum of two consecutive terms. Partners can be re-elected after a break of two years.

The Partnership Council at 5 July 2013 comprised the following members:

Name	Title
Mark Bomer (Chair)	Senior Partner
Simon Michaels	Managing Partner
Additional Leadership Team representatives:	
Paul Eagland	Head of Audit and Tax
Martin Goodchild	Head of Regions
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
Terry Jones	Tax Partner
Dermot Power	Business Restructuring Partner
Martha Thompson	Business Restructuring Partner
Matthew White	Audit Partner Chair of the Audit Committee
Rhodri Whitlock	Audit Partner
Don Williams	Audit Partner

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 at 5 July 2013 comprised the following members:

Name	Title
Mark Bomer	Senior Partner
Matthew White	Audit Partner Chair of the Audit Committee
Stuart Collins	Audit Partner
Gary Hanson	Audit Partner

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

In January 2013, following the dissolution of the Risk Executive, the firm made changes to the remit and composition of its Risk Committee to ensure the revised committee provides enhanced oversight of risk and quality matters affecting the firm. The committee was renamed the Risk and Quality Committee.

The Risk and Quality Committee meets bi-monthly with 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 Risk and Quality 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.

The Risk and Quality Committee at 5 July 2013 comprised the following members:

Name	Title
Iain Lawson (Chair)	Head of Risk and Quality
Paul Eagland	Head of Audit and Tax
Martin Goodchild	Head of Regions
Jeff Jones	Head of National Advisory
Nicole Kissun	Technical Standards Group Lead Partner
Gervase MacGregor	Leadership Team member responsible for quality and risk
Pauline McGee	Head of Risk Management Unit
Simon Michaels	Managing Partner
Calum Stewart	Finance Partner

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 February 2013.

A series of meetings with smaller groups of partners took place in June 2013 as part of the merger integration process.

6. RISK MANAGEMENT AND INTERNAL CONTROL

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

The Leadership Team has overall responsibility for the firm's system of internal control and for reviewing its effectiveness. SBU, Stream and PMD Leaders are responsible for the day to day implementation and monitoring of this system, incorporating financial, operational and compliance controls and risk management systems.

The firm has a system of internal control, tailored to our business, which is summarised in the Commercial Controls Framework (CCF). The CCF has been developed by the firm to record high level risks for the firm, and the associated controls to manage those risks. It is recognised that the firm will have a significant number of risks and associated controls. All of the material risks/controls are captured in aggregate within this framework.

In recognition of the importance of good governance the Leadership Team has engaged during the year in a review of the CCF at the highest level. This review was designed to ensure that relevant risks to the enlarged firm were identified and that appropriate systems of control were in place to address these risks. This has been captured in a 'Top 10' risk map.

The systems and processes that make up the system of internal controls, including those inherited following the merger, have been subject to review as a part of the merger integration process. The systems and processes of both firms have been reviewed and assessed, resulting in agreement on the implementation of the most appropriate and effective controls for the enlarged firm.

In view of the focus on ensuring that effective systems and processes are in place to address all key control requirements of the enlarged firm, there has been limited testing of these controls. During 2013/14, a risk based approach will be re-introduced to ensure that the effectiveness of a selected number of controls identified in the CCF are tested on an annual basis.

The procedures described above were designed to ensure that necessary actions are taken to remedy any weaknesses identified in the system of internal controls of the enlarged firm.

7. INTERNAL QUALITY CONTROL SYSTEM

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

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

Following the merger, steps are being taken to identify differences in policies and procedures in the enlarged firm and to harmonise these over time.

The firm's system of internal quality control can be split into the following elements:

- Leadership responsibilities for quality within the firm
- Ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Human resources
- Engagement performance in the Audit Stream
- Monitoring of the Audit Stream.

a. Leadership responsibilities for quality within the firm

Quality control is dependent upon an organisational structure which is inherently sound and which clearly defines the responsibilities of the various levels of management.

The Leadership Team and the whole firm are committed to quality work, the public interest and professional judgement and our values of:

- Honesty and integrity
- Taking personal responsibility
- Mutual support and
- Strong and personal client relationships.

The firm has clearly established responsibilities for the Managing Partner, the Senior Partner and other senior personnel.

