



# Committed to quality

Transparency report 2017



Nexia  
Smith & Williamson





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**Nexia Smith & Williamson Audit Limited** Registered to carry on audit work in the UK and Ireland and regulated by the Institute of Chartered Accountants in England and Wales for a range of investment business activities. Member of Nexia International.

**Smith & Williamson LLP** Regulated by the Institute of Chartered Accountants in England and Wales for a range of investment business activities. A member of Nexia International.

The word partner is used to refer to a member of Smith & Williamson LLP.

We have taken great care to ensure the accuracy of this information. However, the document is written in general terms and you are strongly recommended to seek specific advice before taking any action based on the information it contains. No responsibility can be taken for any loss arising from action taken or refrained from on the basis of this publication. © Smith & Williamson Holdings Limited 2017.

# Legal structure and governance

## Our structure

During the year ended 30 April 2017, Nexia Smith & Williamson Audit Limited (registered trading name Nexia Smith & Williamson) provided audit and related compliance services. Nexia Smith & Williamson is incorporated in the United Kingdom and the majority of voting shares in Nexia Smith & Williamson are owned by qualified individuals.

Nexia Smith & Williamson is a Registered Auditor, regulated by the Institute of Chartered Accountants in England & Wales (ICAEW). Nexia Smith & Williamson is also registered with the US Public Company Accounting Oversight Board (PCAOB).

Smith & Williamson Freaney Audit Company is a separate business, based in Dublin, regulated by the Institute of Chartered Accountants in Ireland.

As at 30 April 2017 Nexia Smith & Williamson had 29 directors, 26 of whom have responsible individual (RI) status granted by the ICAEW.

Nexia Smith & Williamson operates from 5 principal offices serving clients throughout the United Kingdom.

## Governance

Management of Nexia Smith & Williamson is delegated to an Executive Committee, comprising exclusively those with RI status. At 30 April 2017 the membership of the Executive Committee, together with details of other responsibilities the members have within the firm, was:

- Chris Appleton (Chairman and Audit Compliance Principal)
- Jacqueline Oakes
- Giles Murphy (National Head of Assurance and Business Services (“ABS”) for the UK and Ireland until 1 May 2017; Head of Business Interests with effect from 1 May 2017)
- Andrew Bond (Ethics Partner with effect from 17 June 2016)
- Jonathan Pryor (Chairman of the ABS Technical Committee)
- Jon Talbot

Appointment to the Executive Committee is by election by a majority of directors of Nexia Smith & Williamson who attend and vote at the relevant directors’ meeting.

The Executive Committee meets regularly and its terms of reference includes the management of the business of the company, oversight of external reporting for Nexia Smith & Williamson, regulatory compliance and considering the actions required to maintain and advance the quality of audit, operational performance and other assurance work performed.

Nexia Smith & Williamson is an independent company which provides audit and related services. Its services complement the accounting and business services provided by Smith & Williamson LLP, a separate entity.

Nexia Smith & Williamson, through the Executive Committee, has or participates in the oversight and responsibility for certain working groups. These cover the following areas:

- **Technical**  
The ABS Technical Committee’s responsibilities include reviewing and developing the processes and procedures applied in Nexia Smith & Williamson and the ABS departments, 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 ABS L&D team is responsible for providing audit students with both technical and a range of “soft skills” training during their training agreement. Exam training of students studying for all professional qualifications is managed by local offices and overseen by Smith & Williamson Group’s (SWG) L&D team. SWG L&D and ABS L&D are responsible for the provision of post qualification “soft skills” training for all other employees.
- **Quality monitoring**  
The Quality Monitoring Committee is chaired by a senior audit partner and is responsible for planning and co-ordinating the annual quality monitoring review of audit work. The reviews are carried out by teams of experienced staff and responsible individuals, along with an external organisation specialising in this area, with no previous connection to the assignments subject to review.

Nexia Smith & Williamson has access to SWG's Legal and Compliance department and they provide guidance to audit directors and staff in a number of important areas, including agreeing terms of engagement and potential conflicts of interest.

