

Transparency report 2009

Legal structure and governance

Our structure

Menzies LLP provides audit and related compliance services and is incorporated in the United Kingdom.

The majority of voting interests are owned by qualified individuals.

Menzies LLP are Registered Auditors and are regulated by the Institute of Chartered Accountants in England & Wales (ICAEW). Menzies LLP is also registered with the US Public Company Accounting Oversight Board (PCAOB).

As at 30 June 2009 Menzies LLP had 32 members, 21 of which had responsible individual status granted by the ICAEW.

Menzies LLP operates from 6 principal offices serving clients throughout the United Kingdom.

Governance

Management of Menzies LLP is delegated to a Management Committee. At 30 June 2009 the membership of the Management Committee was:

Mike Sands (Chief Executive and Chairman of the Management Committee)
Andrew Denley
Julie Adams
John Biffen

Election to membership of the Management Committee is subject to approval by a majority of full equity members of Menzies LLP. The Chief Executive may co-opt any one or more of the members or employees of the LLP to the Management Committee from time to time subject to the overriding control of the full equity members.

The Executive Committee meets regularly and its terms of reference includes reviewing the management and statutory accounts of Menzies LLP, regulatory compliance and considering the actions required to maintain quality of audit, operational performance and other assurance work performed. The Committee also has responsibilities for considering finance and human resources.

Menzies LLP also has working groups of members and employees with assigned responsibilities to cover the following areas:

Finance

The Finance Director is responsible for the Finance Department. Responsibilities include monitoring of work volumes, recoveries, the level of costs incurred and the amount of working capital utilised within the business.

Human resources

The Human Resources Director is responsible for the Human Resources Department. The Human Resources Director reviews and proposes changes, where appropriate, to the key policies affecting the relationship between the business and the employee, as well as dealing with day to day operational aspects.

The Human Resources Department are also responsible for the monitoring of the professional exam training of students studying for ACA, ACCA and other professional qualifications as well as training them for their professional lives, both technically and through a range of 'soft skills'. It is also responsible for the provision of post-qualification training for all other employees.

Technical

The Technical Committee, whose membership includes the Technical Partner and Technical Director, has responsibilities which include reviewing and developing the processes and procedures applied in the Assurance and Business Services departments including the development of the firm's audit methodology and documentation. They also consider developments in audit, ethical and financial reporting standards and the extent of guidance that needs to be provided to staff.

Maintaining quality

International Standard on Quality Control 1 (ISQC 1) is the standard setting out the 'whole firm' quality requirements for firms performing audits and similar engagements. Menzies LLP has in place policies and procedures to ensure all of the requirements of ISQC 1 are met throughout the audit practice. In addition, in formulating its policies and procedures, Menzies LLP has considered the Audit Quality Framework issued by the Financial Reporting Council.

Leadership responsibilities for quality

The Management Committee has overall leadership responsibility for audit quality. Operational responsibility for the development of appropriate policies and procedures has been delegated to the Technical Committee; and for the monitoring of compliance with those policies and procedures to the Technical Committee.

Ethical requirements

Menzies LLP has an Ethics Guidance Manual which is available to all staff on the firm's intranet. Where circumstances deem it necessary, or in those cases required by the Ethical Standards issued by the Auditing Practices Board, guidance on client specific matters is provided by the Ethics Partner.

Consideration of compliance with ethical standards is required at the commencement of each audit assignment as well as at completion and on signing the audit report. In addition, staff are trained to be constantly alert to factors that might indicate a conflict with a specific requirement in Ethical Standards both whilst carrying out audit assignments and at other times in their professional activities.

All members and employees are required to confirm in writing on an annual basis their independence from any financial interest in audit clients and whether or not they are subject to any criminal, civil or disciplinary action.

There is a policy of rotation of responsible individuals from audit assignments based on the requirements contained within Ethical Standards. Responsible individuals on listed clients are rotated after 5 years and consideration of the need to rotate on other high risk clients is made through discussion with the Ethics Partner. Compliance with the rotation policy is monitored on an annual basis through the reporting of proposed actions on specific clients to the Ethics Partner.

Acceptance and continuance of client relationships and specific assignments

Before accepting any new audit appointment, a number of procedures are undertaken to

ensure we will be able to provide the client with a high quality service based on our assessment of the risks associated with that client. These considerations include:

- Assessing the client's business including the industry sector within which it operates and the countries where those operations are carried out.
- Obtaining evidence as to the identity of the owners and officers of the business as well as considering other information about them.
- Assessing any potential risks in relation to independence or conflicts of interest.
- Inquiring of the previous auditors as to the circumstances surrounding the change in auditors.
- Assessing the skills and resources within the firm are able to provide the required services to the client.
- Assessing the level of credit risk associated with the underlying client.