The Managing Partner and the Leadership Team devise and implement the firm's business strategy and manage operational issues.

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. The Audit Stream 'tone at the top' is set by the Head of Audit and the firm's Audit Compliance Partner.

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 streams objectives, through action planning and communication with local SBUs. At 5 July 2013, the ASE comprised the following members:

- Paul Eagland - Head of Audit
- Iain Lowson - Head of Risk and Quality
- Mark Hunt - Audit Partner
- Nicole Kissun - Technical Standards Group Lead Partner
- Tim Drew - Audit Partner
- Tony Perkins - Head of London Audit Group
- Allan Evans - Head of Markets, Sales and Clients
- James Roberts - Audit Partner
- Michael Goldstein - Audit Partner
- Scott Knight - Audit Partner
- Tim Entwistle - Audit Partner
- Zoe Bailey - ASE Operations Director

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.

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

TSG, reporting to the Head of Risk and Quality, is inter alia 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 staff
- Helping maintain the firm's audit practice to the highest standards prevailing in the profession, including the supervision of the firm's audit work
- 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 inter alia is responsible for the following:

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

b. Ethical requirements

The firm's policies relating to ethical conduct are set out on detailed pages on the firm's intranet and in the BDO UK Audit Manual. These are supplemented by helpsheets and complemented by a comprehensive training programme designed to ensure compliance with International and UK Ethical Standards, as appropriate. Annual declarations are made by all partners and staff to monitor compliance with relevant ethical requirements. The firm's 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.

c. Acceptance and continuance of client relationships and specific engagements

Robust client and engagement acceptance procedures play a pivotal role in the firm's ability to deliver a professional and quality service.

Before we enter into a relationship with any prospective client, and throughout the firm's 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 clients require pre-approval by designated senior partners within the business stream and, in certain circumstances, by the Head of Risk and Quality.

d. Human resources

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

- Recruitment
- Performance development
- Capabilities and competence
- Career development and progression
- Resource management.

Recruitment

Policies and procedures for recruitment are designed to provide reasonable assurance that those employed possess the appropriate attributes to enable them to deliver a high quality service and perform their duties with professional competence.

We work actively to ensure we have an inclusive culture where everyone has an opportunity to develop and progress regardless of their differences. Inclusivity within the organisation strengthens the firm's values, makes the firm more representative and more capable of providing a quality professional service.

We seek people with high levels of intelligence, stability, maturity, integrity, motivation, aptitude and leadership qualities appropriate to the role for which they are being hired.

We continuously seek, and adopt, the most up to date and relevant recruitment selection tools and processes which aim to improve the quality and fit of those joining us.

We work proactively to source a high number of vacancies via direct resourcing channels and continuously re-evaluate our marketing. We have a competitive Employee Introduction Scheme, which encourages referrals into the firm.

HR management regularly reviews all recruitment policies and procedures to ensure that they are appropriate and are operating effectively.

Performance development

Our people receive formal performance development reviews twice per year as well as regular discussions and coaching to support their performance in order to evaluate the level of competence, monitor learning and development activities and to help them reach their full potential.

Reviews provide the opportunity for:

- Discussion of an individual's contribution to the quality of service provided
- Identification of development areas and planned professional development
- Communication of performance ratings (scored on a 1-5 basis) and

- Reflection (annually) of 360 degree feedback provided by direct reports, peers and line managers/partners.

Reviews are also completed on an assignment-by-assignment basis by trainees and audit seniors as well as at six month intervals at all levels. The factors evaluated (which may vary by level) include work performance and general contribution, professional and technical competence, and other core competences required for the execution of their duties.

Capabilities and competence

Policies and procedures for assigning our people to engagements are designed such that only those persons having adequate technical proficiency and competence will perform the work, taking into account the size, nature and complexity of each engagement. A current profile of technical proficiency is obtained by personal knowledge, by reviewing evaluation forms from previous engagements. Technical training is provided by our suite of IPD and CPD level courses (including online and traditional classroom based delivery mechanisms). The learning outcomes for these training programmes are reviewed annually and against the role requirements at each grade.

Our catalogue of learning and development opportunities, including the award winning 'Find it Win it Grow it', is designed to ensure that our people are fully competent and constantly developing.