In addition, the National Assurance Technical Group (NATG) provides support to Nexia Smith & Williamson and to the firm's ABS departments in respect of audit, financial reporting and certain ethical matters. None of the members of NATG have audit client portfolios and they are therefore a committed research and advisory team available to all audit staff.

NATG is responsible for liaison with the monitoring teams of our regulators. In addition, NATG, together with SWG's Legal and Compliance department, will be involved in the rare circumstances where a matter is being investigated by one of our regulators or where claims have been made or are threatened.

Members of NATG and other senior staff are actively involved in the development of the accountancy profession through their involvement in a number of external committees.

## Nexia International

Nexia Smith & Williamson is a member of Nexia International, a worldwide network of independent accounting and consulting firms. In 2016 worldwide turnover amounted to US\$3.2 billion. Nexia International currently ranks 10th\* in the world and has 651 offices in over 115 countries with in excess of 28,700 staff.

*\*International Accounting Bulletin World Survey 2017*

Nexia International Limited (Nexia International), which is registered in the Isle of Man, co-ordinates the activities of the international network. Nexia International does not provide any professional services; these are provided only by the individual, independent member firms. Neither Nexia International nor any of the individual member firms are responsible for each other's acts or omissions.

Nexia International is governed by a Council in which all member firms are represented. The Council elects the Board of Directors. The Board of Directors approves the membership of the operating committees which include the International Audit Committee.

The current Board comprises:

- Markus Emmrich (Chairman) (Germany)
- Lawrence Chastang (Deputy Chairman) (USA)
- Daniel Abelovich (Argentina)
- Bashier Adam (South Africa)
- Larry Autrey (USA)
- Frank Longobardi (USA)
- Naoko Enomoto (Japan)
- Nick Kelsey (UK)
- Ian Stone (Australia)
- Kevin Stopps (UK)

The Board meets twice a year.

Nexia International operates through four regional areas: Asia Pacific; Europe, Middle East and Africa; North and Central America; and South America. Nexia Smith & Williamson is a member of the Europe, Middle East and Africa region.

### Nexia International Audit Committee

The Audit Committee reports to the Board and its responsibilities include:

- helping to develop and enhance the standards of audit and related assurance services offered by members;
- monitoring the quality of the audit work performed by member firms through an international quality control review programme; and
- providing guidance to members on emerging issues.

The Audit Committee meets formally twice a year but maintains a regular dialogue on emerging issues throughout the year. One of the firm's responsible individuals is a member of the audit committee.

All new members of Nexia International are required to be subject to a quality control review before they are admitted to membership and existing members are subject to review on a rotational basis. The outcomes of quality control reviews are reported to the Board, who determine the suitability of the reviewed member or prospective member for membership.

## 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. Nexia Smith & Williamson has policies and procedures in place to ensure that all of the requirements of ISQC 1 are met throughout the audit practice. In addition, in formulating its policies and procedures, Nexia Smith & Williamson has considered the Audit Quality Framework issued by the Financial Reporting Council.

### 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 ABS 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

Nexia Smith & Williamson’s Ethics Manual is available to all staff on the firm’s intranet. Where circumstances deem it necessary, or in those cases required by the Ethical Standard issued by the Financial Reporting Council, guidance on client specific matters is provided by the Ethics Partner or the Deputy Ethics Partner. The Ethics Partner is supported by other persons with relevant experience in the firm, together comprising the Ethics Function.

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 remain alert to factors that might indicate a conflict with a specific requirement in the Ethical Standard both whilst carrying out audit assignments and at other times in their professional activities.

Nexia International operates a database which facilitates the checking of potential conflicts across the network.

All directors 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. The confirmations are reviewed by the Smith & Williamson Compliance team and any possible conflicts are considered by the Technical Committee.

There is a policy of rotation of responsible individuals from audit assignments based on the requirements contained within the Ethical Standard. Responsible individuals on listed clients are rotated after 5 years and consideration of the need to rotate on other high risk clients and our clients where the responsible individual has served for more than 10 years 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 Technical Committee.