Where there are significant concerns about the risks associated with a particular potential client, consultation is required. Dependent on the exact circumstances, this consultation will be with one or more of the head of the service, Technical Partner, office managing partner or Management Committee

The appropriateness of continuing to act for existing clients is considered at the end of each audit assignment taking into account matters that have come to our attention during the audit. These decisions are also updated at the time we plan the subsequent year's audit. Where necessary, similar consultation procedures as for prospective new clients are followed.

Human resources

We recognise that the quality of the audit services we provide are dependent on the quality of the people we employ. We have therefore put in place policies and procedures to ensure we recruit and retain competent and committed staff and directors.

All responsible individuals and the majority of employees working on audit engagements are either qualified accountants with the ICAEW, ICAS or the ACCA, or are training for qualifications with one of those bodies.

Our recruitment processes are designed to ensure we employ individuals with the skills and personal characteristics that will ensure the high quality of our services. All potential employees have at least two interviews with senior members of staff and members of our Human Resources department. References, including confirmation of relevant qualifications, are obtained for all potential staff members before they are offered employment.

The sufficiency of our staff resourcing to meet the requirements of our audit client base is monitored on a regular basis. This includes consideration of the client portfolios of individual managers and responsible individuals. Factors that we take into account include the complexity of the client, the need for specialist sector knowledge and timing of audit work.

Certain grades of staff are subject to evaluation on individual assignments whereby objectives are set at the outset of the assignment and subsequent performance is considered in the light of those objectives.

All employees have an Annual Development Review (ADR), with an interim review after six-months to assess progress on specific objectives set at the ADR. All members have an annual review. For all employees and members the quality of audit work is a specific matter considered as part of the ADR.

Detailed job descriptions are in place for all grades of staff and responsible individuals. These job descriptions outline not only the roles and responsibilities associated with the specific grade, but also the skills and competencies expected from that level. Promotion decisions are made based on whether or not an individual has attained the skills and competencies of the grade to which they will be promoted. For promotions to and within the management grades

and to responsible individual the business needs of Menzies LLP are also taken into account.

Assessment and remuneration of responsible individuals

As a consequence of the importance placed on responsible individual's overall responsibility for audit quality additional procedures are in place with respect to their ADRs. Information in respect of audit quality is obtained from a number of sources including both the internal quality control programme and the reviews of external regulators and records of attendance at mandatory training events. Specific audit quality related actions are then agreed with the responsible individual. Members of the Management Committee carry out the ADRs of all responsible individuals.

Responsible individuals receive a salary or profit share, the level of which is determined by a number of factors including experience, skills and contribution to the development of the firm. Remuneration is reviewed annually and audit quality is a factor specifically taken into account when determining the remuneration of responsible individuals. Bonuses may be awarded based on overall performance in the year, but no responsible individual is rewarded, either by bonus or profit share increase, as a result of their having identified an opportunity for the firm to provide non-audit services to an audit client.

Engagement performance

Our audit methodology and documentation is designed to ensure compliance with International Standards on Auditing (UK and Ireland) (ISA) and all other relevant requirements. Fundamental to our audit approach is the requirement to understand the client's business, consider the specific risks associated with that client and to tailor the audit work to address those risks.

The documentation is updated at least annually to take account of any changes in standards, recommendations from our internal quality monitoring reviews and those of our external regulators, together with suggestions from users to enhance operational efficiency. Specific training is provided to all staff and responsible individuals on any amendments.

The documentation is supported by a detailed audit manual containing additional guidance which is readily accessible by all audit staff. Additional guidance is also provided by the firm's Technical Department on emerging issues that may affect our audit teams.

Clarified and revised ISA will apply for audits of periods ending on or after 15 December 2010 and will require a number of changes to our methodology and documentation. The implementation of updated audit software and relevant training relevant to applying the new ISA's will be introduced within an appropriate timescale to ensure audit quality and engagement performance is maintained.

Responsible individuals take ultimate responsibility for the quality of individual audit assignments. All audit work is required to be carried out by a suitably experienced person and reviewed by someone who is more senior. Through these procedures we are able to ensure that work is being performed in accordance with the applicable standards and matters of significance are identified and properly addressed. In addition, the review procedure ensures that the documentation that is on the audit file is sufficient that an experienced auditor with no prior knowledge of the audit would be able to understand the work done and the conclusions reached.

