

BAKER TILLY UK AUDIT LLP

TRANSPARENCY REPORT 2010

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Foreword by the Chairman of Baker Tilly UK Group LLP

Baker Tilly UK Audit LLP is an autonomous entity within the Baker Tilly Group, carrying out the audits of those companies required to file audited accounts under the Companies Act 2006 ('the Act'), those entities that require audits under other legislation, and the undertaking of assignments that either require to be undertaken by an auditor, or are permitted to be.

Insofar as compulsory audits under the Act are concerned, Baker Tilly UK Audit LLP is engaged in carrying out the audits of thousands of client companies¹, many of which are in the Small & Medium-Sized sector of commerce. The firm also has a substantial number of 'Public Interest Entity' clients (essentially, listed companies) the fact of which obliges it by law to publish an annual 'Transparency Report'. This is the firm's first Transparency Report.

By law, Transparency Reports must contain a certain amount of information² and we have set that out in our Report. However, the spirit underlying the law on Transparency Reports is that they should not only provide the reader with factual information about the firm and how it does its work but also an indication of how the firm feels about itself, the direction it is taking and the progress it is making. This is far less about providing the reader with a marketing message as conveying the presence or absence of confidence of the firm in itself.

Just as auditors are obliged to be objective in their professional work, so we have tried to be objective in what we say in this Report: there are few adjectives in it and it has been written with it in mind that anything we say must be capable of being fully supported, if challenged. We hope the reader will nevertheless discern an overall integrity about what we say about the firm that will show it is serious about its future and its ability to serve its market well, and its ability to compete with the best that the practice of audit has to offer.

This undertaking is worth nothing if the 'tone at the top' of the firm is not sincere and impeccable. An audit firm's reputation is entirely a function of its integrity, both real and perceived, and its professional competence: integrity and competence are the foundations of an independent and objective audit. Much of our emphasis in training and personal development is given over to underscoring moral and professional honesty, and imbuing staff with the firm's emphasis on integrity. This is not merely a convenient strap-line but a continuum of approach to audit work that is the single-most important contributor to audit quality³. The attention of those reading the Report will be drawn time and again to the

¹ Full numbers of Baker Tilly UK Audit LLP's audit clients are listed later in the Report.

² Under Article 40 of the revised European Eighth Company Law Directive, the terms of which were then written into UK law by the Statutory Auditors (Transparency) Instrument 2008, auditors of 'Public Interest Entities' have a statutory obligation to produce and publish an annual 'Transparency Report' giving information about the audit firm, its governance, and how it produces audits of consistently high quality of those PIEs. Guidance on the content of a 'model' Transparency Report was given by the Professional Oversight Board, an operating arm of the UK's statutory oversight body for the auditing profession, the Financial Reporting Council (FRC), in 2009 and this year. This, Baker Tilly UK Audit's first Transparency Report, has been written to reflect the guidance and the FRC's 'Audit Quality Framework', written the previous year.

³ The "culture of an audit firm is likely to provide a positive contribution to audit quality where the leadership of an audit firm [creates an environment where achieving high quality is valued, invested in and rewarded, emphasises the importance of 'doing the right thing',...ensures financial considerations do not drive actions

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emphasis on adherence to both the spirit and the letter of the Ethical Standards for Auditors⁴ to which the firm is subject. Simply put, the firm expects its staff to adhere to the maxim that if something ‘doesn’t seem right, it probably isn’t’, and they must avoid it accordingly. The tone at the top is sincere and everyone on staff, whatever his or her role, knows it: it permeates the whole organisation, and professional decision-making and professional conduct in the round.

Beyond ensuring that the tone at the top is constant and appropriate and secures the integrity of the firm, the *success of the firm’s technical, governance and review measures* is the other concomitant of audit quality. To serve that purpose, the firm has adopted a two-layered, sequential, approach: quality control, and quality assurance. The firm also benefits greatly from external monitoring by both the monitoring department of its audit licensing body, the Institute of Chartered Accountants of Scotland, and of the Audit Inspection Unit, part of the Financial Reporting Council responsible for oversight of the audit profession.

Making sure of the achievement of audit quality is a delicate alchemy that requires constant vigilance on the firm’s part. This Report is the firm’s objective assessment of its capacity to achieve and sustain audit quality. The assessment is favourable but identifies some areas for potential improvement. I hope it will be clear to the firm’s stakeholders that they may rely on the Report’s conclusions.

M B Rodgers
Chairman
Baker Tilly UK Group LLP
30 June 2010

and decisions...ensures robust systems for client acceptance and continuation...fosters appraisal and reward systems that promote the personal characteristics essential to quality auditing, and ensures audit quality is monitored within firms and across international networks and appropriate consequential action is taken.]”, Extract (p3) from the FRC’s ‘Audit Quality Framework’.

⁴ The Ethical Standards were written by the Auditing Practices Board, another operating arm of the Financial Reporting Council, in 2003 and amended in 2008, and oblige firms to ensure that their work is governed by principles of conduct – firms, principals and staff must be truly independent of their audit clients and avoid conflicts of interest caused by self-interest or other factor militating against objectivity of thought.

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Executive Summary

Baker Tilly UK Audit LLP (“BTUKA”) was established on 1 April 2007 as a discrete part of the overall operations of the Baker Tilly Group. At that time, it assumed the audit practice of the then Baker Tilly partnership. During the incorporation of Baker Tilly UK Audit LLP, it was recognised that audit quality would continue to be a prerequisite for the successful operation of the entity. This recognition was reflected at the very core of the LLP as evidenced by the Objects clause of the BTUKA Members’ Agreement, which states:

“The LLP will promote audit quality in order to enhance confidence in UK corporate reporting and governance”.

The Board of the LLP therefore has the very clearest of responsibilities to promote audit quality in everything that it undertakes.

BTUKA has around 6,000 audit engagements and a substantial presence in the Small & Medium-size Entity (SME) market.

BTUKA is run and operated entirely severally and distinctly from the other operational arms of the Group (which provide the other service-lines described later in the Report) and has engagements across the breadth of UK commerce, the fact of which is in itself an enabler of audit quality: the sheer numbers of professional contexts to which the partners and staff are exposed presents invaluable opportunities to ‘grow’ audit experience, encourage transfer of knowledge across the firm and the international network, and promote personal development.

The audit practice’s turnover from these engagements in 2008/9 was £73.4m as disclosed in the audited accounts (see Appendix 5). The unaudited turnover in respect of 2009/10 is £70m.

Fee-income from ‘Non-Audit Services’

The table below expresses the turnover derived from the Baker Tilly Group arising from the provision of non-audit services to audit clients for the year ended 31 March 2010;

Service type	£’000
Corporation tax compliance	10,433
Accounting	4,244
Personal tax services	2,921
Bookkeeping and accounts	2,740
General advisory	2,446
Tax planning and advice	2,174
VAT advisory	1,821
Corporate finance services	1,808
IT Services	893
Tax investigations	750
Payroll services	465
“Other” services	1,551
Total	32,246

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“Other” services principally relate to the provision of services in respect of assurance reports, business process improvement, company secretarial, consulting, and restructuring and recovery. Comparative figures are not readily ascertainable but will be included for future years.

Of the total fees of BTUKA for 2009/10, all related to statutory audit services, except £1.1m that related to internal audit and Sarbanes Oxley assurance services.

In respect of Public Interest Entities (“PIE’s”), audit and assurance fees for the year ended 31 March 2010 totalled £1.53m. Non-audit services provided to these entities totalled £0.27m of which £0.18m related to tax compliance services with the balance largely attributable to corporate finance services. Non-audit services supplied to all audit clients within BTUKA must be sanctioned (and evidenced as such via a conflict threat assessment form) by the audit principal before any such service is undertaken in order to ensure that both the requirements and spirit of the Ethical Standards are not compromised.

The structure of the Baker Tilly Group is such that services delivered to *non*-audit clients in respect of *non*-audit services represents the remaining turnover of the group excluding audit services and those non-audit services provided to audit clients disclosed above. For the year ended 31 March 2010, this amounted to approximately £86m based on unaudited results.

Audit staff numbers

In terms of the firm’s professional staff, the total of 570 at 31 March 2010, is broken down as follows;

Principals	Managers	Qualified staff	Students
95	136	107	232

In addition the above professional staff, there were 44 support staff across the firm.

