

# Transparency Report 2010

This report by Scott-Moncrieff has been prepared to meet the requirements of the Statutory Auditors (Transparency) Instrument 2008 for the year ended 30 April 2010.

## **Introduction**

Our Transparency Report will provide you with a straight-forward and open view of what we do, why we do it, how we work and how we develop our people. It underpins the values of our firm and our efforts to sustain our clients, stakeholders and the wider marketplace's trust and continued confidence in Scott-Moncrieff.

We are committed to: conducting our work in an honest, objective and responsible fashion; delivering high quality advice and services to our clients and their stakeholders; and to contribute to the ongoing development of our profession, technical standards and our clients' economic success.

Our robust policies, governance, management and ethical guidelines are complemented by effective quality controls, an ongoing programme of review and risk monitoring and the quality of our partners and staff.

Our people are the foundation of our business reputation. We do not take for granted the trust placed in Scott-Moncrieff by our clients and their stakeholders and we make every effort to ensure that trust in our firm is maintained.

The responsibility for sustaining this trust rests with every individual in our firm and we are committed to continuing to invest in an environment which contributes to our partners' and staff's ongoing development, and independent appraisal, in terms of their technical excellence, professional acumen and their ability to make a difference to their own careers and to the sustainable success of our firm and our clients' businesses and organisations.

All of this runs in parallel with our strategy, which is to be recognised for adding real commercial value through the delivery of straight-forward and relevant solutions which recognise and understand our clients' ambitions – in other words, by helping our clients to serve their clients and stakeholders better.

### **Legal structure and ownership**

Scott-Moncrieff ("the Firm") is a Scottish partnership, wholly owned by its partners. At the date of this report, there were 17 partners in the firm.

Our principle services are Audit & Assurance, Business Advisory, Tax, and Corporate & Consulting Services, which includes Corporate Finance, Corporate Recovery and Business Technology & Consulting. These service groups have dedicated teams of partners and professional staff in both of our offices, which are located in Edinburgh and Glasgow.

### **Network arrangements**

Scott-Moncrieff is an independent member firm of Moore Stephens International Limited, which comprises 351 separate and independent member firms operating locally in countries around the world. Member firms offer assurance, accounting, tax and a range of other international business services across 98 countries through an aggregate of some 630 offices and 20,864 personnel.

Moore Stephens International Limited, a private limited company registered in England & Wales:

- promotes and provides assistance in connection with the development of high common standards, principles, strategies and policies to be applied by member firms;
- works for the uniform application of the standards, principles, strategies and policies including risk and quality standards and compliance with independence processes by all member firms. and
- promotes the Moore Stephens brand

Each member firm of Moore Stephens International Limited is separate and independent from both Moore Stephens International Limited and other member firms. Member firms of Moore Stephens International Limited do not share their respective profits or losses, they are not under common ownership or control, and each member firm appoints its own management.

### **Scott-Moncrieff governance**

For the year ended 30 April 2010, the Partnership Executive & Strategy Board was responsible for setting the firm's strategy, providing leadership on quality control and protecting the interests of the partners. It meets monthly.

Scott-Moncrieff's constitution is contained in the Partnership Agreement, which includes the processes for the appointment of the firm's managing partner, who serves a three year term, and the other members of the firm's Executive & Strategy Board, who also serve three year terms. The Executive & Strategy Board is chaired by the Managing Partner.

The Managing Partner is also responsible for the day-to-day management of the firm to ensure that agreed strategy is implemented.

#### Managing Partner

Nick Bennett

#### Executive & Strategy Board

Nick Bennett

Iain Lee

Stewart MacDonald

Robert Mackenzie

The Executive & Strategy Board continuously monitors developments in corporate governance and benchmarks the firm's performance against them. In addition, Scott-Moncrieff embraces best practice in a way that is relevant to its activities, the risk environment it faces and the needs of its clients and people. Detailed policies and procedures to support quality are communicated through our staff guide.

#### **Risk management**

The Executive & Strategy Board appoints the firm's Risk Management Group, which is responsible for advising on the key risks the firm faces and the effectiveness of the systems to control those risks.

Scott-Moncrieff has identified four principal areas of risk: financial, operational, strategic and professional.

Financial risks include working capital, liquidity and credit risk, which are managed by regular monitoring and review of exposure.

Operational risk is mitigated by a system of formal controls and processes and is backed up by the firm's disaster recovery and business continuity plans. Financial and operational risks are the responsibility of the Managing Partner, operating in conjunction with heads of department.

Strategic risk is monitored through the Executive & Strategy Board which has overall responsibility for the strategic direction of the business.

Professional risk is the responsibility of the Risk Management Group, which ensures that the quality, objectivity and independence of client services is maintained. This is done through well-managed client acceptance and engagement procedures, publication of guidance on the conduct of all professional services and the application of rigorous processes to identify and resolve conflicts of interest.