Career development and progression

We address career development on an individual, SBU and national basis. Our people are promoted to the next level only when they are prepared for the increased responsibilities that promotion entails.

For a promotion to be awarded a business case must be identified and the individual must have demonstrated attainment of the competences required for that role. In addition, promotion to the roles of Audit Manager, Director and Partner are subject to demonstration of the competences via assessment centres and technical interviews.

Audit specific career guidance is provided to individuals and their mentors through the Career and Performance Wheel and learning maps which are available on the firm's intranet.

Non-compliance with the firm's policies and professional standards is also identified through internal and external reviews and feedback on Audit Quality. Lack of compliance is responded to by additional training, delays in promotion or through dismissal for serious instances of non-compliance.

Resource management

We recognise that ultimately it is the ability and commitment of our people that really makes a difference and enables us to deliver a quality audit. Given this, our ability to attract the right number of high quality people is of utmost importance. We determine our resource requirements 12 to 18 months in advance factoring in current and future client needs so as to continue to maintain audit quality.

e. Engagement performance in the Audit Stream

Common approach

Our policies and procedures are designed to ensure that audits meet all applicable professional standards, regulatory requirements and that the firm issues reports that are appropriate in the circumstances. To achieve this and to ensure consistency in the approach to auditing, the firm has contributed to the development of the common BDO Audit Approach, related software tools and other standard forms of documentation. This approach is fully compliant with International Standards on Auditing and these common processes are used by BDO Member Firms.

The BDO Audit Approach is scalable and designed to be applied to all entities, whether small or large, to ensure that all audits are carried out to a consistently high standard. The successful application of the BDO Audit Approach depends on its intelligent application throughout the audit process by our people, drawing on the firm's knowledge, experience and support mechanisms. In carrying out our work we observe the following principles:

- Independence and objectivity
- Diligence
- Professional judgement
- Professional scepticism.

Supervision and review

We require all professional work to be supervised by those people who have appropriate knowledge and experience. It is the responsibility of the relevant Responsible Individual (RI) to ensure that related risks are identified and that decisions are taken by those with an appropriate level of experience. The relevant RI must also ensure that professional work is carried out efficiently, with appropriate scepticism, and that it meets the firm's standards in all respects.

The RI shall, through a review of the audit documentation and discussion with the engagement team, be satisfied 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 possesses the level of knowledge and competence related to accounting, auditing, and financial reporting required to serve as the person who has overall responsibility for the same type of engagement, and be knowledgeable and familiar with the client's industry, but will be independent from the client's audit team. They would ordinarily be an experienced audit partner and not likely to be unduly influenced by the views of a particular audit engagement partner. The engagement quality control reviewer cannot be actively involved in making ongoing decisions relating to the engagement and will not be involved in performing the engagement.

Engagement quality control reviewers are selected by TSG from a list of approved

reviewers, as determined by the Head of Audit.

Consultation

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

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

f. Monitoring of the Audit Stream

Our policies and procedures concerning monitoring activities are designed to give the firm reasonable assurance that the firm's internal quality control system is operating effectively and is being complied with in practice.

Our quality control system includes an annual cold review process of audit files (the Audit Quality Assurance programme) to monitor compliance with the firm's policies, procedures and standards and to ensure that the work done to arrive at an opinion is both adequate and properly documented.

The review consists of reviewing, on a sample basis, the working papers and reports of selected audit engagements and documentation of compliance with our quality control policies and procedures in other areas. The sample is selected to ensure that each audit RI is subject to review at least once every two years and at least 60% of all RIs are reviewed in any one year.

A designated partner is responsible for monitoring and documenting the implementation of, and compliance with, any corrective actions.

The process is managed by TSG and each review team is headed by an experienced audit partner or the Quality Assurance Director. Each team also includes one member of TSG. Where the sample includes a specialist client such as a charity, appropriate internal specialists are involved in the review.

Independence of the reviewers is ensured through having each partner reviewed by a team from an SBU other than the partner's own and through TSG selecting the review teams and the partners subject to review.