Structure of audit management

The firm’s audit practice is led by the Board of BTUKA which comprises me as Head of Audit (also a member of the National Management Team of Baker Tilly UK Group LLP (“NMT”)), John Hudson who heads the Audit Technical Department and Jane Bleach who was recently appointed to the Board. Jane is currently Regional Managing Partner for the Central region, sits on the NMT and is also Chair of the firm’s Ethics Panel. This team does, I feel, have all the necessary skills to drive audit quality within the firm.

The complement of the Audit Technical Department comprises five partners and eight senior managers, all committed full-time to supporting quality audit delivery. The mix of experience and specialisms within the department ensures that the most appropriate resource can be allocated to support audit teams.

James Farmbrough is the firm’s Head of Quality Assurance and is Audit Compliance Principal. James is supported by a dedicated team of five people. For the purposes of compliance with the Auditing Practices Board’s International Standard on Quality Control

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(UK and Ireland) 1, James is responsible for the audit quality control systems and, in respect of audit, reports to the BTUKA Board.

The audit practice is organised geographically into four Regions (London, Southern, Central, and Northern), each with a Regional Audit Partner (David Fenton, Rob Hamlin, James Marchant and Andrew Baker respectively), who meet quarterly with me and with the heads of the firm's Quality Assurance Department, Audit Technical Department, and Audit Training Department.

Each office within the four Regions has an Office Managing Partner, a Head of Audit, who is responsible for resourcing, recruitment, appraisal and line-management, and an 'Audit Quality Champion', who is responsible for raising audit standards – Audit Quality Champions receive training in the purpose of the role and the expectations that go with it.

The intention is to secure uniformity of delivery of the firm's practice-wide systems and processes, and in that way audit quality, through a framework that is controlled both through Offices and Regions, and centrally through the audit service-line itself:

- quality at Office level is initially the responsibility of its Head of Audit and Audit Quality Champion, overseen by the Office Managing Partner
- Regional Audit Partners supervise delivery of quality at Regional level and support the local offices
- the Quality Assurance Department inspects the work of all the firm's offices and individual engagement partners on a cycle of not more than 24 months, but typically 6-18 months
- the firm has had an Audit Faculty since 2005, to provide a centre of excellence for audit and assurance, and to develop quality-control procedures
- I meet monthly with the head of audit training, audit technical and QAD to ensure that any matters that have arisen in the month concerning audit quality can be quickly evaluated and actioned
- the Audit Faculty maintains an audit partner and manager authorisation system such that only those individuals with the requisite skills, experience and training can undertake specialist audits, including those of listed entities, charities, pensions, etc.
- there are mentoring arrangements for all new audit partners and for those whom the Quality Assurance Department deems it advisable, and meaningful sanctions can be applied in the event that practitioners do not respond to educative initiatives, including loss of internal authorisation to carry out audits
- the firm actively encourages principals to participate in the relevant committees within the Institute of Chartered Accountants of Scotland, the Institute of Chartered Accountants in England & Wales, the Institute of Chartered Accountants in Ireland, and to respond positively to any invitation for participation in the Financial Reporting Council and its operating bodies, and participation in governmental think-tanks. The development of thought at these levels directly informs the agendas of the Technical and Quality Assurance Departments.

The principal audit quality related Key Performance Indicator adopted and monitored by the Board of BTUKA is the findings of the Quality Assurance Department, both of the firm itself and arising from external monitoring. From an internal QAD perspective, reports detailing

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QAD findings are submitted to the board for consideration quarterly with an annual report delivered in April each year. Particular emphasis is placed on the number of offices that are categorised as requiring a “follow-up” QAD visit as a result of those findings and details over the last four years are set out below. This KPI provides a comparable measure across all offices and enables the Board to focus resources where they are most needed in a timely manner. In addition, the Board regularly reviews the number of partners requiring mentoring due to QAD, Audit Technical Department or external regulator’s findings and this provides another quality KPI measure at a more granular level.

The number of offices subject to QAD follow-up visits was as follows;

2006/7 – 8 offices

2007/8 – 3 offices

2008/9 – 7 offices

2009/10 – 4 offices

The Board confirms that it is satisfied with the operation of the firm’s internal quality control procedures.

In terms of external regulation, the Board is closely involved with all regulatory visits and reviews all findings and recommendations in detail. Whilst more subjective in nature due to the format of the external reports, the Board does benchmark the firm’s findings year on year and indeed the findings against those of other firms.

How the firm approaches the attainment of Audit Quality

Audit Quality is the principal objective of all audit firms, though they may go about achieving it in subtly different ways. Essentially though, audit quality is a function of firms’ own efforts on the ‘front-line’ of the audit engagement and the educative benefits of internal and external regulation.

It is my function as Head of Audit to take ultimate responsibility for the firm’s delivery of audit quality and the next part of the Report describes how the firm tries to attain audit quality. Briefly put, audit quality depends on two things: first, the *integrity of the firm* collectively and of its principals and staff individually; and secondly, the *success of the technical, governance and review measures* the firm has put in place - those measures need to be individually fit for purpose, and in aggregate to be the foundations of overall quality.

The firm tries to attain these absolutes of professional conduct through the cumulative effect of three sets of procedures:

- internal Quality Control (at the point of delivery of the engagement)
- internal Quality Assurance (in ‘cold’ reviews of engagements and of principals’, staff’s and offices’ competence), and
- the external Quality Monitoring of the firm’s regulators

Firms’ entitlement to conduct audit depends on them being able to satisfy their licensor, the ‘Recognised Supervisory Body’ (‘RSB’), against ‘fitness and properness’ criteria before

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registration as a firm entitled to conduct audit under the Act can be awarded by that RSB. The *continuing* entitlement is assessed regularly by the RSB against firms' operational work, decision-making, and overall conduct of audit engagements. BTUK's Recognised Supervisory Body is the Institute of Chartered Accountants of Scotland ("ICAS"). ICAS makes regular inspections of the firm's operations.

The Audit Inspection Unit (a specialised arm of the Professional Oversight Board) makes a further regular examination of the audit firm's work, principally its PIE clients, and publishes its findings.

The cumulative purpose of these layers of examination is to give assurance to stakeholders - not only the firm's clients but also to investors and regulators - that a consistently high quality of audit work is being delivered by the firm. We have used the findings from both the internal and external layers of examination to try to ensure that the content of this Report is fairly expressed and objective.

The report goes on in the next section to describe how Quality Control and Quality Assurance work.

**Nigel Tristem
Head of Audit
Baker Tilly UK Audit LLP
30 June 2010**

Quality Control and Quality Assurance – BTUKA’s internal processes in more detail

In his Foreword to the Report, the Chairman of Baker Tilly UK Group LLP referred to the importance of ‘tone-at-the-top’ of the firm. It cannot be stressed too heavily how the firm’s Quality Control and Quality Assurance functions are informed by and flow from that leadership. BTUKA is a risk-averse audit practice. That aversion manifests itself in an intention to observe both the letter and the spirit of ethical norms, particularly in relation to the provision by the other service-lines of non-audit services alongside the audit function of the same client. The issue of what non-audit services firms are permitted to provide alongside the audit is still being determined by the Auditing Practices Board but in January 2010, the Ethics Panel of the firm decided that, notwithstanding that public debate is still taking place over the appropriateness of the provision of ‘internal audit’ to audit clients, it would eschew any such provision, whatever the outcome of the debate: the firm does not wish any *perception* of loss of independence to dilute the commitment to ‘substance over form’ compliance with the Ethical Standards that it is keen to imbue in its staff.

Audit Quality is not merely a function of technical competence but professional conduct too, particularly where the firm’s own financial interests might threaten to temper its objectivity in taking on a particular audit client. The insistence that ethical standards are no less important than technical ones permeates the whole firm.

We confirm, as we are required to by law, that an internal review of independence practices has been conducted by BTUKA. This is accomplished by the following means:

- the firm’s Head of Regulation, Anne Thomas, produces annually a summary report in relation to the declarations of fitness and properness, and of independence that all principals need to make
- there is a periodic review and overhaul of all the Ethical Policy Statements (explaining the Ethical Standards for Auditors) issued by the firm to staff
- within each Quality Assurance file-review (see *infra*), checks are made by QA staff on the Conflict Threat Assessment forms used to identify and address Conflicts of Interest, or other potential non-compliance with the Ethical Standards (for example, performing prohibited non-audit service work on listed companies, or contingent non-audit fees, or long association with an audit client) and on the completeness of the associated reporting to those charged with governance in the Audit Plan and subsequent Audit Findings Report
- examination of whether there have been past instances of the firm performing internal audit work for an audit client.