### 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:

- Obtaining evidence about the identity and recent trading activity of the entity and assessing the nature of its 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 beneficial owners and officers of the entity, 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 to ensure that we 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. Depending on the exact circumstances this consultation will be with one or more of the Heads of the Department for the office concerned, the National Head of ABS or two or more senior, experienced and independent responsible individuals.

Certain specialist sectors have been identified by the firm and it is a requirement that the audit engagement partner for audits in those sectors is appropriately licenced by the firm to act in that capacity. Licences are issued by the Technical Committee after the individuals concerned have demonstrated sufficient experience and knowledge of the sector. In exceptional circumstances a non-licensed RI may act as audit engagement partner with the proviso that the audit will be subject to a second partner review by an appropriately licenced RI.

Specific procedures are required in relation to accepting non-audit assignments from audit clients. The audit engagement partner must give prior approval for any non-audit assignment, following an assessment of the potential for conflicts to arise. Certain types of work are prohibited under any circumstances, whereas others are only permitted with appropriate safeguards. The criteria are more restrictive in relation to listed clients and public interest entities.

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 is significantly dependent on the quality of the people employed to deliver the service. 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 staff 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 uses some staff with equivalent qualifications from overseas accountancy bodies.

Our recruitment processes are designed to ensure we have individuals with the skills and personal characteristics that will ensure the high quality of our services. All potential staff have at least two interviews with senior members of staff and members of the 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 and risk associated with 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 staff and responsible individuals have an annual appraisal, with an interim review after six months to assess progress on specific objectives set at the appraisal. For all staff and responsible individuals the quality of work is a specific matter considered as part of the appraisal.

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 status, the business needs of Nexia Smith & Williamson are also taken into account.

## Assessment and remuneration of responsible individuals

As a consequence of the importance placed on responsible individuals' overall responsibility for audit quality, additional procedures are in place with respect to their appraisals. Information in respect of audit quality is obtained from a number of sources including the internal quality control programme, 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. The Quality Monitoring Committee is made aware of these objectives in order that they may be specifically considered in future quality control reviews.

Responsible individuals receive remuneration, the level of which is determined by a number of factors including experience, skills and contribution to the development of the firm. This level is reviewed annually and audit quality is a factor specifically taken into account when determining the remuneration of responsible individuals. Bonuses are awarded based on overall performance in the year, but no responsible individual is rewarded, either by bonus or remuneration increase, specifically 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 applicable International Standards on Auditing (ISA) and all other relevant requirements. Fundamental to our audit approach is the requirement to understand our client's business, consider the specific risks associated with that client and to tailor the audit work to address those risks.

The documentation is reviewed 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. Changes to the documentation are considered by both members of NATG and audit field staff from across a number of senior grades. This approach enables the firm to develop documentation that takes into account both technical requirements and the practical issues faced by those who use that documentation. During the year we significantly updated our audit documentation to reflect the changes in ISAs and ethical standards for accounting periods beginning on or after 17 June 2016, as well as making further refinements to improve operational efficiency.

The documentation is supported by a detailed audit manual containing additional guidance which is readily accessible by all audit staff. Further guidance is also provided by NATG on emerging issues that may affect the conduct of our audits.

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 process ensures that the documentation on the audit file is sufficient for an experienced auditor with no prior knowledge of the audit to be able to understand the work done and the conclusions reached.

All listed 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 at completion.

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-listed clients. Consultation with a second responsible individual is also required in all circumstances where it is possible that our audit opinion will be modified.

Both independent and second responsible individuals have no other involvement with the audit client, and are selected by the Head of Audit for the relevant office, the National Head of ABS or the Chairman of the Technical Committee.

The financial statements of all listed companies are also required to be subject to a technical review by a senior member of NATG. Modified audit reports are also subject to review by a member of NATG.

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

The annual quality monitoring reviews cover completed audit assignments for a selection of responsible individuals who have signed audit reports during that year. All responsible individuals are subject to review at least once every other year. Typically two assignments for each responsible individual will be subject to review.