Briefing sessions are given to all review team leaders and selected review team members. In advance of the review, instructions are issued to the reviewers which include:

- The objectives of the process
- A checklist
- Appropriate guidance
- Reporting templates.

Management statement on effectiveness of functioning

These policies, procedures, monitoring and review activities have provided the firm's management with reasonable assurance over the effectiveness of the firm's internal quality control system and that the firm, its partners and staff have materially complied with applicable professional, regulatory and legal requirements and that audit work has been performed to a consistently high standard.

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 (FRC) Audit Quality Review (AQR), the regulatory inspections by the Quality Assurance Directorate (QAD) and other regulators in reaching this opinion.

8. MONITORING OF QUALITY CONTROL

The last completed visit of the firm by the FRC's Audit Quality Review team took place in the period from July 2012 to November 2012. The firm received the final copy of their report on 21 March 2013. The public report setting out the principal findings arising from the inspection in respect of the two years to 31 March 2013 is available on the FRC website (www.frc.org.uk).

The last audit review visit by the QAD of the ICAEW took place in Autumn 2012.

9. PUBLIC INTEREST ENTITIES

A list of public interest entities as at 17 September 2013 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; and
- b) The audit of which is a statutory audit within the meaning of section 1210 of the Companies Act 2006.’

Audit clients listed on an EU regulated market:		
888 Holdings Plc	Abbeycrest Plc	Acencia Debt Strategies Limited
Albion Development VCT PLC	Albion Enterprise VCT PLC	Albion Income & Growth VCT PLC
Albion Technology & General VCT PLC	Albion Venture Capital Trust PLC	Alpha Pyrenees Trust Limited
Amati Global Investors VCT 2 plc	Amey Lagan Roads Financial plc	Anglo Eastern Plantations PLC
Better Capital PCC Ltd	Bisichi Mining plc	bwin.party Digital Entertainment Plc
Castings PLC	Chrysalis VCT Plc	City of London Group Plc
Derwent London Plc	DMGT plc	Downing Absolute Income VCT 1 plc
Downing Absolute Income VCT 2 plc	Downing Income VCT 4 plc	Downing Income VCT plc
Downing Planned Exit VCT 2 plc	Downing Planned Exit VCT 2011 plc	Downing Planned Exit VCT 3 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 I plc	Elderstreet VCT plc
Endeavour SCH plc	Eurocastle Investment Limited	F&C Commercial Property Trust Ltd
Fordgate Commercial Securitisation No 1 plc	Funding for Homes Ltd	Greencoat Wind Fund plc
Gresham Computing Plc	Gresham House plc	Hargraves Hale AIM VCT 1plc
Hargreaves Hale AIM VCT 2 plc	Haynes Publishing Group plc	Hazel Renewable Energy VCT 1 plc
Hazel Renewable Energy VCT 2 plc	HR Owen Plc	Income & Growth VCT plc
IP Group Plc	JUTURNA (EUROPEAN LOAN CONDIUT NO 16) Plc	Kyiv Finance plc
London and Quadrant Housing Trust Limited	LondonMetric Property Plc	Mallett Plc
Meridian Hospital Company Plc	MORPHEUS (EUROPEAN LOAN CONDUIT NO 19)	MWB Group Holdings plc
North Midland Construction plc	Octopus AIM VCT plc	Octopus Second AIM VCT plc
Pacific Quay Finance plc	Petra Diamonds Limited	PICTS PLC
Playtech PLC	Proven VCT plc	Quadrant Housing Finance Limited
Randgold Resources Limited	Rockberries PLC	RSM Tenon Group plc
Tarsus Group plc	Telecom Plus plc	The Cayenne Trust plc
The Law Debenture Corporation Plc	The Narborough Plantations PLC	Titon Holdings plc
TRIAD GROUP PLC	Triton (European Loan Conduit No.26) Plc	Ulysses (European Loan Conduit No 27) Plc
Unicorn AIM VCT plc	Ventus 2 VCT plc	Ventus VCT plc
White City Property Finance PLC	Worldwide Water Technologies Plc	

10. INDEPENDENCE

In relation to independence, the firm has detailed internal guidance setting out the policies and procedures designed to meet the principles and the requirements of the Auditing Practices Board's Ethical Standards and other international standards as applicable. This guidance is complemented by extensive advice on consultation and training programmes targeting the needs of the individual partners and staff.