Quality Control at the ‘coal-face’ of the audit engagement

The Head of Audit and the supporting management structures are responsible for leading and managing the development and implementation of BTUKA’s systems and processes for promoting audit quality, comprising:

- the firm’s audit methodology, and related tools and supporting materials
- the provision of technical information, advice, and training for auditors
- the provision of technical services to audit clients

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The firm's approach to the maintenance of audit quality is to meld high standards of *professional competence* and *professional conduct*.

Professional competence has both personal and systemic aspects: the training afforded to partners and staff and the firm's internal processes form the bedrock of competence. Recognised by the firm as one of the 'key drivers' of audit quality⁵, the capabilities of staff and their constant exposure to current thought in audit-practice are high in the firm's own assessment of its priorities: professional competence is a 'cradle to grave' obligation and the in-house licensing system (ensuring those audit engagement principals are assigned only to the market-sectors in which they are experienced) is complementary to it.

Insofar as the maintenance of standards of *professional conduct* is concerned, the firm lays emphasis on its Ethics Panel and Ethics Team. The Ethics Panel was set up to act as a custodian of the ethical policies which the firm adopts and to be responsible for the communication of those policies firm-wide. Responsibility for decisions on the *operational* application of those policies lies with the Ethics Team whose function is to review individual decisions made and to support the Ethics Partner, an appointment which audit firms are obliged to make in virtue of the Auditing Practices Board's Ethical Standards for Auditors. It is the Ethics Partner's function to act as the ultimate arbiter of the application of the Ethical Standards to any given set of circumstances and all audit staff are apprised of the need to invoke the Ethics Team on any issue, particularly of interpretation, that they are unclear about. The converse is that a very dim view would be taken of any failure to approach the Ethics Team on an issue where, on any rational view, some doubt exists. The Ethics Team maintains a log of those issues which it has been consulted on, which is open to scrutiny by the firm's regulators.

The policies overseen by the Ethics Panel and Ethics Team are principally those in relation to whether the firm will face audit independence issues should it accept a particular audit engagement, and if accepted, whether any specific safeguards of independence then need to be implemented⁶. The need for the integrity of the 'tone at the top' to be unimpeachable and indefinitely sustained has already been mentioned. The emphasis is on imbuing the rest of the firm with that tone, and causing it to inform every other aspect of delivery of the audit, from top to bottom - across systemic adequacy, the professional competence of individuals and audit teams, and personal development and training.

BTUKA services the SME sector whose individual enterprises benefit from having access to the services that their auditors provide besides the audit. Sometimes, BTUKA will carry out only the audit of a client but for others, the range of services provided is broader. The other service-lines of the Baker Tilly Group (Corporate Finance, Tax & Advisory, Tax & Accounting, and Restructuring & Recovery) will provide those services. Though clients

⁵ The Financial Reporting Council's *Audit Quality Framework* (February 2008), page4, "*The skills and personal qualities of audit partner and staff are likely to make a positive contribution to audit quality [where staff, both experienced and supervised, understand the client's business, exhibit robust scepticism, and are well trained in audit, accounting, and industry-specific terms]*"

⁶ The Auditing Practices Boards, *Ethical Standards for Auditors*, Statement 1, obliges an audit firm to have regard to any matters ('self-review', 'self-interest', 'advocacy', or other, 'threat') that might impair the firm's capacity to deliver an independent and objective audit opinion, deciding whether it can accept the engagement, and if so, whether 'safeguards' need to be implemented in the course of the engagement.

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benefit from the availability of expertise across the breadth of the Group, access to those other services is tempered by BTUKA's adherence to the Auditing Practices Board's Ethical Standards for Auditors: audit engagements can only be taken provided the nature and extent of the total services provided to the client are consistent with the Ethical Standards. Though the programme has not yet been initiated, the Ethics Panel will oversee the rolling-out of bite-size Ethics lectures to staff in each Region over the coming practice year which will serve to reinforce the existing training provided both on courses and via computer based initiatives.

There has been considerable debate recently about audit firms needing to adhere to both the text and the spirit of the Ethical Standards. It will already be clear to the reader that the objectives that the Ethical Standards are meant to serve are as important as the way they are expressed in text. Client acceptance and continuation procedures are extensive and intended to identify any particular circumstances of a given client that might cause an insuperable infraction of the Standards. In a situation like that, the firm will not take on or continue the engagement.

The firm recognises that paying lip-service to any of the Standards is inimical to the quality of its work, and its reputation, and is no substitute for meaningful fulfilment of all these characteristics. It is therefore part of the role of the Head of Audit to ensure professional leadership throughout the audit firm, and awareness on the part of every member of staff of their individual and collective obligations. This cultural emphasis on compliance with the Ethical Standards for Auditors means that personal integrity is an important strand of the culture – we repeat here the yardstick that, “If it doesn't feel right, it probably isn't” – the firm-internal reference to its acceptance of its obligations under the Ethical Standards and not merely the strict wording. The content of ‘Conflict Threat Assessment’ forms is designed to highlight any threats to the auditor's independence and objectivity in discharging a particular engagement together with details of any necessary safeguards required to be applied. Considerable emphasis is placed on the proper and full identification of Conflicts of Interest and the consequences of, and the actions that must follow from, identifying one.

Partners and staff are required to read and complete annual independence questionnaires, designed to address any conflict of interest between financial interests they may have and existing or potential audit clients.

The firm's approach to audit quality in more detail

Audit quality is a function of an audit firm's capacity to give an audit opinion that has all of the following characteristics:-

- is independent –the firm's system for identifying conflicts of interest, both in the UK and throughout the jurisdictions of the Baker Tilly International Network, is deployed before any engagement is accepted
- is supported by sufficient and appropriate evidence
- complies with legal and regulatory norms
- is focused on the risks peculiar to the client entity
- is explained in all key respects to, and understood by, those running the client entity

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The culmination of high standards of professional competence and professional conduct cannot simply stand alone as guarantors of audit quality: the firm has two, complementary, means of maintaining audit quality at the point of delivery of the engagement:-

- through the training given to audit staff
- through the audit process itself

The training given to staff

Training in audit is centralised and available to all audit staff through the intranet-based *Learning Launch Pad* service and through individual query to National Training Services. Individual training and personal development needs are identified through the regular appraisal process and converted to action-plans. Group, Office and Regional training needs are met through regular seminars and conferences. Attendance at certain core courses are deemed mandatory if audit authorisations are to be retained. These courses include audit updates, financial reporting and audit workshop courses. In addition there are mandatory courses for specialist audit areas such as pensions, charities, and the minerals, oil and gas sector.

In addition, there are personal development courses for managers and senior managers.

Defining of Requirements

We have invested significant time and energy in ensuring that we are able to define the requirements of employees at every level of the business. By doing this, employees know not only what is expected of them at their current level but also what is required to progress. It also ensures consistency of expectation across the firm both internally as well enabling our clients to be assured of the same level of service regardless of location.

Our recruitment and selection methodologies focus on testing the skills that we have defined as essential for our employees. As well as covering some of their personal attributes and client service skills, we also test attitude to risk. We have a very detailed assessor manual which underpins all of our assessment activity which results in us being able to apply consistency between assessors across our network of offices.

A key driver on audit quality is ensuring that managers are fully equipped to carry out appraisals and that employees also take ownership for their own development. We have a large amount of information available to all employees on our intranet which walks them through the process. All employees will receive feedback from a number of sources prior to their appraisal, which provides a focus on all aspects of their work through the year rather than basing feedback on one assignment. Additionally managers have an intranet portal which provides additional coaching and guidance on completion of appraisal paperwork and tackling key issues. The appraisal form requires managers to reference any QAD findings (both internal and external) through the year and action taken in relation to these. All of our managers receive training prior to conducting appraisals and annual workshops are held with all line managers to ensure that their skills remain current. The HR team undertake appraisal quality reviews on an annual basis, providing feedback on the results and implementing any necessary actions.

Senior Appointments

At the point at which employees are nominated for promotion to Director or Partner, further references are sought from the Quality Assurance and Audit Technical departments. No nomination is progressed to formal assessment unless it receives support from these departments.

The audit process

The beginning of any audit engagement sees the planning for the audit being laid, the strategy to be followed in relation to the specific circumstances, the assessment of audit risks, and the completion of conflict of interest threat assessment forms. This initial work is usually carried out by audit managers in conjunction with the engagement partner.

Engagement teams are obliged to complete quality control programmes, both at the initial planning stage and prior to giving the audit-opinion, and the programmes are themselves checked by other qualified and experienced auditors.