The review is designed to establish whether we are complying with our own internal procedures. The findings from the reviews are communicated to the individual directors, the Nexia Smith & Williamson Executive Committee and the ABS Technical Committee. Recommendations are also included within the training programmes for all grades of staff and responsible individuals.

In addition to the Annual Quality Monitoring review there is a programme of reviews considering specific aspects of our procedures or documentation. The subject matter for these reviews is determined by the Quality Monitoring Committee in conjunction with NATG and the National Head of ABS. The reviews typically focus either on a specific recommendation from the annual review programme or a current “hot topic”. The findings from the reviews are reported to the Executive Committee, the Quality Monitoring Committee and National Head of ABS.

## 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. As Nexia Smith & Williamson 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. As a result, whilst recognising that no system can provide an absolute guarantee, regular confirmation is obtained concerning the proper operation of internal control.

# Commitment to technical excellence

There is a comprehensive training programme which ensures that all professional staff receive training in Nexia Smith & Williamson’s audit procedures as well as developments in financial reporting and other technical areas. Attendance at certain key training courses, including the twice yearly Technical Training Days, is mandatory for all qualified staff and directors. Attendance is monitored and those who were unable to attend are required to study the material and take a test to confirm their understanding. In the 2016/17 training programme there have been courses covering a wide range of topics, including the changes to UK ethical standards and ISAs as well as the impact of FRS 102 on smaller entities, both in terms of accounting and auditing. The programme has also covered IFRS and Corporate Governance developments. Much of the training for the remainder of 2017 will focus on audit quality, including the outcomes from the internal and external monitoring reviews, as well as further IFRS developments.

A range of “personal development” 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 charities, registered providers, 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.

All staff have ready access to a wide range of technical resource material. In addition, NATG produce regular Technical Alerts and FAQs which are available to all staff on the firm’s intranet.

On an annual basis, staff are required to comply with minimum continuing professional developments targets set by their own professional bodies and Nexia Smith & Williamson. Confirmation that these targets have been met is reviewed by the L&D team as part of the individual’s personal development plan.

## External monitoring

The last audit review visit by the Quality Assurance Directorate of the ICAEW was completed in May 2017. The Executive Committee together with the ABS Technical Committee consider recommendations and comments made by external regulators and take action to implement appropriate changes.

## Financial information

The turnover of Nexia Smith & Williamson Audit Limited, which provides audit and related compliance services, for the year ended 30 April 2017 was £14.66 million (2016: £14.21 million).

## Listed audit clients

As at 30 April 2017 Nexia Smith & Williamson had the following audit clients with listed debt or listed equity:

### Full list of the London Stock Exchange

TCHG Capital plc  
THFC (Indexed) Ltd  
THFC (Indexed 2) Ltd  
THFC (Social Housing Finance) Ltd  
UK Rents (No. 1) plc  
The Housing Finance Corporation  
Limited  
Haven Funding plc  
Haven Funding (32) plc  
Sunderland (SHG) Finance plc  
Harbour Funding plc

### Alternative Investment Market

Adept4 plc (previously Pinnacle  
Technology Group plc)  
Alba Mineral Resources plc  
Arcontech plc  
Christie Group plc  
Croma Security Solutions Group plc  
Cronin Group plc  
Egdon Resources plc  
Fletcher King plc  
Hague and London Oil plc  
HML Holdings plc  
Immedia plc  
Immupharma plc  
Infrastrata plc  
MediaZest plc  
Metals Exploration plc  
Michelmersh Brick (Holdings) plc  
Milestone Group plc  
Moneyswap plc  
Pacific Industrial & Logistics REIT  
plc  
Panther Securities plc  
Parkmead Group plc  
PCG Entertainment plc  
SRT Marine Systems plc (previously  
Software Radio Technology plc)  
Sutton Harbour Holdings plc  
Veltico plc (previously Velox3 plc)

### NEX Exchange Market

Wheelsure Holdings plc

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.

Signed on behalf of Nexia Smith & Williamson



Chris Appleton  
Chairman  
Nexia Smith & Williamson