All partners and staff are required to submit an annual confirmation of regulatory compliance, which includes statements of independence. The Risk Management Group ensures the firm's compliance with the appropriate external regulations.

As part of his annual "whole firm review," the audit compliance principal reviews the signed confirmations of all partners and staff. In addition, confirmation of independence from an audited entity for all those engaged in the audit is required on an assignment by assignment basis, at both planning and completion stages.

### **Client Service Board**

The operational activities of the firm are organised and monitored by a head of client services in each of the four principal areas in which the firm is involved. The service heads are appointed by the Managing Partner, with whom they liaise on a day to day basis. Each service head serves for a period of 3 years.

The principal areas and service heads are:-

<b>Client Service</b>	<b>Service Head</b>
Audit and Assurance	Gillian Donald
Taxation	Paul Renz
Corporate and Consulting Services	Stewart MacDonald
Business Advisory	Donald Forsyth

Together, the four client service heads comprise the Client Service Board, which meets quarterly to set targets, monitor quality compliance, review progress and deal with issues as they arise. The Client Service Board reports to the Managing Partner.

### **Quality management and technical excellence**

Quality is fundamental in everything we do and the firm is committed to maintaining the highest standards of technical excellence. Each area of the business is required to have in place rigorous quality management procedures to ensure that the required standards of quality (in terms of professional, regulatory and the firm's requirements) are achieved, including:

- technical and procedural manuals to ensure work is delivered to a consistently high standard;
- training and development of all partners and staff (including induction and appraisal);
- quality control procedures to ensure each assignment meets required standards and quality; and
- quality assurance processes, including retrospective reviews to enable management to gain comfort that procedures are in place, are operating and are effective.

As part of the firm's risk management framework, each operating department is required to demonstrate annually the quality management processes in place and, specifically, that if any weaknesses or failures are highlighted in the assurance reviews, appropriate action is taken and improvements monitored.

### **Audit Engagement performance**

The firm follows the Moore Stephens UK national audit approach to external audit engagements. This approach is set out within the audit manual which is available to all audit staff on the firm's intranet. The approach is built into our automated audit software tool PROaudit. Regular updates to the audit software are received and implemented to ensure continued compliance with auditing standards.

All professional work is supervised by staff members with the appropriate technical knowledge and experience. Review procedures are built into our automated audit software to ensure that:

- all key issues identified at planning and during the audit have been reviewed at manager and partner level;
- the work performed and evidence obtained supports the conclusions reached;
- appropriate consultations have taken place; and
- all completion, review and sign off is completed prior to the audit opinion being issued.

Our firm promotes a working environment where audit staff are encouraged to consult with their colleagues and other specialists where necessary. The firm's procedures require that an engagement quality control review be carried out on all listed and public interest clients. The engagement quality control review partner will be an experienced audit partner who is independent from the client's audit team.

### **Monitoring**

The firm adopts the "professional standards review process applicable to audit firms" used by all Moore Stephens UK member firms. Each member firm conducts an annual internal cold file review of a sample of audit files. Audit files are selected to cover each audit partner and audit manager and are chosen according to the risk profile of the assignments.

In addition to the internal cold file reviews, the firm is subject to an annual external cold file review process. These reviews are undertaken by two individuals, one an external consultant and the other a member of the Moore Stephens national technical committee. An element of the external file review process involves re-performing an internal file review to ensure the firm's own internal review procedures are satisfactory.

Scott-Moncrieff's audit compliance principal sits on the Moore Stephens National Technical Committee, and participates annually in the external reviews of other firms within the network.

In addition to the firm's overall quality standards, our Corporate & Consulting Services (CCS) group, which includes Corporate Finance, Corporate Recovery and Business Technology and Consulting, has received ISO9001 accreditation for Quality Management.

## **Ethics**

Professionalism, ethics and independence take precedence over all other aspects of the firm's work. This is reflected in Scott-Moncrieff's commitment to the personal development of staff and is monitored carefully to ensure stringently high standards are met.

For new assignments, a thorough client engagement process is conducted which covers anti-money laundering, ethical issues and other professional risk assessment measures. Similar safeguards apply to ongoing client relationships and all assignments are managed in accordance with well-established internal guidelines.

The firm has a dedicated ethics partner, who provides confidential advice and guidance to other partners and members of staff on professional ethics. Policies meet or exceed the requirements set by the Institute of Chartered Accountants of Scotland, the Auditing Practices Board and the International Federation of Accountants. Induction training for all new partners and staff includes an introduction to our ethical and independence policies. Further training is delivered when rules and policies change. All personnel are required to consult our database of prohibited investments, which includes details of all publicly traded audit clients, before making personal investments.

## **Safeguards**

The firm has in place a range of safeguards governing audit appointments and the independence of partners and staff.

The firm also completes a series of professional checks and assessments on audit clients to ensure ongoing independence.