Reviews permeate the entire audit process: (i) a number of times during the initial planning and audit strategy, but before any of the field work is undertaken, (ii) during the execution stage, and (iii) at the dedicated review stage, when four essential checks take place – consideration of post-balance sheet events, going concern issues (assessments remain current at all stages of the audit), conflict of interest threat-checks (again - to ensure that the firm's taking-on of the audit engagement was correct at the point of engagement and remains so), and whether specific disclosures about the audited accounts need to be made and if so whether they are adequate and appropriate. The resultant 'assembly of audit confidence' is then itself subjected to review by the audit engagement partner, and by the National Technical Department where a client is judged either as high audit risk or high reputational risk (eg listed entities).

The audit process review is permeated with the use of programmes obliging audit teams (audit managers, senior managers, and engagement partners) to be able to evidence those factors that need it, in the course of executing the work. The programmes are designed to discourage mechanistic thinking and instead relate the audit strategy constantly and meaningfully back to the particular work in hand, in order that fundamental assumptions are challenged in the course of the audit work being carried out.

Members of staff are trained at all levels to interrogate their own actions persistently, and the same attitude of mind is imbedded in review staff. The emphasis must always be on corroborated *analytical* review and audit engagement partners must be persuaded of the meaningfulness with which reviews have been completed, exhibiting full and coherent information and well-justified conclusions, in the knowledge that the firm's Quality Assurance Department is likely to raise any failure with them should they not have raised and dealt with it first.

The intensity of the review process is heightened by the quality and sophistication of the computer programme used in the firm's audit methodology ('aud-IT'). The contribution of aud-IT, in which the firm has invested and continues to invest substantial sums, to overall audit quality is significant.

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It should be added that those audit engagements which carry high reputational risk, high audit risk, or which are PIE audits or statutory audits of other kinds (such as large pension fund audits), will always lead to even more exacting layers of review, perhaps involving a whole-file review by National Audit Technical Department principals and a signed undertaking on their part that the audit work is complete and the conclusions reached sustainable.

The firm also ‘licenses’ principals and managers before they can be deployed in audits which are complex or which are ‘specialised’: partners and managers are, as reported above, licensed for the audits of listed companies, charities, pension schemes, Registered Social Landlords, reports prepared under Solicitors Accounts Rules, the public sector, colleges, and Financial Securities Authority-registered clients. Licences are granted on the basis of the auditor’s experience of the particular context and ‘currency’ in it and are removed where exacting retention-criteria are not met or licences are voluntarily relinquished.

Because high-quality auditing is closer to an art than a science, it follows that the capacity of staff to exercise personal judgement in the course of their work is critical. Every member of an audit team needs to be trained annually, not merely in virtue of statutory obligation, but because audit quality depends on it. Internal courses such as audit, tax, and financial reporting updates are regular and compulsory, as are personal development courses for managers. Provision is also made for specialist training in particular areas of audit practice.

The firm’s Quality Assurance Department:

The essential functions of the QAD are quality monitoring, peer-review, and compliance. It fulfils them by making internal checks in individual offices, and through using feedback from external monitoring by ICAS, and by the Audit Inspection Unit of the Professional Oversight Board.

This Transparency Report has been informed by the conclusions of the QAD Annual Report, to the end of the period of measurement to 31 March 2010, insofar as its activities relate to the conduct of audit.

The QAD team aims to be:

- Comprehensive in its coverage and scope of reviews
- Consistent in application of review procedures
- Critical in identification of areas for improvement
- Constructive in communication of review findings
- Co-operative in arranging and performing reviews

The total number of physical or desk-based office review visits increased in the current year from 24 to 27, meaning that virtually every office has been visited for the purpose of audit review. The QA team (whose resources were extended to cope with the desired review-numbers) has universal access to *Learning Launch Pad*, which contains the CPD and training record of audit principals and staff, and reviews are not only of files but audit procedures too. In that respect, the use of IT is extensive and the consistency of review procedures is ensured by the deployment of dedicated QAD team members, the use of file review work programmes (themselves regularly reviewed and updated), and the review of *all* reports by the Head of QAD.

QAD findings are purposive and organic:

- Review-findings are communicated both orally and in writing, resulting in the most meaningful engagement with audit engagement principals and other staff
- QAD team members participate in regular Audit Workshops (which are attended by more than 500 audit principals, managers, and supervisors)
- The Heads of QAD, the Technical Department and the Training Department meet monthly with the Head of Audit to discuss review findings and agree follow-up action
- The Head of QAD reports quarterly to the Board of BTUKA and attends meetings of the Risk Advisory Group
- The Heads of Regulation, of Human Resources, and of Ethics also report regularly to the Board
- QAD team members are trained in the delivery of constructive criticism
- The level of QAD contact with Heads of Audit in individual offices is constant and regular and progress reports implemented
- Seconding promising staff to the QA team helps sustain Audit Quality firm-wide

The ability to react quickly to changing conditions, whilst retaining quality and rigour in approach, are key strengths of the QAD function and these will be maintained and developed going forward.

The operations of the Quality Assurance Department

Internal review systems must be adequate, appropriate, and make a contribution to audit quality. This function is delivered by the Quality Assurance Department which has developed and implemented an annual quality monitoring programme whose purpose is to validate the internal review systems and to check compliance with procedures. It does this by effecting ‘cold reviews’ of completed audit engagements, designed to (i) monitor audit teams’ compliance with the firm’s audit methodology and with professional standards in the round, (ii) interrogate key audit judgements and seek persuasive evidence in support of them, and (iii) assess how well the quality monitoring system is functioning. In all these ways, key learning points are identified, considered and addressed by senior management, to be applied firm-wide in due course.

The proportion of QAD reviews to audit engagements is approximately 1: 30.

External monitoring:

The extent of external - wholly independent of the firm - monitoring is substantial, and from two sources: ICAS, which licenses the firm to conduct audit; and the Audit Inspection Unit of the Professional Oversight Board, in relation to the audit of PIE clients and the consequent systemic risk to the conduct of audit that engagements of that size present.

Both tiers of monitoring routinely stimulate discussion and debate over particular issues: the monitoring work is exacting and the scope of examination extensive: the two units are staffed by expert auditors whose interrogation of every facet of internal process, professional judgement, and the quality assurance framework is detailed and invasive – as detailed and invasive as internal Quality Assurance is.

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External monitoring creates pressure on staff, as do all systems for the hindsight validation of professionals' judgement and competence. The firm accepts that the two monitoring units are repositories of best practice, with a significant contribution to make to the firm's overall quality of audit product.

Reports from ICAS are for the use of that body as the firm's licensor and thus private to it, whereas those produced by the Audit Inspection Unit are made public. The AIU's first public report on BTUKA is at:

<http://www.frc.org.uk/images/uploaded/documents/Baker%20Tilly%20Public%20Report%202008-9.pdf>

The results of the 2008/09 inspection report above derived from the AIU visit conducted in the period from September 2008 to January 2009. The most recently completed ICAS visit was conducted between 1 September 2008 and 16 October 2008. No monitoring visits were carried out by any other national or international regulator during the report review period.

The AIU also reports individually on each of the assignments it has looked at, and the audit principal is required share the AIU report with the Audit Committee of the entity concerned (which has happened in each case). The ultimate purpose of both reports is to 'improve by consensus and encouragement'.

Client satisfaction and complaints procedures

Client-satisfaction surveys assist in ensuring that the firm's work benefits the client in terms of reliability of conclusion and beneficial effect. Should complaints be received from clients in respect of the audit services provided, these are initially referred to the Ethics partner for consideration and action.

Summary

In summary, the firm's commitment to audit quality is underpinned by its emphasis on professional and decisive leadership, on technical and IT capability, on effective training and personal development of staff, on the operations of the QAD and on being responsive to the findings of the firm's regulators in external monitoring visits.

Appendix 1 - The Baker Tilly International Network

Legal Structure and Ownership

Baker Tilly International Ltd is a company limited by guarantee and is incorporated in England & Wales. It is owned by its members, all of whom hold an equal interest in the legal entity.

Baker Tilly International does not itself provide professional services, advice, or opinions to clients but acts as a *member* services organisation. Client services are delivered nationally by the independent member firms of Baker Tilly International.

Each member firm is a separate and independent legal entity. Each firm is locally owned, operated and managed, and is responsible for its own liabilities. No single firm is responsible for the services or actions of another, nor does any firm enter into profit/loss sharing arrangements with another member firm or Baker Tilly International.

