

## **Background**

The Statutory Auditors (Transparency) Instrument 2008 requires audit firms that carry out statutory audits of public-interest entities to publish annual transparency reports on their websites, within three months of the end of each financial year.

## **Our structure**

Royce Peeling Green Limited, a wholly owned subsidiary of RPG Holdings Limited, provides audit and related compliance services. Both entities are incorporated in the United Kingdom. Royce Peeling Green Limited works alongside RPG Consulting Limited which provides a range of other financial advice and RPG Services Limited which provides payroll bureau services.

The majority of voting shares in RPG Holdings Limited are owned by qualified chartered accountants. RPG Holdings Limited directly owns the entire share capital of Royce Peeling Green Limited.

Both RPG Holdings Limited and Royce Peeling Green Limited (hereafter referred to jointly as Royce Peeling Green or the Firm) are Registered Auditors and are regulated by the Institute of Chartered Accountants in England & Wales (ICAEW).

As at 31 December 2010 Royce Peeling Green had eleven directors, five of whom had Responsible Individual (RI) status granted by the ICAEW.

Royce Peeling Green operates from three principal offices serving clients throughout the United Kingdom.

## **DFK International**

Royce Peeling Green is a member of DFK International, which is a major international association of over 200 independent accounting firms and business advisers that has been meeting the needs of clients with interests in more than one country for more than 45 years. A grouping of members who mainly include DFK in their firm's name are classified as network firms in compliance with EU and IFAC (International Federation of Accountants) requirements.

The association is a non-profit making organisation incorporated in the Netherlands and the Executive Office is located in London. Worldwide, the association has approximately 370 offices, 1,200 partners and 8,100 staff. Each DFK member is an independent legal entity in its own territory and, accordingly, no partnership or common control exists between them, nor do they share profits or losses. Aggregate fee income of member firms in the year ended 30 September 2010 was US\$1,093m.

DFK member firms elect a Board of Directors responsible for the direction and management of the association. The Board elects a President, Deputy President (President Elect) and three regional Vice Presidents. It also appoints an Executive Committee to lead and assist in implementing their responsibilities and the association's Strategic Plan. The President is currently Mike Tovey, Managing Partner of Chantrey Vellacott DFK LLP.

DFK UK & Ireland is a national association of independent accounting firms, established in 1996. It has a membership agreement and is affiliated with DFK International. The Chairman of DFK UK & Ireland is currently Mark Lamb, Business Development Partner at Chantrey Vellacott DFK LLP.

## **Governance**

Management of Royce Peeling Green is delegated to an Executive Committee. At 31 December 2010 the membership of the Executive Committee, together with details of other responsibilities the directors have within the firm, was:

- Chris Slater (Chief Executive and Chairman of the Executive Committee)
- Jonathan Brownson (Chief Operating Officer)
- Peter Buckley (Head of Business Services)

Election to membership of the Executive Committee is subject to the approval by shareholders holding a majority of ordinary shares in RPG Holdings Limited.

The Executive Committee meets regularly and its terms of reference include reviewing the management and statutory accounts, regulatory compliance and considering the actions required to maintain the quality of audit, operational performance and other assurance work performed.

The directors of Royce Peeling Green also participate in certain working committees which cover the following areas:

### *Finance*

Responsibilities include monitoring of work volumes, recoveries, the level of costs incurred and the amount of working capital utilised within the Firm.

### *Human resources*

Responsibilities include proposing changes, where appropriate, to the key policies affecting the relationship between the Firm and its employees, as well as dealing with day to day operational matters.

### *Quality monitoring*

The responsibilities of the Quality Monitoring Committee are considered in greater detail under Maintaining Quality below.

### *Technical*

The responsibilities of the Technical Committee include reviewing and developing the processes and procedures applied in the audit and assurance department including the development of the firm's audit methodology and documentation. The committee also considers developments in audit, ethical and financial reporting standards and the extent of guidance that needs to be provided to staff.

### *Learning and development (L&D)*

The L&D Committee is responsible for the monitoring of the professional exam training of students studying for either ACA or ACCA qualifications as well as training them for their professional lives, both technically and through a range of 'soft skills'. The L&D Committee are also responsible for the provision of post-qualification training for all directors and other employees.

All audit staff have access to the compliance departments of the Firm and DFK International and they provide guidance to audit staff in a number of important areas including agreeing terms of engagement and potential conflicts of interest.

In addition, independent external consultants provide support to the firm's audit and assurance department in respect of audit, financial reporting and certain ethical matters. None of the independent external consultants have any relationship to audit clients and they are therefore a committed research and advisory team who are available to all audit staff.

## **Independence**

Royce Peeling Green complies with the Auditing Practices Board's (APB's) Ethical Standards as well as the ICAEW Code of Ethics. To facilitate this the Firm has an Ethics Director who has responsibility for the Firm's policies and procedures relating to integrity, objectivity and independence and the Firm's compliance with APB Ethical Standards. Ethical guidance is contained on the firm's intranet.

Training on ethical matters is provided to all new joiners. Existing directors and staff receive training and guidance on ethical matters throughout the year as appropriate to their grade and role.

Annual declarations are made by all directors and staff to ensure compliance with relevant ethical requirements and, for each audit, independence is specifically considered at the planning and completion stage and any relevant matters are communicated to those concerned with management and governance.

## **Maintaining quality**

An annual report made by the Audit Compliance Director confirms that the Firm's procedures are in compliance with International Standard on Quality Control 1 (ISQC 1) and that individual audits have been undertaken in accordance with International Standards on Auditing (UK & Ireland) (ISAs), in particular ISA 220 concerning the quality control of audits.