## **The regulatory environment**

Scott-Moncrieff is registered to undertake audit work by the Institute of Chartered Accountants of Scotland. Our audit work is examined triennially either by:

- the Audit Inspection Unit of the Professional Oversight Board, part of the Financial Reporting Council, for public interest audits; or
- ICAS's Audit Monitoring Department for other audits.

The Audit Registration Committee of ICAS last considered the outcome of this work in April 2007 and confirmed the continuance of the firm's audit registration. The firm is satisfied with the effective functioning of its internal quality control system.

The 2010 examination by the Audit Inspection Unit and ICAS's Audit Monitoring Department is currently, (May 2010), being conducted and will be reported upon in next year's transparency report.

All partners who accept insolvency-related appointments are licensed by one of the Recognised Professional Bodies, which include the ICAEW, ICAS, ICAI, ACCA and IPA, and are subject to regular monitoring reviews by their RPB. All appointment-takers hold current insolvency practitioner licenses issued without conditions or restrictions.

Other services, principally financial planning and certain corporate finance lead advisory work, are regulated by the Financial Services Authority.

The firm is also subject to Practice Assurance Reviews by ICAS which cover client services not otherwise regulated.

Senior management considers recommendations made by regulators and takes action to implement appropriate changes.

### **Professional liability insurance**

In accordance with the disclosure requirements of the Services Regulations 2009, our professional indemnity insurer is Zurich Insurance plc, of 3 Minster Court, Mincing Lane, London EC3 7DD. The territorial coverage is worldwide (excluding professional business carried out from an office in the United States of America or Canada or territories under their jurisdiction) and excludes any action for a claim brought in any court in the United States of America or Canada or territories under their jurisdiction.

### **Public Register**

Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number: 2389

### **Public interest audit clients**

A list of the public interest entities for whom Scott-Moncrieff carried out a statutory audit during the year ended 30 April 2010 is provided in Appendix 1.

### **Human Resources**

The firm has detailed recruitment procedures which are drawn up and compliance - monitored by the HR Department. All staff have detailed job descriptions and undertake grade related training prior to advancing to the next level.

Performance appraisal is carried out continuously during the year by team managers and more formally through the performance development process which involves an annual meeting and 6 monthly follow-up.

When staffing an audit engagement, it is ensured that the staff have the appropriate technical knowledge, training and experience to undertake the engagement.

Staff career development is considered as part of the performance development process. Staff are promoted only when they are prepared for the responsibilities that the next position entails. We continually review our future staffing requirements to ensure that we are best placed to meet our clients' needs.

### **Continuing professional education**

We have created and maintain up to date comprehensive online reference databases and materials including specialist industry materials. These cover all aspects of policy,

procedure and methodology as well as containing a complete library of UK and International accounting, auditing and ethical standards. To support and keep theoretical knowledge up to date, all partners and staff eligible for appointment as statutory auditors receive regular communications on technical and regulatory topics as they arise. The Technical Committee provides consultation support on all aspects of auditing, accounting and regulatory requirements including subject matter experts in specialist industries.

The firm's internal training curriculum provides a broad range of technical solutions as well as business and personal skills programmes. Specialist industries also operate training programmes. Partners are required to participate in the internal objective setting and related performance appraisal processes. Through this they assess their on-going personal development needs and identify applicable development activities. The firm is an ICAS and ACCA CPD accredited employer.

### **Financial information**

An analysis of the total turnover of Scott-Moncrieff for the financial year ending 30 April 2010 is shown below:

	2010 £m	2009 £m
Statutory Audit and directly related services	5	5
Non-audit services to audit clients	1	1
Services to non-audit clients	7	7
Total turnover	13	13

Non audit services to audit clients principally comprise taxation services.

### **Partner remuneration**

Partners are remunerated solely out of the profits of the firm. The final allocation and distribution of profit to individual partners is made, once their performance has been assessed and the annual financial statements have been approved, by the Remuneration Committee. Each partner's profit share is based on his/her assessed contribution to the firm, responsibilities undertaken, and how he/she has performed over the year.

Partners are not remunerated by reference to their success in selling non-audit services to audit clients.

### **Publication**

This report can also be found at [www.scott-moncrieff.com/transparency](http://www.scott-moncrieff.com/transparency).

Approved by the Executive & Strategy Board.



**SCOTT-MONCRIEFF**  
31 May 2010

## Appendix 1: Public interest entities

This list includes audit clients who have issued transferable securities on a regulated market (as defined in the Statutory Auditors (Transparency) Instrument 2008 (POB 01/2008), for whom Scott-Moncrieff issued an audit opinion between 1 May 2009 and 30 April 2010. Where an audit client is a parent undertaking the list excludes any of its subsidiaries.

<b>Name</b>	<b>Listing Status</b>
Black Rock Smaller Companies Trust	LSE
Palmaris plc	AIM
John Swan & Sons plc	AIM
Mid Wynd International Investment Trust	LSE
Lees Foods plc	AIM
Ibis Media VCT plc	LSE
Edge Performance VCT	LSE