Although many member firms take the Baker Tilly name, there is no common ownership amongst the firms.

Funding

The cost of co-ordinating the network is funded by member firms.

Each year Baker Tilly International draws up its budget for the coming year. The budget covers the costs of meeting the strategy of the network, including the activities of the board, regional chairs and regional executives, and the activities of the headquarters team (currently based in London). The budget is submitted to the board of directors for approval.

Income derives from three sources:

- A one off joining fee – calculated on a sliding scale according to member firm revenues
- Annual dues – calculated on a sliding scale according to member firm revenues
- Referral fees – a percentage of the fees received from work introduced by another member firm.

Management and Governance

Baker Tilly International operates with a board of 15 directors. Board members are senior partners drawn from member firms across the network and are democratically elected by members worldwide for a three-year term. The board of directors appoints the chair from amongst its members. The current chairman is James Castellano of RubinBrown, USA.

The highest decision making body within the network, the international board, has ultimate responsibility for upholding the values, standards and procedures of Baker Tilly International, sets the strategy that the network will follow, and appoints the CEO (see below). On the recommendation of the CEO and regional advisory councils (see below), the board is responsible for admitting member firms and, where necessary, terminating a firm's membership. The board meets at least twice annually.

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The CEO is responsible to the board of directors for all matters relating to the day-to-day leadership and management of Baker Tilly International, and ultimately to the member firms.

The CEO is supported by a team at headquarters which provides advice and resources to member firms worldwide. These are wide ranging and include international marketing and business development initiatives, technical support and the co-ordination of a global secondment programme.

For managerial purposes, the network operates geographically through four regions - North America; Latin America; Europe, Middle East and Africa; and Asia Pacific. Each region has a chair who leads an advisory council made up of partners from regional members. Each chair is supported by a regional executive. The chair's role includes the co-ordination and development of business between members, the recruitment of new firms as necessary and the implementation of the regional strategy. The regional chairs are appointed by and report to the CEO.

The network has a number of internally and externally focused collaborative committees and specialist interest groups. Participation in these committees is voluntary.

Key network personnel

Geoff Barnes, CEO and president

Paul Ginman, Chief Operating Officer

International board of directors

Current members of the International board of directors are:

James G. Castellano, chair (USA)

Christian Alibay (France)

Claus-Michael Allmendinger (Germany)

Richard J. Caturano (USA)

Tim Christen (USA)

Robert J. Ciaruffoli (USA)

Daw Ching Foong (Singapore)

Lionel Goldman (Canada)

Eyal Horowitz (Israel)

Howard J. Kies (USA)

W.M. (Mack) Lawhon (USA)

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Laurence Longe (UK)

Oswaldo Roberto Nieto (Brazil)

John Smiley (Canada)

Ted Verkade (the Netherlands)

Other partners who served on the board during 2009:

Michael Wolfe (USA), Zhidong Xia (China).

Regional chairs

Robert J. Ciaruffoli (North America)

Daw Ching Foong (Asia Pacific)

Oswaldo Roberto Nieto (Latin America)

Ted Verkade (Europe Middle East & Africa)

The regional advisory councils meet at least twice annually.

Quality Assurance

Member firms are expected to conduct their business within the framework of their internal policies which comply with applicable professional standards, laws and regulations. Each member is responsible for its risk and quality performance and, where necessary, for driving change and improvement.

Over the past two decades, Baker Tilly International has made substantial investment in quality assurance arrangements and independence practices designed to support members' own processes and controls.

The Baker Tilly International Quality Assurance Review Programme is part of the overall quality assurance procedures of Baker Tilly International. Under this programme, every member firm is subject to a review once every three years, more frequently should the structure and focus of a firm's business materially change.

Led by a full-time centralised team, the review is intended to:

- Provide assurance that a member's audits are carried out to standards no lower than those contained in the International Federation of Accountants' (IFAC) International Standards on Auditing (ISAs)
- Evaluate a member's own quality assurance procedures to assess whether these are equivalent to the requirements of IFAC's International Standard on Quality Control (ISQC 1). While the focus of ISQC 1 is on the provision of assurance services, it also addresses certain requirements for each member firm's governance and oversight that are relevant to all service lines
- Review a member's policies and procedures for the acceptance and continuance of clients and engagements

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- Review a member's human resource management to ensure it has personnel with the appropriate skills and experience required to service clients.

Members design and implement action plans as members deem appropriate based on the results of the review. These are reviewed by Baker Tilly International and, depending on the circumstances, may include a further review of all or part of a member firm's procedures. Failure to comply with the Baker Tilly International quality assurance system may result in a member's dismissal from the network.

Independence practices

As a condition of membership, members must deliver professional services in accordance with the Baker Tilly International Quality Standard and other relevant technical and regulatory standards. The Baker Tilly International Quality Standard requires members to conduct all aspects of their business to the highest professional standards, to maintain integrity and to keep in good standing in their local business community.

Each member should comply with all national standards applicable to all aspects of their work. These include auditing, independence and any other standards issued in a member's country which impact on their work. Where the code of ethics to which a member is subject is significantly less comprehensive than the IFAC Code of Ethics, members are expected to adopt the IFAC Code.

Member firms are also required to maintain a centrally-held list of companies considered "restricted" as a result of an audit relationship.

Admittance Procedure

For a firm to be approved for membership of Baker Tilly International it must pass a due diligence exercise and be approved for membership by the relevant regional advisory council and the board.

Applicant firms are required to provide detailed information to Baker Tilly International via an Application for Membership. The headquarters' quality assurance team reviews the data provided and outstanding applicants are selected for further due diligence procedures.

The due diligence process entails a visit to the applicant firm's business premises and comprises in-depth interviews with principals/managers to establish whether the potential member complies with international quality standards. The quality assurance team confirms that applicant firms are able to offer audit, accountancy and taxation services as a minimum.

It is imperative that all successful applicants, and indeed all member firms, can perform audit work in compliance with International Standards on Auditing (ISA) or their equivalent. The quality assurance team selects a sample of audit files for a thorough review to ensure that this is the case.

Exit Procedures

Any member firm may terminate its membership at any time giving not less than 12 months' written notice.

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The board, in consultation with the CEO, may terminate a firm's membership at any time, giving not less than six months' written notice.

Network Size

- 8th largest network in the world by combined fee income.
- 147 independent member firms in 114 countries worldwide.
- 26,000 people in 572 offices.
- US\$3.13bn – the combined revenue of independent member firms, a 6% year-on-year increase.

The network by region

	Revenue (US\$'000)	Countries	Firms	Personnel
North America	1,708,660	10	33	9,900
Latin America	39,263	15	15	1,470
EMEA	1,096,917	66	75	9,407
Asia Pacific	283,817	23	24	5,115
Total current year	3,128,657	114	147	25,892

Membership Rights and Obligations
Membership rights

- The right to use the Trade Marks in accordance with the Trade Mark Licence Agreement.
- The right to attend meetings of members and conferences organised by the network.
- The right to vote at meetings of members in accordance with the provisions of the Articles of Association.
- Access to budgets and financial information relating to Baker Tilly International and the right to use manuals, technical information and marketing material prepared by the network.

Membership obligations

All members are obliged to comply with the following:

- The Articles of Association
- The Bye-laws
- The Quality Assurance Programme

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- The Independence Procedures
- The Good Members' Guide
- The payment of fees and dues owed to Baker Tilly International
- To keep the board informed of any material change in the activities or constitution of the member
- To notify the CEO of any event which may cause significant harm to the goodwill attached to any of the Trade Marks or to the business or reputation of Baker Tilly International or any of the other members.

Name and Prefix Use

Baker Tilly International has been granted the right by Baker Tilly UK Group LLP to license member firms to use the name "Baker Tilly + suffix". All applications for use of the name by member firms must be approved by both Baker Tilly UK Group LLP and Arrandco Investments Limited however, prior to approval by the relevant international Regional Advisory Council and Baker Tilly International.

Appendix 2 - Partner remuneration

Partner remuneration for fixed share partners, which account for around half of the total partner numbers, is based upon on a notional salary element (upon which monthly drawings are based) as supplemented by discretionary performance awards that can derive from local office level, regionally or nationally. In addition, all partners are shareholders and accordingly will receive dividends when declared and paid.

The remuneration of fixed share partners is charged directly to the relevant trading LLP within which they operate (see Appendix 4).

Equity partners of the firm similarly have a notional salary and discretionary performance award element. In addition, equity partners participate in the residual profits for the year (after notional salaries and performance awards) based on a “lock step” mechanism. Equity partner remuneration costs are charged to BTUKG.