Royce Peeling Green has in place policies and procedures to ensure all of the requirements of ISQC 1 are met throughout the audit practice as follows.

### *Leadership responsibilities for quality*

The Executive 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 Quality Monitoring Committee. Both committees report to the Executive Committee.

### *Ethical requirements*

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.

There is a policy of rotation of RIs from audit assignments based on the requirements contained within Ethical Standards. RIs 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 head of the relevant department. Compliance with the rotation policy is monitored on an annual basis through the reporting of proposed actions on specific clients to the Executive Committee.

Where an RI has acted for more than 10 years for unlisted clients, this will be identified and included on the control list held by the Firm. A hot file review may be arranged as an appropriate safeguard. However, for certain very low risk clients, the RI may take the view that no safeguard is to be implemented. If this course is taken this must be discussed with the Ethics Director, the reason for not putting safeguards in place must be recorded and the client notified in writing.

*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 whether 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.

Our systems of internal control do not permit any new client to be set up on our time and billing systems without evidence that certain of these procedures have been performed. 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 department for the office concerned, the National Head of Audit & Assurance or two or more experienced and independent RIs.

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 and training*

We recognise that the quality of the audit services we provide is 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 RIs and the majority of employees working on audit engagements are either qualified accountants with the ICAEW, Institute of Chartered Accountants of Scotland or the Association of Chartered Certified Accountants, or are training for qualifications with one of those bodies. The Firm also employs some staff with equivalent qualifications from overseas accountancy bodies or who have a number of years experience working on audit assignments.

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 directors. References, including confirmation of relevant qualifications, are obtained for all potential directors before they are unconditionally 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 RIs. Factors that we take into account include the complexity of the client, the need for specialist sector knowledge and timing of audit work.

All staff have an Annual Development Review (ADR), with an informal review after six-months to assess progress on specific objectives set at the ADR. RIs' performance is subject to review as part of the external audit compliance and practice assurance reviews. For all audit staff and RIs the quality of work is a specific matter considered as part of their review.

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 RI the business needs of Royce Peeling Green are also taken into account.

### *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 and external 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 RIs 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 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. A working party comprising the five RIs has been formed to consider the implications and to formulate a detailed implementation.

RIs 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 RI assigned, who is selected by the head of department or another senior director with no involvement with the audit client on the basis of his or her relevant audit experience and knowledge of the client's business sector. The independent RI is required to be involved at key stages during the audit including planning, consideration of significant audit issues as they arise and completion. The financial statements of all listed companies are also required to be subject to a technical review by the independent RI.

Consultation between RIs is encouraged and the requirements of internal procedures result in the involvement of a second RI on a number of assignments.

### *Monitoring*

The Quality Monitoring Committee is responsible for planning and co-ordinating the annual quality monitoring review of audit work. The reviews are carried out by external independent audit professionals with no connection to the assignments subject to review. The reviews cover, in any one year, completed audit assignments for all RIs who are therefore subject to review each year.

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 RIs and the Executive Committee. Recommendations are also included within the training programmes for all grades of staff and RIs.

In addition to the Annual Quality Monitoring review there is also a programme of more focused reviews considering specific aspects of our procedures or documentation. The subject matter for these reviews is determined by the National Head of Audit & Assurance. The reviews typically focus either on a specific recommendation from the annual review programme or a current 'hot topic'.

During 2010 the annual quality monitoring review of audit work took place in October and December 2010.

*Assessment and remuneration of responsible individuals*

As a consequence of the importance placed on RIs' 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 consultants and regulators and records of attendance at mandatory training events. Specific audit quality related actions are then agreed with the RI. The Quality Monitoring Committee is made aware of these objectives in order that they may be specifically considered in future quality control reviews.

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

*Consideration of effectiveness*

The Executive 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. Recommendations for improvements and refinements of existing procedures arising from quality monitoring reviews are communicated to all audit staff as soon as is practicable.

As Royce Peeling Green 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 outside those necessary to take account of clarified and revised ISAs from December 2010 onwards.

*Commitment to competence*

There is a comprehensive training programme which ensures that all relevant staff receive training in Royce Peeling Green's audit procedures as well as developments in financial reporting and other technical areas. Attendance at certain key training courses, including the annual Technical Training Day, is mandatory for all qualified staff. Attendance is monitored and those who were unable to attend are required to study the material to confirm their understanding.

A range of training is also provided to all staff and directors based on the development needs of the individual. Those directors and staff working in specialist areas such as pension schemes, charities and professional practices attend specialist courses run by third parties.

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

Regular technical alerts are made available to all staff.

**External monitoring**

The last audit review visit by the Quality Assurance Directorate of the ICAEW took place in April 2010.

**Financial information**

The turnover for Royce Peeling Green Limited which provides the statutory audit and related compliance services for the RPG Group was £3.5m for the year ended 31 December 2010 (2009: £3.4m) of which £0.8m related to audit services (2009: £0.7m). 2010 data is unaudited.

# ROYCE PEELING GREEN LIMITED

## TRANSPARENCY REPORT 2010

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### Public interest audit clients

As at 31 December 2010 Royce Peeling Green 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.

- Stavert Zigomala plc
- Totally plc

### Approval

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 and has been approved by the Executive Committee and is signed on its behalf by

**Chris Slater**

*Chief Executive and Chairman of the Executive Committee*

16 March 2011