All public interest clients are required to have an independent responsible individual assigned, who is selected on the basis of his or her experience and knowledge of the client's business sector. The independent responsible individual is required to be involved at key stages during the audit including planning, consideration of significant audit issues as they arise and completion. In addition the firm's Technical Director participates within the quality control procedures of each public interest entity.

In addition, a number of further criteria based on specific risks have been identified where a second responsible individual is required to be assigned to non-public interest clients. Consultation with the Technical Department is also required for all modified audit reports.

Both independent and second responsible individuals are selected by the Technical Partner or an alternate senior responsible individual where the Technical Partner is already involved in the audit assignment.

The financial statements of all listed companies are also required to be subject to a technical review by the Technical Director. Modified audit reports are also subject to review by the Technical Partner or suitably qualified alternate if the Technical Partner is not available.

Consultation between responsible individuals is encouraged and the requirements of internal procedures result in the involvement of a second responsible individual on a number of assignments.

Monitoring

Rolling annual quality control reviews are carried out in accordance with the monitoring requirement of the ICAEW. The reviews are carried out by the Technical Director under the direction of the Technical Partner. An annual summary report of the results of the quality control reviews is made to the Management Committee. An early ad-hoc report would be made to the Management Committee if the results of the review of an individual assignment made this necessary. The reviews cover, in any one year, completed audit assignments for all responsible individuals.

The review is designed to establish whether we are complying with our own internal procedures. The findings from the reviews together with an action plan are communicated to the relevant responsible individual and the Technical Partner. Recommendations are provided to the Management Committee as required.

In addition to the Annual Quality Monitoring review there ongoing focused reviews considering specific aspects of our procedures or documentation. The subject matter for these reviews is determined by the Technical Committee. The reviews typically focus either on a specific recommendation from the annual quality control review, external monitoring review or a current 'hot topic'.

Consideration of effectiveness

The Management Committee considers the appropriateness and effectiveness of the procedures in place based on information provided to it including the findings from quality monitoring reviews and external reviews. As Menzies LLP has a commitment to continuous improvement, in any one year, some albeit relatively minor, changes in procedures are inevitable, but in the current year none of the findings from reviews have required any major change in our procedures.

Commitment to competence

There is a comprehensive training programme which ensures that all staff receive training in Menzies LLP's audit procedures as well as developments in financial reporting and other technical areas. Attendance at certain key training courses as designed by the Technical Department and HR Director is mandatory for all qualified staff. Training is normally arranged such that there are alternative attendance dates. Attendance is monitored and alternative training is arranged where this is deemed necessary.

A range of 'personal development' training is also provided to all employees and members based on the development needs of the individual. Those members and employees working in specialist areas such as pension schemes, professional practices and financial services attend

both specialist in house training and, where appropriate, courses run by third parties.

On the job training is considered to be an important aspect of the development of our audit staff and more senior members of audit teams receive training in coaching and appraisal skills to enable them to play their role in maintaining quality.

In addition, the Technical Department provide regular technical updates on matters of timely importance to members and staff by way of email and the firm's intranet.

External monitoring

The last audit review visit by the Quality Assurance Directorate of the ICAEW took place in July 2009. The last Audit Inspection Unit's review also took place in July 2009.

Financial information

The financial statements of Menzies LLP for the year ended 30 June 2009 have not been completed to date, The turnover of the draft financial statements is approximately £25.6m. The income from audit services is estimated at £5.4m.

Public interest audit clients

As at 30 June 2009 Menzies had the following audit clients with either debt or equity listed on either the full list of the London Stock Exchange, the Alternative Investment Market or traded on PLUS.

@UK plc
Lo-q plc
Mallet plc
Nexus Management plc

Praxity

Menzies is a Member Firm in Praxity, the world's largest alliance of independent accounting firms with 109 participant firms in 72 countries. Praxity AISBL, is organised as an international not-for-profit entity under Belgium law. As an alliance, Praxity does not practice the profession of public accountancy or provide audit, tax, consulting or other professional services of any type to third parties. The alliance does not constitute a joint venture, partnership or network between participating firms. As the alliance firms are independent, Praxity does not guarantee the services or the quality of services provided by participating firms.

The Transparency Report has been prepared in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008, made by the Professional Oversight Board of the Financial Reporting Council.