For office and firm budgeting purposes, notional salaries are included in the office costs. At the end of the year, a proportion of office profit, as adjusted for national and other designated costs, forms a profit pool for that office for distribution amongst its partners. This represents approximately 20% of total equity partner remuneration. Award allocations between partners in an office will be submitted by the office managing partner to the regional managing partner for consideration. Following review, these will be submitted to the National Management Team (“NMT”) for consideration and approval. Profits after notional salaries and performance awards are allocated on the “lock step” basis amongst the equity partners of the firm nationally.

In establishing an office profit pool, part of the designated costs allocated centrally will be in respect of creating regional and national award profit pools. This pool enables both regional and national management to allocate awards to partners for contributions that impact outside their local office and include awards for audit quality.

Once awards and remuneration have been agreed by the NMT, they are presented to the Partnership Council (a body independent of management and consisting of partners elected by a vote of the partners every three years) for consideration and comment. Should any partner feel aggrieved by their award, an appeals procedure exists with recourse to the Partnership Council.

Assessment of partner performance is made according to members’ individual roles and performance, adherence to standards, and capability. An appraisal system is applied to all partners and, in the case of audit partners, forward looking audit quality criteria are now set. Other criteria included within the appraisal system are business development, client development, technical skills, administrative skills, staff development and financial performance. The relative importance attached to each of these criteria is dependent upon the partner’s role within the firm but are focussed to play to a partner’s particular strengths.

Financial performance and the cross selling of non-audit services to audit clients are specifically excluded from performance evaluation for audit partners and all objectives that are set are within the confines of the requirements and spirit of the Ethical Standards.

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As alluded to above, we can confirm that audit partners (and staff) are not remunerated in relation to fees received from audit clients in respect of non-audit services.

It is our firm belief that audit quality is best improved by imbuing in partners the ethos that audit quality is at the core of all of what we do. We consider that the procedures set out below, which are an intrinsic part of our audit systems, serve as a forceful reminder to partners of their audit quality obligations;

- Regular and robust QAD visits
- Mentoring of partners should audit quality issues be identified
- Suspension of internal audit license should mandatory training not be attended
- Removal of audit licence within the firm
- In case of office-wide issues, bespoke procedures that will incur additional costs to the office and hence local profitability
- Office Managing Partner awareness of audit quality issues when deciding individual awards.

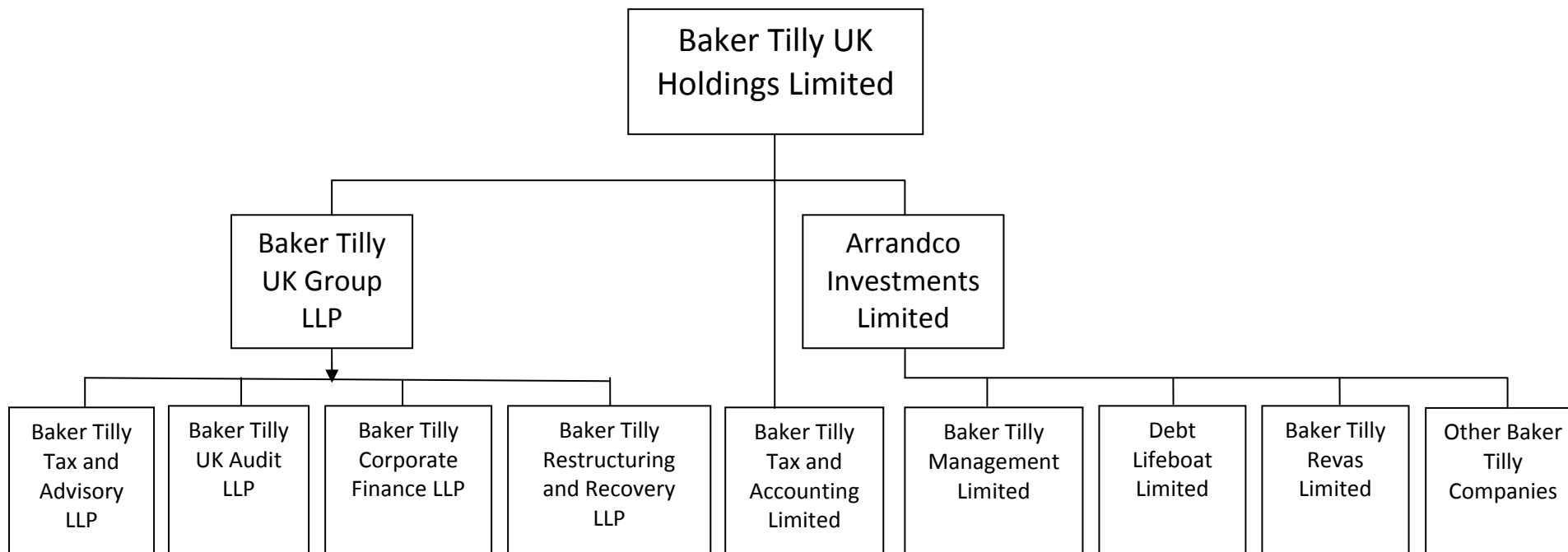
Appendix 3 - List of “Public Interest Entity” clients as at 28 February 2010**Fully listed**

Treatt plc
CML Microsystems plc
C A Sperati (The Special Agency) plc
Aim Distribution Trust plc
Bloomsbury Publishing plc
London & Associated Properties plc
Pennine AIM VCT 5 plc
Pennine Aim VCT 6 plc
Pennine AIM VCT plc
Pennine Downing AIM VCT 2 plc
Puma VCT II plc
Puma VCT III plc
Puma VCT IV plc
Puma VCT plc
Puma VCT V plc

Other

Brightside plc
G4S Group Pension Scheme
The Atkins Pension Plan
Premiertel plc
Datacash plc
Shed Media plc
Immunodiagnostic Systems Holdings plc
Obtala Resources plc
Proximagen Neuroscience plc
Rockhopper Exploration plc
Willis Pension Scheme

Appendix 4 - Organisational Structure



Appendix 4 - Structure explained

Overview

This Appendix contains an overview of the group structure of Baker Tilly and how BTUKA fits into that structure.

Ultimately the firm is owned by its shareholders, who, in the main, consist of current and former partners of the firm. The parent company derives its income from dividends from subsidiaries and, as a corporate member of Baker Tilly UK Group LLP (“BTUKG”), from a profit share.

The firm operates a Share Incentive Plan which is open to all staff and became effective on 1 April 2009. Staff have subscribed for shares in Baker Tilly UK Holdings Limited (“BTUKH”), for cash, on a “buy one get one free” basis. The directors consider that staff share ownership will further ensure the congruence of goals between management and staff.

Arrandco Investments Limited, which is a 100% subsidiary of BTUKH, itself holds investments in single-purpose companies created for various purposes but which do not impact the audit function. Dormant and non-trading entities have not been included in the organogram.

As alluded to above, BTUKH is a corporate member of BTUKG. The members of BTUKG are the equity partners of the firm and this is the vehicle through which they receive their remuneration. The income of BTUKG is derived from profit shares from the trading LLP’s, of which it is a corporate member.

The four trading LLP’s, of which BTUKA is one, service the client base of the firm together with Baker Tilly Tax and Accounting Limited (“BTTAL”). Professional staff resources are supplied to the trading LLP’s and BTTAL by BTTAL and non-professional staff by Baker Tilly Management Limited, a management company. Fixed share partners are remunerated through the trading LLP’s.

Each LLP has its own Board which is appointed by BTUKG. BTUKA has different procedures for Board appointments however in that whilst BTUKG must approve candidates put forward for appointment to the Board, the actual appointment is made by way of a vote of the members of BTUKA. In this way, BTUKA is controlled by Responsible Individuals, as defined in the Audit Regulations of ICAS.

BTUKA had, at 31 March 2010, 119 members of whom 116 were Responsible Individuals.

All entities are registered in England & Wales and Baker Tilly has no related firms and no overseas branches.

The principal service lines of Baker Tilly are the provision of professional services in the areas of Restructuring and Recovery, Tax and Accounting, Audit and Corporate finance.

Process for Key Management appointments

The Managing Director (“MD”) of BTUKH, the ultimate parent undertaking, is appointed by the shareholders of BTUKH to hold office for a period of four years. Only members of BTUKG can seek nomination as MD.

The MD appoints the Board of BTUKH. The Board appoints the members of the National Management Team.