These policies and procedures cover, inter alia, our relationships with audit clients, rotation of audit partners, fees and the provision of non-audit services to audit clients. They meet, and in many instances exceed, those that are promulgated by the APB Ethical Standards, IFAC 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 are required to comply with, and annually report as to their compliance with, the IFAC Code of Ethics.

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 7f.
- 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. A summary of the firm's key policies and procedures relating to independence are set out below:

Integrity, objectivity and independence

If the partner identifies threats to the firm's objectivity, including any perceived loss of independence, they should 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 should not accept or continue to provide that service to the client.

Audit engagement partners are required to communicate to Those Charged With Governance on a timely basis 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 for non-listed and listed clients.

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.

Where we are being asked to work cross border BDO's International Liaison manager sends an email to the International Liaison Partners (ILP) in the relevant countries. The ILP circulates the details to their conflict of interest email group with responses going directly to the UK prospective project partner. Incoming conflict enquiries from member firms are circulated by the International Liaison manager around our conflict of interest mail group.

When a conflict is identified, RMU assists with conflict resolution, if required. 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

The firm has policies in place that prohibit the firm, partners, staff and members of their immediate family holding a financial interest in an audit client or an affiliate of an audit client.

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

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

Employment type relationships with clients are rare and approval procedures are in place before any such situation can be established.

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

The annual declaration process seeks confirmation from partners and staff that the firm's policies surrounding financial, business, employment and personal relationships have been complied with. A sample of annual declarations is reviewed by RMU. All exceptions are reviewed and investigated by RMU and the Ethics Partner.

Long association with the audit engagement

The firm's policies are in accordance with Ethical Standard 3 (Revised October 2009)

Long association with the audit engagement (ES3) notably that:

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

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

Fees, remuneration and evaluation policies, litigation, gifts and hospitality

Ordinarily contingency 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.

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

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

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

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

Non-audit services provided to audit clients

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

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 which involves examining a selection of audit files as noted in section 7f.

11. 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. The firm 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 staff member in breach of this.

Wherever possible, the firm 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.

The firm would wish to deal with any disclosure internally by following its 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.

12. PROFESSIONAL DEVELOPMENT

We are committed to developing and maintaining the highest possible standards of technical competence through our own professional development programmes.

We have developed a curriculum for members of the audit stream which includes:

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

This curriculum reflects individual roles within the audit stream and responsibilities to be undertaken throughout their careers - encouraging above all application of professional judgement and professional scepticism skills.

At initial professional development (IPD) levels, for all trainee audit professionals, there is an intensive orientation programme covering the firm's audit approach, tools, policies and procedures and its organisational structure. Additional IPD training is provided as a trainee progresses through their audit career. This includes access to online content as well as classroom and other forms of training. Training content is integrated alongside role requirements and content provided by professional qualifications to ensure that only the right people are performing the work at each level. This professional development is complemented by on the job coaching which provides a significant contribution to the professional development of trainees.

All qualified audit professionals, including managers, directors and partners, are provided with continuing professional development (CPD) annual update interventions in auditing and accounting and reporting matters, some of which are mandatory for certain individuals and elective for others, depending on their business focus and own professional development needs. In addition to technical workshops, additional content is provided on a more just in time basis throughout the year via a rolling programme of conference call and online learning. Additional training is also provided by sectors within the Audit Stream with support and guidance (including training) being provided to local offices by TSG. The firm requires participation in appropriate CPD programmes and monitors the fulfilment of programme obligations.

Professional development opportunities for our people are identified by grade and highlighted in biannually updated learning maps provided on the firm's intranet. The firm's learning management systems can be used to select, book and track attendance in online or workshop based activities.

New lateral hire audit professionals are reviewed on an individual basis and receive a programme of training appropriate to their role and responsibilities within the firm - this may include additional training based on prior experience in order to ensure that audit quality is being maintained. Lateral hires may also receive additional mentoring or peer support which may include shadowing colleagues prior to commencement of client work.

Our people are personally responsible for keeping up to date with the technical and professional skills which they need to successfully carry out the roles to which they are assigned. Technical guidance via monthly email updates, local office visits from TSG and other online technical training is also provided.

Performance development reviews reinforce the firm's emphasis on lifelong learning and the continuous development of skills and attitudes including professional judgement and professional scepticism. As part of an individual's performance development review, initial and continuing professional development needs are discussed and courses, online support tools, workshops or other learning and development opportunities are identified using the firm's published learning maps and career wheel. Specific on the job training opportunities may also be identified in order to further develop technical and professional skills; this may include international secondments or secondments to industry as well as additional mentoring or coaching.

13. FINANCIAL INFORMATION

Stream Analysis of National Turnover*	2013 Turnover £m	2012 Turnover £m
Audit	111	96
Business Restructuring	36	36
Consultancy	6	3
Corporate Finance	29	31
Forensic Services	44	37
Tax	86	80
	312	283

Audit and non-audit clients	2013 Turnover £m	2012 Turnover £m
Revenue from Audit Clients	150	138
Revenue from Non-Audit Clients	162	145

Audit clients	2013 Turnover £m	2012 Turnover £m
Audit Revenue From Audit Clients	106	94
Non-Audit Revenue From Audit Clients		
- Business Restructuring	1	1
- Corporate Finance	8	9
- Forensic Services	2	2
- Tax	33	32

Stream analysis of group operating profit	2013 £m	2012 audited £m
Audit	20	20
Business Restructuring	8	8
Corporate Finance	1	1
Forensic Services	9	10
Tax	23	24
Unallocated	(14)	(11)
	47	52

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 as noted in Section 3.

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.

14. 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.

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 online 360 degree feedback from staff and peers. The performance development review includes a quality grading and commentary by the relevant stream executive. In forming these comments and gradings for Audit Partners, the ASE 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 their audit clients.

Capital, loans and drawings

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

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

Salaried partners do not subscribe capital or loan requirements.

APPENDIX 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 except for principles C.1 and D.2 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 which are reserved for the 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 on-going 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

In 2010, we welcomed the publication of the Audit Firm Governance Code ('the Code'). We remain committed to the Code and continue to consider whether our detailed structures and governance procedures to 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.

At BDO public interest matters are considered by the Leadership Team not a separate body set up to meet the requirements of the Code. Since 1 October 2010, the Leadership Team meetings have been chaired by Lesley MacDonagh, one of the INEs. The constitution of our Risk and Quality Committee allows for an INE to be a member.

As noted on page 13, there has been a vacancy for one INE since 1 November 2012. In view of the merger, it was determined that appointment of a replacement would not take place until after the completion of the merger. A new INE, Simon Figgis has been appointed with effect from 1 October 2013.

Lesley MacDonagh met with the Partnership Council during the year to discuss matters relating to her remit under the Code.

Section 5 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 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 in Section 5. 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 Section 10.

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 6 of our Transparency Report includes further details on:

- The internal audit function's activities
- The reviews performed by the firm in 2012/13.

In view of the focus on ensuring that effective systems and processes are in place to address all key control requirements of the enlarged firm post merger, there has been

limited testing of controls which did not constitute a full review of the effectiveness of the firm's system of internal control for the purposes of Provision D.2.1 of the Code.

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

During 2013/14, a risk based approach will be re-introduced to ensure that the effectiveness of a selected number of controls identified in the CCF are tested on an annual basis.

D.3 People management principle

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

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

D.4 Whistleblowing principle

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

Further information on our whistleblowing policy is given in section 11.

REPORTING

E.1 Internal reporting principle

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

E.2 Financial statements principle

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

E.3 Management commentary principle

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

E.4 Governance reporting principle

This statement forms the required statement under E.4. Our Transparency Report for the 53 weeks ended 5 July 2013 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 Structure of the 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.	Section 5: Governance Structure of the UK Firm Appendix B: Leadership and Governance Meeting Attendance in the year ended 5 July 2013
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	Section 5: 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 10: 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 6: Risk Management and Internal Control
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 6: Risk Management and Internal Control

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: LEADERSHIP AND GOVERNANCE MEETING ATTENDANCE IN THE YEAR ENDED 5 JULY 2013