The National Management Team appoints the Regional Managing Partners who, after consultation with the National Management Team, appoint the Office Managing Partners relevant to their regions.

Office Managing Partners appoint their office Heads of Audit and, after consultation with the Audit Faculty, their local Audit Quality Champions.

The head of QAD is appointed by the National Management Team.

The head of Audit Technical is appointed by the Board of BTUKA as is the head of the Audit Faculty.

In the case of the Partnership Council, candidates are elected by a vote of the members to hold office for three years. Only members of BTUKG can be members of the Council.

Appendix 5 - The most recent audited accounts of Baker Tilly UK Audit LLP

Baker Tilly UK Audit LLP
REPORT AND FINANCIAL STATEMENTS
for year ended
31 March 2009

Registered Number: OC325350

Baker Tilly UK Audit LLP

DESIGNATED MEMBERS AND AUDITORS

DESIGNATED MEMBERS

J E Bugden
N J Tristem
J M W Hudson

REGISTERED NUMBER

OC325350 (England and Wales)

REGISTERED OFFICE

2 Bloomsbury Street
London
WC1B 3ST

AUDITOR

Kingston Smith LLP
141 Wardour Street
London
W1F 0UT

Baker Tilly UK Audit LLP

MEMBERS' REPORT

The Management Board presents its report and the audited financial statements of Baker Tilly UK Audit LLP for the year ended 31 March 2009.

MANAGEMENT BOARD

The members of the Management Board who held office during the year were:

M J Nicholas (resigned 28 February 2009)

N J Tristem

J M W Hudson

PRINCIPAL ACTIVITIES

The principal activity of Baker Tilly UK Audit LLP is the provision of audit assurance services.

REVIEW OF THE BUSINESS

A summary of the results for the year and the financial position are set out in the financial statements on pages 5 to 11.

The performance in the year was generally in line with expectations and the results were satisfactory. A key objective of the Board is to ensure continuous improvement in audit quality. During the year, significant further progress has been made, including the introduction of our web-based auditing system. Whilst it is envisaged that this new system may create opportunities for operational efficiencies, the Board feels that its introduction demonstrates continued commitment to improving the quality of all our audit work. In addition, significant additional technical and quality assurance resource has been recruited and training programmes have been enhanced. These measures ideally place us to continue to meet our audit quality objectives.

The members' agreement prescribes that the majority of members of the LLP shall be Audit Qualified Individuals as defined in Chapter 4 of the Audit Regulations and Guidance issued by the Institute of Chartered Accountants in England and Wales.

The Management Board determines the profit share to be allocated to the individual members. Any resultant surplus is allocated to Baker Tilly UK Group LLP, the corporate member.

The development and implementation of policies, strategy, direction and management is the responsibility of the Management Board.

TRANSACTIONS WITH MEMBERS

The policy for members' drawings is the payment of a monthly amount on account of each member's profit share. These monthly drawings are determined by the Management Board, taking into account the need to retain sufficient funds to settle members' income tax liabilities and to finance the working capital and other needs of the business.

Individual members do not contribute any capital to the business.

Capital requirements are determined from time to time by the Management Board having regard to the short, medium and long term needs of the business and are met by Baker Tilly UK Group LLP.

Baker Tilly UK Audit LLP

MEMBERS' REPORT

DESIGNATED MEMBERS

The following designated members have held office during the year:

J E Bugden
M J Nicholas (resigned 28 February 2009)
N J Tristem
J M W Hudson

AUDITOR

The Auditor, Kingston Smith LLP, Chartered Accountants, has indicated their willingness to continue in office.

By order of the board

J E Bugden
Designated Member

8 October 2009

Baker Tilly UK Audit LLP

MEMBERS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The members are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Limited Liability Partnership law requires the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Limited Liability Partnership and of the profit or loss for that year. In preparing those financial statements, the members are required to:

- a) Select suitable accounting policies and then apply them consistently;
- b) Make judgements and estimates that are reasonable and prudent;
- c) State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the accounts: and
- d) Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the limited liability partnership will continue in business.

The members are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the partnership and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985 as applicable to Limited Liability Partnerships. They are also responsible for safeguarding the assets of the partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The members are responsible for the maintenance and integrity of corporate and financial information included on the firm's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

These responsibilities are exercised by the designated members on behalf of the members.

Baker Tilly UK Audit LLP

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAKER TILLY UK AUDIT LLP

We have audited the financial statements which comprise the Profit and Loss Account, the Balance Sheet and the related notes.

This report is made solely to the Limited Liability Partnership's Members, as a body, in accordance with section 235 of the Companies Act 1985 as applicable under the Limited Liability Partnerships Act 2000. Our audit work has been undertaken so that we might state to the Limited Liability Partnership's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Limited Liability Partnership and the Limited Liability Partnership's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditors

The Members' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Members' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 as applicable under the Limited Liability Partnerships Act 2000. We also report to you if, in our opinion, the Limited Liability Partnership has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Members' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Limited Liability Partnership's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the limited liability partnership's affairs at 31 March 2009 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985 as applicable under the Limited Liability Partnerships Act 2000.

Kingston Smith LLP

Chartered Accountants and Registered Auditors
141 Wardour Street
London
W1F 0UT

8 October 2009

Baker Tilly UK Audit LLP

PROFIT & LOSS ACCOUNT

for the year ended 31 March 2009

	Notes	2009 £'000	2008 £'000
TURNOVER	1	73,433	75,920
Cost of sales		(38,348)	(39,257)
Gross profit		<u>35,085</u>	<u>36,663</u>
Other operating expenses		(22,289)	(23,562)
PROFIT FOR THE FINANCIAL YEAR BEFORE MEMBERS' REMUNERATION AND PROFIT SHARES	2	<u>12,796</u>	<u>13,101</u>
PROFIT FOR THE FINANCIAL YEAR BEFORE MEMBERS' REMUNERATION AND PROFIT SHARES		12,796	13,101
Members' remuneration charged as an expense:			
Individual members	3	8,299	5,942
Corporate member		4,497	7,159
		<u>(12,796)</u>	<u>(13,101)</u>
PROFIT FOR THE FINANCIAL YEAR AVAILABLE FOR DISCRETIONARY DIVISION AMONG MEMBERS	10	<u>-</u>	<u>-</u>

The result for the year arises from the LLP's continuing operations.

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Profit and Loss Account.

Baker Tilly UK Audit LLP

BALANCE SHEET

as at 31 March 2009

	Notes	2009 £'000	2008 £'000
FIXED ASSETS			
Tangible assets	6	358	530
		<hr/>	<hr/>
CURRENT ASSETS			
Debtors	7	16,511	18,707
CREDITORS: Amounts falling due within one year	8	(12,364)	(12,060)
NET CURRENT ASSETS		<hr/> 4,147	<hr/> 6,647
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,505	7,177
CREDITORS: Amounts falling due after more than one year	9	(8)	(18)
		<hr/>	<hr/>
NET ASSETS ATTRIBUTABLE TO MEMBERS		<hr/> 4,497	<hr/> 7,159
		<hr/>	<hr/>
REPRESENTED BY:			
LOANS AND OTHER DEBTS DUE TO EQUITY MEMBER WITHIN ONE YEAR			
Other amounts	10	4,497	7,159
		<hr/>	<hr/>
TOTAL MEMBERS' INTERESTS			
Loans and other debts due to members	10	6,174	9,672
Amounts due from members	10	(19)	(474)
		<hr/> 6,155	<hr/> 9,198
		<hr/>	<hr/>

The financial statements on pages 5 to 11 were approved by the members and authorised for issue on 8 October 2009 and are signed on their behalf by:

J E Bugden
Designated member

Baker Tilly UK Audit LLP

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards and the Statement of Recommended Practice “Accounting by Limited Liability Partnerships”.

CASH FLOW STATEMENT

The LLP has taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the LLP is wholly owned and the ultimate controlling undertaking publishes a consolidated cash flow statement.

TANGIBLE FIXED ASSETS

Depreciation is provided in all tangible fixed assets at rates calculated to write each asset down to its estimated residual value over its expected useful life, as follows:

Motor vehicles	-	25% per annum on original cost
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TURNOVER AND REVENUE RECOGNITION

Turnover represents amounts chargeable for professional services provided during the period, inclusive of direct expenses incurred on client assignments but excluding value added tax. Turnover is recognised when a right to consideration has been obtained through performance under each contract. Consideration accrues as contract activity progresses by reference to the value of the work performed.

Turnover is not recognised where the right to receive payment is contingent on events outside the control of the LLP.

Unbilled revenue is included in debtors as ‘Amounts recoverable on services’. Amounts billed on account in excess of the amounts recognised as revenue are included in creditors as ‘Payments received on account’.

LEASED ASSETS AND OBLIGATIONS

Where assets are financed by leasing agreements that give rights approximating to ownership (“finance leases”), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding.

MEMBERS’ REMUNERATION

Individual members

Members’ share of profits and interest earned on members’ balances are automatically allocated and, together with members’ benefits, such as motor expenses, are treated as members’ remuneration charged as an expense to the profit and loss account.

Corporate member

Profit remaining after sums allocated to individual members is available to the corporate member, Baker Tilly UK Group LLP. It is treated as so allocated and reported as ‘Loans and other debts due to Equity Member within one year’.

Members’ monthly drawings are set by the Management Board, after considering the working capital needs of the business. To the extent the profit allocations exceed drawings, the excess profit is included in the balance sheet under creditors. Where drawings exceed the allocated profits the excess is included in debtors. The same treatment is used in respect of members who retire during the period.

TAXATION

Taxation on LLP profits is the personal liability of the members. Consequently neither taxation nor non related deferred taxation are accounted for in these financial statements.

Baker Tilly UK Audit LLP

ACCOUNTING POLICIES

1 TURNOVER

The LLP's turnover is derived from its principal activity. All turnover arises in the United Kingdom.

2 PROFIT FOR THE FINANCIAL YEAR BEFORE MEMBERS' REMUNERATION AND PROFIT SHARES

Auditor's remuneration is charged to and paid by the ultimate controlling undertaking, Baker Tilly UK Holdings Limited.

3 INDIVIDUAL MEMBERS

	2009 £'000	2008 £'000
The individual members' remuneration includes:		
Depreciation on tangible fixed assets		
Charge for the period:		
Owned assets	215	289
Assets held under hire purchase contracts	10	10
Profit on disposal of tangible fixed assets	(4)	-
	<u> </u>	<u> </u>

4 MEMBERS' PROFIT SHARE

	2009 Number	2008 Number
Average number of members	128	131
	<u> </u>	<u> </u>
	2009 £'000	2008 £'000
Profit attributable to the highest paid member	4,497	7,159
	<u> </u>	<u> </u>

5 EMPLOYEE REMUNERATION

No employee costs are included in these accounts.

A management charge has been made by Baker Tilly Management Limited (formerly Baker Tilly Services Limited) and Baker Tilly Tax and Accounting Limited, both related businesses, for the provision of staff services, including any salaried partners (who are not members) remunerated under employment contracts, to the LLP.

Baker Tilly UK Audit LLP

ACCOUNTING POLICIES

6	TANGIBLE FIXED ASSETS	Motor vehicles £'000
	Cost	
	At 1 April 2008	829
	Additions	205
	Transfers between group LLPs	(68)
	Disposals	(317)
	At 31 March 2009	649
	Depreciation	
	At 1 April 2008	299
	Depreciation charge for the year	225
	Transfers between group LLPs	(30)
	Disposals	(203)
	At 31 March 2009	291
	Net book value	
	At 31 March 2009	358
	At 31 March 2008	530

The net book value above includes £20,900 (2008: £31,350) in respect of motor vehicles held under hire purchase contracts. The depreciation charge was £10,450 (2008: £10,450).

7	DEBTORS	2009 £'000	2008 £'000
	Trade debtors	14,565	16,306
	Amounts recoverable on services	1,927	1,923
	Amounts due from members (refer to note 10)	19	474
	Amounts due from former members	-	4
		16,511	18,707
		16,511	18,707
8	CREDITORS: Amounts falling due within one year	2009 £'000	2008 £'000
	Obligations under hire purchase contracts (secured)	10	10
	Payments received on account	2,467	2,123
	Amounts owed to group undertakings	5,187	5,156
	Taxes and social security costs	1,824	2,253
	Accruals and deferred income	54	5
	Amounts due to former members	1,145	-
	Loans and other debts due to members (refer to note 10)	1,677	2,513
		12,364	12,060
		12,364	12,060

Baker Tilly UK Audit LLP

ACCOUNTING POLICIES

9	CREDITORS: Amounts falling due after more than one year	2009 £'000	2008 £'000
	Obligations under hire purchase contracts (secured)	8	18
	Amounts payable:		
	Within two to five years	8	18

Obligations under hire purchase contracts are secured on the related assets.

10	MEMBERS' INTERESTS	Loans and other debts due to/(from) members £'000	Total £'000
	Members' interests at 1 April 2008	9,198	9,198
	Members' remuneration charged as an expense:		
	Individual members	8,299	8,299
	Corporate member	4,497	4,497
	Profit for the financial year available for discretionary division among members	-	-
	Members' interests after profit for the year	21,994	21,994
	Amounts introduced by members	833	833
	Drawings and distributions	(15,527)	(15,527)
	Transfer of other amounts due from former members	(1,145)	(1,145)
	Members' interests at 31 March 2009	6,155	6,155

The loans and other debts due to/(from) members can be analysed as follows:

	Due within one year 2009 £'000	Due within one year 2008 £'000
Corporate member:		
Other loans and debts due to equity member	4,497	7,159
Individual members:		
Other loans and debts due to members included in creditors	1,677	2,513
Amounts due from members included in debtors	(19)	(474)
	6,155	9,198

The basis of profit allocation is described in the Accounting Policies.

Loans and other debts due to members represent allocated profits not yet paid to members and are due within one year. In the event of a winding up, loans and other debts due to members rank after unsecured creditors.

Baker Tilly UK Audit LLP

ACCOUNTING POLICIES

11 RELATED PARTY TRANSACTIONS

The LLP has taken advantage of the exemption under Financial Reporting Standard 8 not to disclose any other transactions between itself and related businesses.

12 CONTROL

Baker Tilly UK Holdings Limited, registered in England and Wales, is the ultimate controlling party of Baker Tilly UK Audit LLP. The largest and smallest group of undertakings for which group accounts have been drawn up is that headed by Baker Tilly UK Holdings Limited and copies are available from 2 Bloomsbury Street, London WC1B 3ST.

Appendix 6 - Office Locations

BASINGSTOKE

2nd Floor Springpark House
Basing View
Basingstoke
RG21 4HG

TEL: 01256 486800
FAX: 01256 486801

BATH

Charter House
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BA2 3BH

TEL: 01225 428114
FAX: 01225 447767

BIRMINGHAM

St. Philips Point
Temple Row
Birmingham
B2 5AF

TEL: 0121 214 3100
FAX: 0121 214 3101
R&R Fax 0121 214 3102

BRIGHTON

3rd Floor Preece House
Davigdor Road
Hove
BN3 1RE

TEL: 0845 057 0700
FAX: 0845 057 0702

BRISTOL

Hartwell House
55-61 Victoria Street
Bristol
BS1 6AD

TEL: 0117 945 2000
FAX: 0117 945 2001

BROMLEY

Lancaster House
7 Elmfield Road
Bromley
BR1 1LT

TEL: 020 8461 8000
FAX: 020 8461 8001

BURY ST. EDMUNDS

Abbotsgate House
Hollow Road
Bury St Edmunds
Suffolk
IP32 7FA

TEL: 01284 763311
FAX: 01284 704203

CHELMSFORD

Marlborough House
Victoria Road South
Chelmsford
CM1 1LN

TEL: 01245 354402
FAX: 01245 490243

CHESTER

The Steam Mill
Steam Mill Street
Chester
CH3 5AN

TEL: 01244 505100
FAX: 01244 505101

CRAWLEY

12 Gleneagles Court
Brighton Road
Crawley
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TEL: 0845 057 0700

EDINBURGH

First Floor, Quay 2
139 Fountainbridge
Edinburgh
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TEL: 0131 659 8300

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FAX: 0845 057 0701

FAX: 0131 659 8301

FAX: 0141 307 5005

GUILDFORD

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FAX: 01483 569281

HEREFORD

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Holmer Road
Hereford
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FAX: 01432 269 367
R&R Tel: 01432 354222

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Two Humber Quays
Wellington Street West
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LONDON

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London
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TEL: 020 7002 8600
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LONDON

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Manchester
M3 3HF

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Central Milton Keynes
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Newcastle upon Tyne
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STOKE ON TRENT

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FAX: 01782 216050

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Audit services are not supplied from the Bath or London (Old Bailey) offices.