Number of meetings held		Leadership Team	Partnership Council	Audit Committee	Risk and Quality Committee ¹	Risk Committee ²	Risk Executive ³
		10	15	3	2	1	5
Name	Position	Number of meetings attended					
Simon Michaels	Managing Partner	10	15		2		
Paul Ealand	Head of Audit & Tax	10	10		2		
Martin Goodchild	Head of Regions (Appointed 29/03/2013)	1	2		-		
Jeff Jones	National Head of Advisory (Appointed to Risk & Quality Committee on 29/03/2013)	9			1		
Gervase Macgregor	Head of Quality & Risk and Advisory (International)	10			2		
Mark Sherfield	Chief Operating Officer (Stood down from Risk & Quality Committee on 29/03/2013)	9			1	-	
Calum Stewart	Finance Partner (Appointed 29/03/2013)	2			1		
Lord David Currie	Independent Non-Executive (Stood down from the firm 30/10/2012)	3				1	
Lesley MacDonagh	Independent Non-Executive (Chair of Leadership Team)	9	1				
Mark Bomer	Senior Partner	8	15	3			
Solly Benaim	Audit Partner		14				
Ian Bingham	Tax Partner (Appointed 29/03/2013)		2				
Roger Buckley	Corporate Finance Partner (until 30/09/2012)		6				
Richard Citron	Tax Partner		13				
Malcolm Cohen	Business Restructuring Partner (Appointed 1/10/2013)		10				
Stuart Collins	Audit Partner (Appointed 29/03/2013)		2	1			
Russell Field	Audit Partner (until 30/09/2012)		6				
Angela Foyle	Tax Partner (stood down on 28/03/2013)		11	2	1		

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

² Changes to the firm's Risk Committee are noted in Section 5 of this report.

³ Following the changes made to the remit and composition of the firm's Risk Committee, the Risk Executive was disbanded after the February 2013 meeting.

Number of meetings held		Leadership Team	Partnership Council	Audit Committee	Risk and Quality Committee ¹	Risk Committee ²	Risk Executive ³
		10	15	3	2	1	5
Name	Position	Number of meetings attended					
Chris Grove	Corporate Finance Partner (stood down 30/09/2012)		3				
Gary Hanson	Audit Partner		13	3			
Terry Jones	Tax Partner		14				
Stuart Lisle	Tax Partner (Appointed 1/10/2012, stood down 28/03/2013)		8				
David Pooler	Tax Partner (Appointed 1/10/2012, stood down 28/03/2013)		6				
Dermot Power	Business Restructuring Partner		12				
Martha Thompson	Business Restructuring Partner		15				
Matthew White	Audit Partner Chair of Audit Committee		12	3			
Rhodri Whitlock	Audit Partner (Appointed 29/03/2013)		2				
Don Williams	Audit Partner (Appointed 1/10/2013)		9				
Iain Lawson	Head of Risk & Quality (Stood down on 29/03/2013)				2	1	5
Shay Bannon	(Stood down on 29/03/2013)				1		
Andrew Dumbleton	(Stood down on 29/03/2013)				1		
Pauline McGee	Head of Risk Management Unit (Appointed 29/03/2013)				1		
Nicole Kissun	Technical Standards Group Lead Partner (Appointed 29/03/2013)				1		
Simon Watson	Global Outsourcing Partner (Stood down on 29/03/2013)				1		
Chris Clarke	Head of Internal Audit					1	4
Adam Culy	General Counsel					1	4
Simon Brooker	Audit Partner (Stood down from Risk & Quality Committee on 29/03/2013)				1	1	
Tony Nygate	Business Restructuring Partner					1	
Brent Wilkinson	Forensic Partner					1	5
Graham Elsworth	Corporate Finance Partner (Stood down from Risk & Quality Committee on				1	1	5

Number of meetings held		Leadership Team	Partnership Council	Audit Committee	Risk and Quality Committee ¹	Risk Committee ²	Risk Executive ³
		10	15	3	2	1	5
Name	Position	Number of meetings attended					
	29/03/2013)						
John Willmott	Tax Partner					1	
Geoff Kinlan	Business Restructuring Partner						2
Simon Martin	(in place of Geoff Kinlan)						3
Bob Miller	Tax Partner						5



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